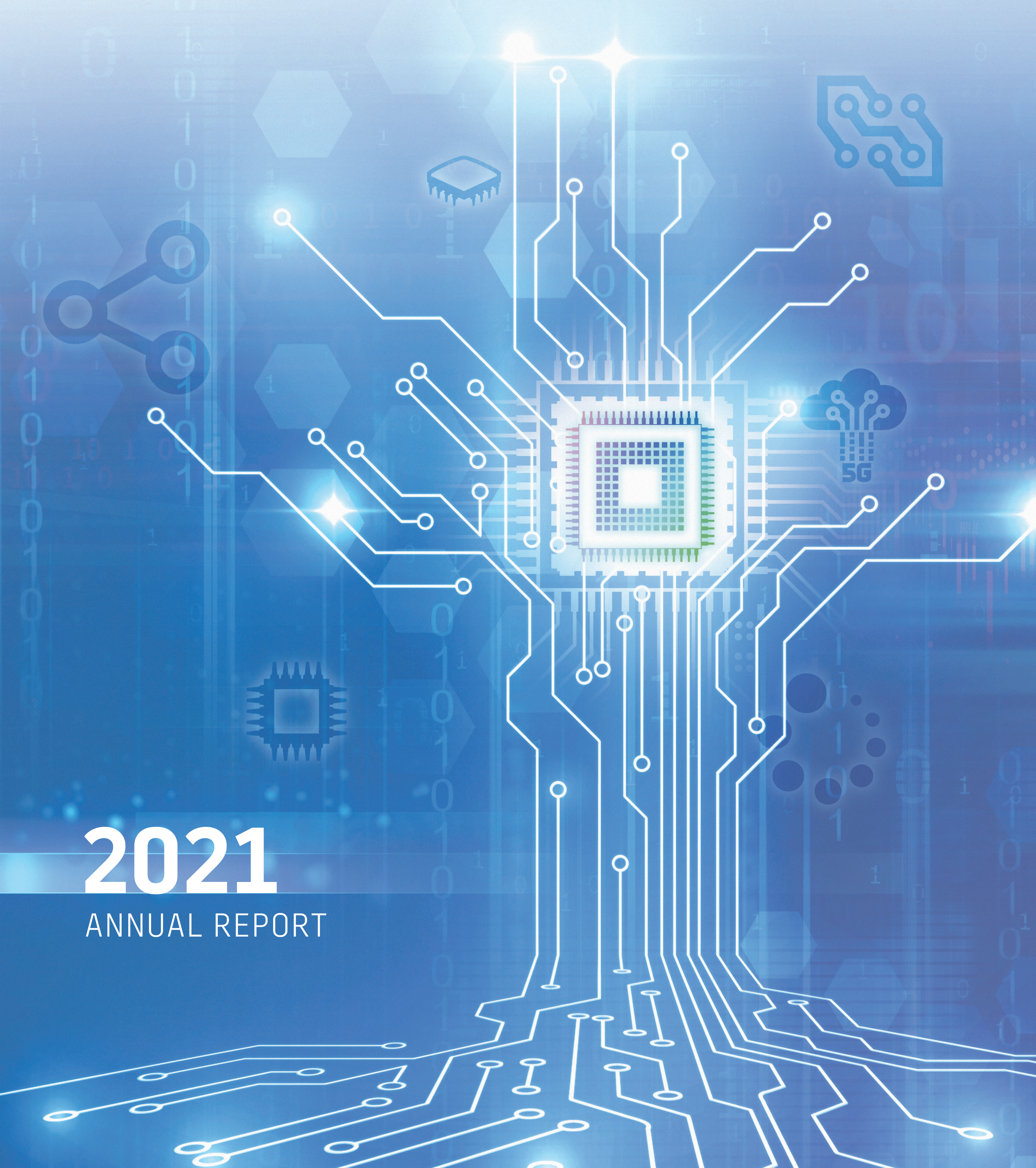
# SMART-CORE HOLDINGS LIMITED
# 芯智控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code：2166




# 2021
## ANNUAL REPORT

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. TIAN Weidong
*(Chairman of the Board and Chief Executive Officer)*
Mr. WONG Tsz Leung *(Chief Financial Officer)*
Mr. LIU Hongbing
Mr. YAN Qing *(resigned with effect from 6 December 2021)*
Mr. MAK Hon Kai Stanly
*(appointed with effect from 6 December 2021)*

### Independent Non-executive Directors

Mr. TANG Ming Je
Mr. ZHENG Gang
Mr. WONG Hok Leung *(resigned with effect from 6 December 2021)*
Ms. XU Wei *(appointed with effect from 6 December 2021)*

## BOARD COMMITTEES

### Audit Committee

Mr. WONG Hok Leung *(Chairman)*
*(resigned with effect from 6 December 2021)*
Mr. TANG Ming Je
Mr. ZHENG Gang
Ms. XU Wei *(Chairman)*
*(appointed with effect from 6 December 2021)*

### Remuneration Committee

Mr. ZHENG Gang *(Chairman)*
Mr. TANG Ming Je
Mr. WONG Hok Leung *(resigned with effect from 6 December 2021)*
Mr. TIAN Weidong
Ms. XU Wei *(appointed with effect from 6 December 2021)*

### Nomination Committee

Mr. TIAN Weidong *(Chairman)*
Mr. TANG Ming Je
Mr. WONG Hok Leung *(resigned with effect from 6 December 2021)*
Ms. XU Wei *(appointed with effect from 6 December 2021)*

## COMPANY SECRETARY

Mr. YAU Chak Man *(ACCA, HKICPA)*

## AUTHORISED REPRESENTATIVES

Mr. TIAN Weidong
Mr. WONG Tsz Leung

## REGISTERED OFFICE

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## AUDITOR

Deloitte Touche Tohmatsu
*Registered Public Interest Entity Auditors*

## LEGAL ADVISOR

As to Cayman Islands law

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

As to Hong Kong law

Jingtian & Gongcheng LLP
Suite 3203–3207, 32/F
Edinburgh Tower, The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law

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

# CORPORATE INFORMATION

## SHARE REGISTRARS

Hong Kong

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

Cayman Islands

Maples Fund Services (Cayman) Limited
PO Box 1093
Boundary Hall Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

## PRINCIPAL BANKERS

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

DBS Bank (Hong Kong) Limited
16/F, The Center
99 Queen's Road Central
Hong Kong

Hang Seng Bank Limited
20/F, 83 Des Voeux Road
Central
Hong Kong

## STOCK CODE

2166

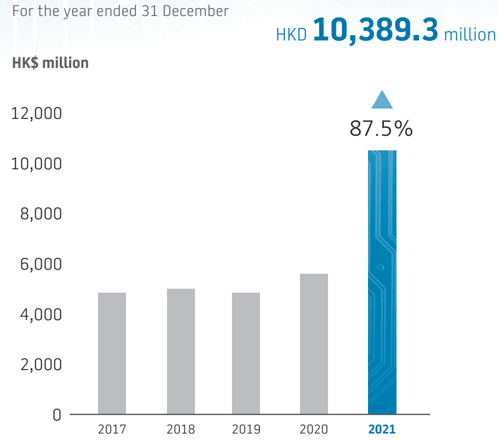
## COMPANY WEBSITE

www.smart-core.com.hk

# FIVE-YEAR FINANCIAL SUMMARY

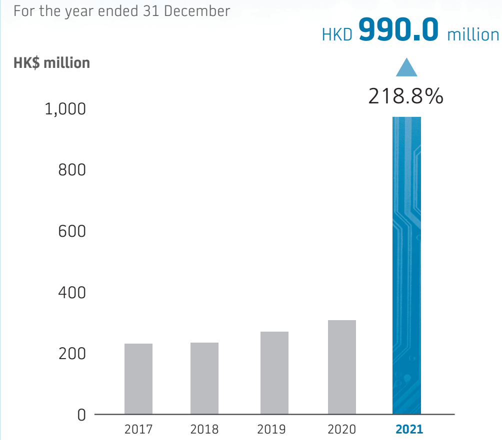
## Revenue

For the year ended 31 December



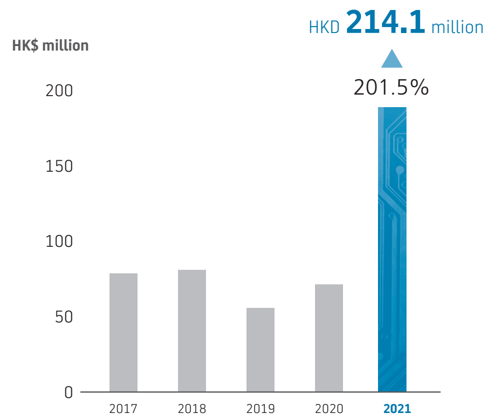

## Gross Profit

For the year ended 31 December



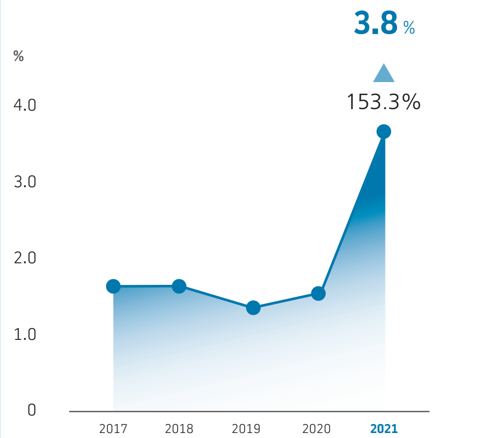

## Profit for the year attributable to Owners of the Company

For the year ended 31 December



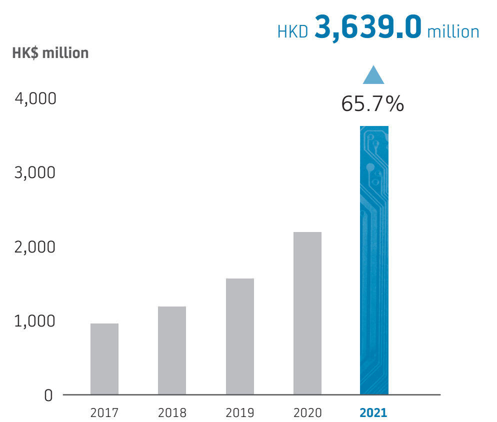

## Net Profit Margin

For the year ended 31 December



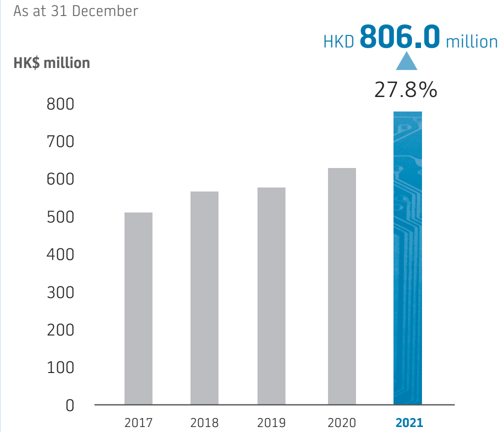

## Total Asset

As at 31 December




## Total equity attributable to Owners of the Company

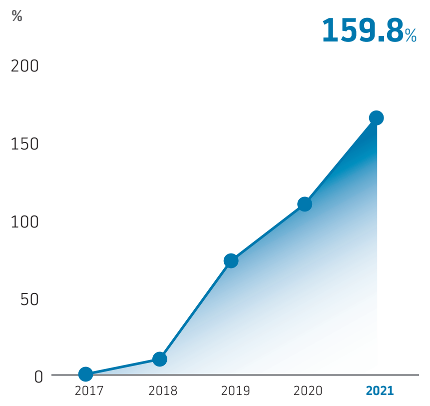
As at 31 December



# FIVE-YEAR FINANCIAL SUMMARY

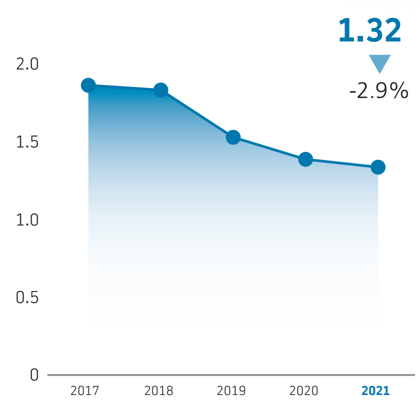
## Gearing Ratio

As at 31 December



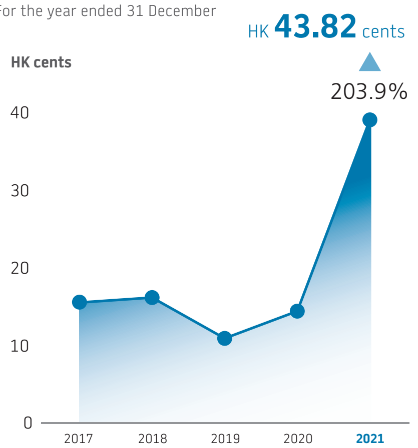

## Current Ratio

As at 31 December



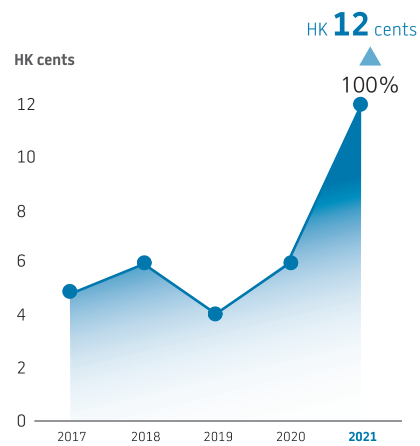

## Earnings per share ("EPS")-Basic (HK cents)

For the year ended 31 December



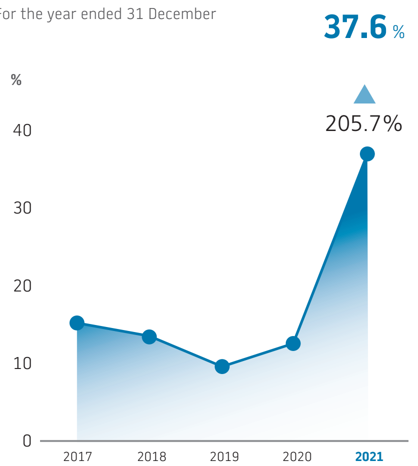

## Dividend per share (HK cents)

For the year ended 31 December



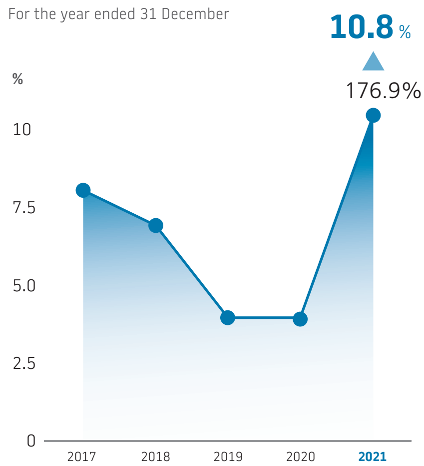

## Return on equity-%

For the year ended 31 December

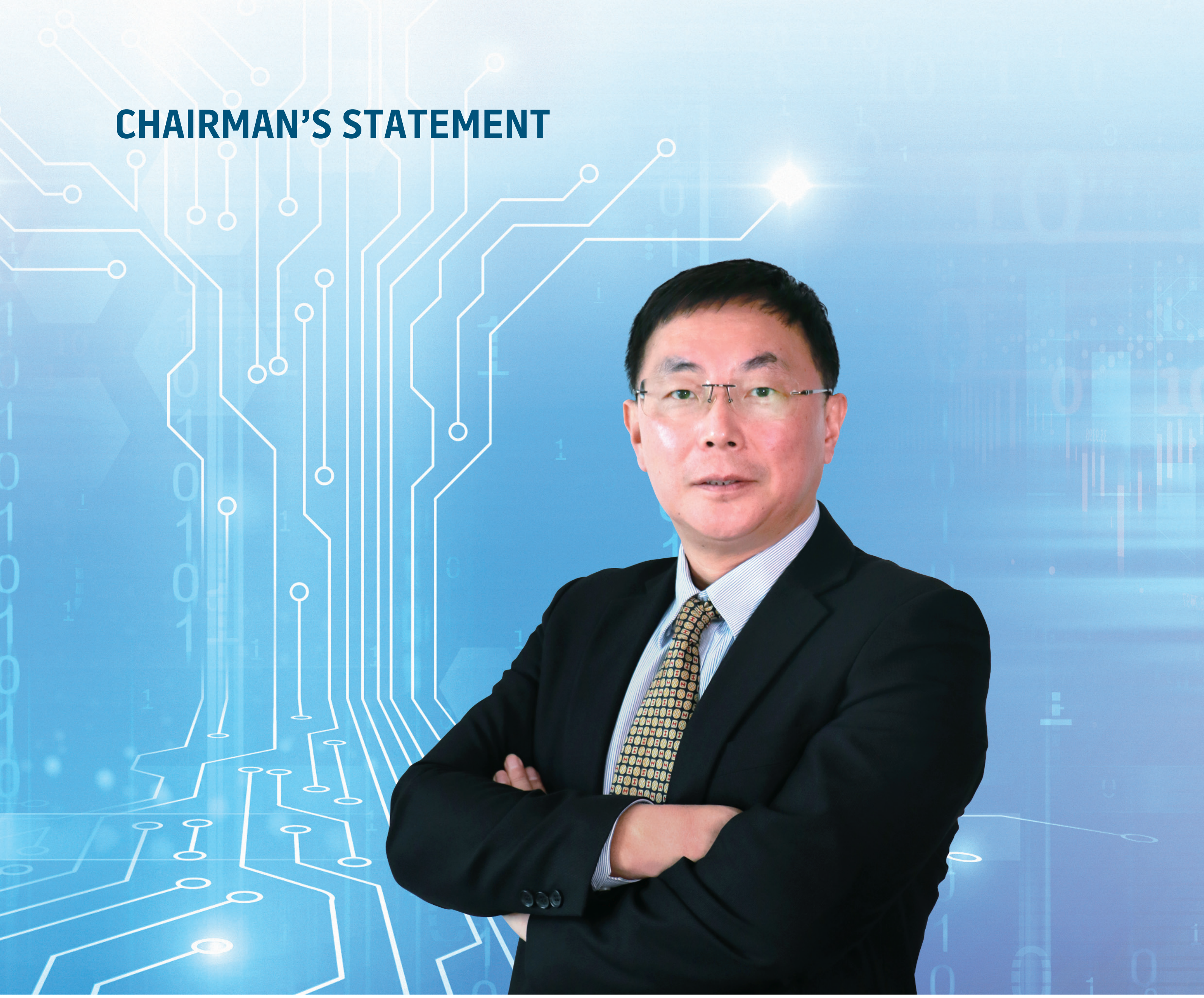



## Return on assets-%

For the year ended 31 December



# CHAIRMAN'S STATEMENT



## REVIEW OF 2021

The Group is a leading all-round distributor of integrated circuit and other electronic components and technology value-added service provider in China, covering multiple business segments such as authorised distribution, independent distribution, e-commerce platform, technology value-added and design and manufacturing of optical communication chips. Our service networks cover the Mainland China and many regions in Asia Pacific, providing supply chain services of semiconductor chips and various electronic components , as well as technical solutions and corresponding technical support to customers in the electronics industry in the Asia Pacific region. The Group maintains stable cooperative relationships with hundreds of well-known semiconductor chip manufacturers in the upstream of the industry chain. As of the end of 2021, we have provided services to more than 20,000 diversified commercial customers and achieved sales of HK$10,389.3 million.

# CHAIRMAN'S STATEMENT

In 2021, the raging worldwide pandemic dealt a heavy blow to the stability of global economy and the resulting supply chain disruptions in overseas markets were beyond market expectations. Thanks to China's proactive "dynamic zero-case" policy, coupled with its strong industrial manufacturing capacity and huge industrialised population, China's manufacturing and foreign trade maintained their exuberant vitality and strong export capacity, and drove a rapid growth of economy . According to the 2021 Annual Report on China's Economy issued by the National Bureau of Statistics in January, mainland China's GDP grew by 8.1% to RMB114.367 trillion (equivalent to approximately US$17.7 trillion) in 2021, a faster-than-expected growth rate. According to the data released by the General Administration of Customs in January, mainland China's total imports and exports denominated in U.S. dollars grew by 30% to US$6.05 trillion in 2021, which is expected to account for 21.6% of global trade, more than the second and third largest combined. For the import and export business of semiconductor chips, customs data show that the total amount of imported ICs also reached approximately US$439.7 billion in 2021, representing a significant increase of 25.6% year-on-year.

Due to the strong market demand, the supply chain of electronic components suffered from increasing prices, stock shortage and delivery delay throughout 2021. Against this backdrop of rapid growth, Smart-Core Holdings achieved a remarkable improvement in its operating performance in 2021, with its business revenue growing at a much faster rate than the industry average. Especially for the traditional authorised distribution business, which occupies the largest share in the Group's business, the television and memory business units maintained steady growth, while the optoelectronic displays, video processing, smart terminals, communication products and automotive electronics business units recorded significant growth in revenue and profit.

Benefitting from the growing opportunities in spot sales resulting from supply chain fluctuations, Quiksol HK and IC Cloud Limited, both being a subsidiary of the Group engaged in the independent distribution business, achieved excellent sales results in 2021, with explosive growth in business volume from both business units and far-beyond expectations in key business indicators such as sales results, gross profit and net profit. The Group's business network has also been substantially extended to its branches in Asia Pacific, Europe and the United States, driving local business's growth.

In 2021, the Group embraced significant improvements in technology value-added business unit for its management quality, while business segments of commercial display, smart lock and software service all made strides in expanding customer base and revenue. In particular, the commercial display and smart lock business units have occupied a position in industry and realized their values with sales revenue over HK$10 million through growing core customer base. In addition, the software service business unit embarked its first sales revenue in IoT software and cloud services, while also established comprehensive and in-depth business cooperation with several mainstream cloud service providers in the industry.

In 2021, the Group also achieved significant breakthroughs in semiconductor chip design, manufacturing, packaging and testing business. Through integrating storage technology, product development, packaging and testing resources in Mainland China, Taiwan and Hong Kong, the Group focused on the application market of industrial-grade/automotive-grade storage modules to provide professional technical solutions and customised services for customers. In 2021, such business unit has successfully developed a quality customer base and achieved revenue over HK$10 million. At present, the cooperation projects with upstream OEMs in the design and manufacturing of optical communication devices have progressed smoothly.

In view of the business development needs in the coming years, the Group has divided its existing business units into four major business centres, with newly setting an e-commerce centre beyond the existing authorised distribution centre, technology value-added centre and independent distribution centre. The authorised distribution centre will continue to carry out the Group's core authorised distribution business; the technology value-added centre will conduct business centring on fields such as standardised/customised solutions, differentiated application development for marketplace and software services; the independent distribution centre and the e-commerce centre are mainly responsible for developing business of product lines and customer base outside the traditional authorised business, which will be a vast market. The independent distribution business will increasing rely on cooperation with blue-chip customers in spot supply chain, while the business of e-commerce centre will more depend on internet marketing tools and techniques and integrate online and offline business.

# CHAIRMAN'S STATEMENT

In 2021, the Group also made great efforts in internal cost reduction and efficiency enhancement. We successively developed and launched various information management software systems, including Customer Relationship Management (CRM) System, Warehouse Management System (WMS) and Independent Distribution and Aggregation Trading System. The new CRM system can help the authorised distribution business unit strengthening internal management to better serve customers, improve business management efficiency and capture more sales opportunities. The upgraded WMS can better support the supply chain logistics system of the Group, which would significantly reduce costs and enhance efficiency in addressing with high turnover of goods. The customised independent distribution and aggregation system is the core business platform to support the Group's independent distribution and e-commerce business, which plays an important role in developing our independent distribution business. Meanwhile, we also successfully established a partnership with a leading global enterprise resource planning (ERP) software vendor and service provider. Moreover, the new ERP system will fully support the diversified and global business of the Group in 2022, so as to help us efficiently expanding business to a broader market.

## OUTLOOK FOR 2022

### Undiminished Market Opportunities in Post-Epidemic Era

According to the latest Global Economic Outlook report released by the World Bank, the global economic is expected to grow by 5.5%, 4.1% and 3.2% from 2021 to 2023 respectively. Judging from the macro data, the global economy is entering a pronounced slowdown in the following two years, mainly due to the necessary recovery course in the post-epidemic era, however, the global economy will maintain the upward trend. According to the report, all advanced economies will have achieved a full output recover by 2023, representing the global economy may back to the normal growth rate.

The research of IC Insight, an authoritative research institution, shows that global economic growth and the development of semiconductor industry are correlating with each other increasingly. Considering of such high correlation, we believe that the global economic recovery in the post-epidemic era may hinge on the growth of electronic information industry led by semiconductor chips to a greater extent. As per the forecast report recently released by SEMI (international semiconductor industry alliance), the global market size of semiconductor industry is believed to grow by 9.5% in 2022 with the total market size exceeding USD600 billion, and SEMI concluded that the global market size of semiconductor chip is expected to attain USD1 trillion by 2030.

Despite certain professional views that the COVID-19 pandemic may be alleviated greatly in worldwide in the first half of 2022, there are still uncertainties from the complex pandemic; together with the difficulties in the transfer process of the additive manufacturing industry chain, the recovery of the industry chain may be proceeded on a quarterly basis. Considering the nature of uncertainty risks aversion of market activities, we are confident that orders in electronics industry in mainland China will maintain relatively stable in the first half of 2022, and the electronic information manufacturing system of China can keep benefiting from the rapid growth of the semiconductor industry.

### Grasping Development Opportunities, Expanding Distribution Business

The Group's electronic components distribution system consists of two different business models: authorized distribution and independent distribution businesses. Despite such difference in business models, they are complementary to and coordinate with each other within the Group.

In terms of authorized distribution business, the Group has newly established a distribution business unit for domestic product line by allocating appropriate resources and carrying out targeted market promotion, so as to serve domestic brand product line better. This business unit has made some achievements after half a year of development, and is expected make additional contribution to the business growth of the Group in 2022.

The Group's independent distribution system focuses on the salespersons under thousands of electronic component brands other than the Group's authorised agents, and serves hundreds of thousands of customers within the industry in addition to the Group's existing more than 20 thousand customers, which evidence a huge potential market. From another perspective, although the Group's independent distribution business has achieved breakthrough growth in 2021, its share of the overall market is still insignificant. In the face of such a large market, if we continue to follow traditional offline marketing approaches as before, our future growth will be limited. Therefore, in 2021, the Group re-started the improvement on its e-commerce business by re-establishing an independent "e-commerce center" business unit among its four business units, with an aim of resuming operations in the first half of 2022. In the next two to three years, we plan to combine the Group's superior resources and business characteristics to create the core competitiveness of the e-commerce platform, and develop such e-commerce platform into a dominant mainstream supply platform for electronic components in the market.

# CHAIRMAN'S STATEMENT

## Highlighting the Benefits of Application Development and Posting the Great Development Opportunity for the Chip Supply Chain

The rank of semiconductor sector has been elevated to a strategic level by major developed countries, and all countries are striving to develop their own core technologies and industrial chains for the semiconductor sector to gain a competitive advantage in this industry. Therefore, in recent years, many countries and regions, including China, have committed substantial resources to R&D, manufacturing, testing and equipment of semiconductor chips for development. The initial investment in design and front-end manufacturing has started to pay off over time. Industry investors have found that an industry chain close loop will not be established until the chips designed and manufactured at the front-end stage to be mass produced and sold to consumers. Therefore, during the past two years, industry investors have begun to focus on the "application development and supply chain", the midstream of the industrial chain. As we can see, several local semiconductor chip distributors have applied for listing through IPOs, and some e-commerce enterprises that specialise in electronic components distribution have also obtained large investments of more than RMB100 million per round in the capital market, which indicates that the great development opportunities are posted for application development, supply chain service enterprises in semiconductor chip sector.

Our long-term strategy is to create value through technology. The Group is focusing on integrating the management and operation of its technology value-added businesses, such as smart commercial display, smart projection, smart locks and software services. The Group is focusing on providing standardized and customised technology solutions as well as industry application development, and combining software services to provide technology solutions that are more suitable for market needs. At present, the business unit has formed its own core technology system in a number of business areas and cultivated its own core customer base. In 2022, the Group will continue to optimise its investment in the value-added technology business and enhance the output of "Technology+" and "Solution+" to empower the development of other business units. By following the trend of local semiconductor industrialization, we will achieve greater success in 2022.

## Embracing Upstream Industry Opportunities to Establish New Competitive Advantage

Semiconductor chip is the core component of electronic products and the cornerstone of electronic information industry. Under the background that the state strongly supports the development of semiconductor industry, the Group also attaches great importance to the development in the field of semiconductor design and manufacturing. In 2022, the Group will continue to develop new-generation products and advance the market expansion plans in industrial control and automotive grading memory segments, aiming for annual revenue of over HK$100 million. In terms of optical communication chips, the Group will continue to promote the marketing and sales of its own optical communication chips based on market demands, and promote the construction of new production lines to expand production capacity, while strengthening the planning and development of new products and improving product lines in accordance with market demands and technology development trends.

## Focusing on Post-epidemic Development Opportunities by Grasping Growth Opportunity in Overseas Markets

The Group's overseas business is mainly distributed in Japan, Singapore, India, Vietnam and other Asia Pacific regions. Although the spread of the COVID-19 has caused obstacles to the expansion of our overseas business, we have made good progress in 2021 by introducing an independent distribution business model through the provision of localized networks coupled with a cloud-based collaborative working approach. It is believed that this business unit will embrace more opportunities with the rejuvenation of emerging markets in the coming post-epidemic era. In expanding overseas markets, the Group will leverage on its strengths and focus on high value-added businesses such as the research and development of technology solutions, product design, marketing and software services, by taking advantage of its resources and service capabilities in technology solutions and value-added technology services over the years, so as to provide more valuable services to overseas partners.

## Summary

Looking back to 2021, the Group has achieved significant growth in various operating indicators through continuous expansion of the authorised distribution business and seizing the opportunity to develop independent distribution business. Meanwhile, the Group has had a clearer picture of the development of existing businesses and new business. Looking forward to 2022, we are confident and well prepared to cope with various challenges, and will continue to pursue stable operation and healthy development of our business and bring more returns to our shareholders. Finally, I would like to extend my heartfelt gratitude to each shareholder, business partner, member of the Board of Directors, the management and all staff for their assistance and support to the development of the Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

In 2021, the coronavirus disease (COVID-19) epidemic continued to spread around the world, resulting in profound changes to the way people live and work around the world. More and more individuals, enterprises, governments and educators were moving towards digital operations, and there was a significant increase in the orders for new networking devices as the moderate monetary policy stimulated consumer demand, which have strongly driven the strong growth in sales of semiconductor chips in 2021. The current strong growth in market demand, coupled with the tighter supply chain, has led to an increase in the average selling price of electronic components, while the market size of the semiconductor market, which comprised of chips and OSD (Optoelectronics, Sensors, Discretes; collectively referred to as "**OSD**") devices, has grown significantly. As stated in the report issued by IC Insight, a well-known consulting agency of semiconductor industry in January 2022, the global semiconductor production in 2021 increased by 25% year-on-year to US$614 billion, and in particular for the semiconductor chips industry, the global market size increased by 26% to US$509.8 billion in 2021.

Benefiting from the proactive anti-epidemic measures aiming at "zero-case on a dynamic basis", Mainland China has achieved remarkable success in the battle against the epidemic. Social and economic development remained stable as a whole, while the whole industry chain of the manufacturing industry maintained strong vitality. Besides, the increasing global manufacturing orders placed to China have driven a significant growth in the demand for IC chips. Based on the data released by the customs, the number of ICs imported for semiconductor chips in 2021 reached 635,481 million units, representing an increase of 16.9% as compared to the corresponding period in 2020, while the import amount reached RMB2,793.48 billion, representing a year-on-year increase of 25.6%. Leveraging on the continued strong market demand and the rising prices, the Group's independent distribution business has also recorded a rapid growth while maintaining a substantial growth in its authorised distribution business. Furthermore, the Group achieved accumulated sales of HK$10,389.3 million in 2021, representing an increase of 87.5% as compared to the corresponding period in 2020, and recorded a total gross profit of HK$990.0 million, representing a year-on-year increase of 218.8%.

For the specific business segments, the authorized distribution business segment maintained steady development in TV and memory fields, with significant growth in the fields of optoelectronic displays, video processing, smart devices, communication products and automotive electronics. The sales results of the Independent distribution business segment also achieved remarkable results in 2021, with significant growth in both revenue and gross profit from sales. The following is a business review of the main segments of the Group.

### Authorized Distribution

#### Television Products

2021 marked a fluctuating year for the TV market. According to the market forecast report issued by TrendForce in January 2022, the global TV shipments decreased by 3.2% to only 210 million units in 2021, hitting the lowest level in the past six years. Impacted by interweaved factors including the spread of global epidemic, prolonged tension on supply chain, rising material cost and production cost, coupled with stimulation of sporting events, the TV market saw an extraordinary phenomenon that greater shipments was recorded in the first half of 2021 than that in the second half of 2021. The overall demand for the Group's TV IC remained strong in the first half of 2021, during which the sales performance of TV products grew rapidly; however, the selling price of TV in complete set was inflated resulting from the shortages and price increase in certain materials, the skyrocketing ocean freight price, the historic high price of the TV LCD panels and other adverse factors, which in turn restrained the market consumption demand. From July onwards, with the panel price peaked and fell, the market was in wait-and-see sentiment again, and most downstream manufacturers were in inventory clearance in the third quarter, the market therefore experienced slump in order demand. However, with the decline in stock level in the distribution channels, the panel price has rebounded and stabilized in the fourth quarter, besides, the arrival of the traditional sales peak season at the end of the year facilitated the recovery of orders in the fourth quarter. On that basis, this business unit achieved growth in a declining market in 2021, with the cumulative sales reaching HK$2,065.6 million, representing a year-on-year increase of 0.8%.

**Optoelectronic Displays**

The Group's optoelectronic display business mainly focuses on the sales of related chips used in display, touch screen, screen driver, CMOS image sensor, projection, power supply and smart commercial display. In 2021, the market demand for TV LCD panels began at high levels, and then declined, in other words, there was a strong demand in the first half of the year, but the downstream complete set manufacturers' demand for large screen TV panels has dropped drastically in the second half of the year, which was affected by various adverse factors, such as the gradual relaxation in social distancing, the over-consumption of demand, the increase in production capacity, the ongoing high price of panels and logistics costs. Nonetheless, along with the milestone progress in epidemic, the market demand gradually shifted from general consumer products to commercial products, including increasing demand for panels in display and notebook sectors, which contributed to the rapid growth in sales of Timer Control Register (Tcon), Driver, Power and other clips used in LCD panels of this business unit. In 2021, the Scaler chips unit also secured additional blue-chip customers who contributed to substantial growth in the performance of this product line. CMOS image sensor and TDDI chips grew in line with the development of handset shipments, recording rapid growth in the first half of 2021 and slowdown in the second half of 2021 as the Group strengthened risk management for this business unit. Given the under-capacity of DLP of upstream core suppliers in the relevant business, the performance decreased slightly when compare to the corresponding period last year. Owing to the integration of upstream resources and changes in the market, the optoelectronic display business unit integrated the smart commercial display business in the fourth quarter and achieved remarkable results. In terms of overall achievement of this business unit, it grew rapidly in 2021 and continuously recorded high growth in the past three years, realizing cumulative sales of HK$1,859.6 million, a significant increase of 96.3% compared to the corresponding period in 2020.

**Video Processing**

The video processing business unit involves many areas, mainly including video surveillance, access control management, intruder alarm, building talkback and other segments. According to relevant statistics, the size of global security monitoring market has increased from US$236.7 billion in 2016 to approximately US$338.0 billion in 2021. In the first half of 2021, the performance of the video processing business unit began to see an explosive growth, with the sales for the first half of the year exceeding that for the whole year of 2020. In the third quarter, the business continued to maintain rapid growth before slowed down in the fourth quarter. In addition to the improved performance, the quality of customer groups in this business unit has also been greatly enhanced. We have carried out in-depth interactions with top blue-chip customers in respect of business and technology, and jointly expanded the market with them with a focus on some specialized market segments. In overseas markets, we have also attained a satisfactory progress with the business of downstream partners starting to penetrate into North America and Southeast Asia and successfully securing a large number of new orders. Given the above, in 2021, this business unit achieved cumulative sales of HK$1,084.9 million, representing a significant increase of 216.4% compared with the corresponding period in 2020, and has achieved rapid growth for five consecutive years.

**Smart Terminals**

According to the statistics released by the Ministry of Industry and Information Technology, as of the end of 2021, the total number of users of Internet protocol television (IPTV) in China increased by 10.6% year on year to 349 million, and the growth rate was higher than that of 7.2% in 2020. In overseas market, the resurgence of pandemic throughout the year brought the "stay-at-home economy", leading to a significant increase in the utilization of big-screen TVs in households. Meanwhile, driven by a number of major international sports events in 2021, the end-customers' demands for set-top box products increased dramatically. Benefitting from the stable development of the domestic IPTV market and the increase in orders for smart set-top boxes from Europe, this business unit achieved cumulative sales of HK$730.3 million in 2021, representing a significant increase of 84.3% compared with the corresponding period in 2020.

**Communication Products**

Internet of Things (IoT) is a huge industry chain system in the communication sector. In general, it can be divided into perception layer, network layer and application layer. The transmission of the data identified and collected in the perception layer to the application layer requires a large number of IoT communication modules of different types. Currently, the IoT communication modules are mainly applied in vertical industries in the commercial field, such as intelligent meter, intelligent door lock and positioning terminal for water, electricity, gas and other industries. The pandemic did not interrupt the rapid growth of cellular IoT module market. Instead, the demand for the networked and intelligent end products continued to increase, which benefitted the cellular IoT module shipments. In 2021, Chinese manufacturers were the top five contributors of the cellular IoT module shipments in the global market. Through further expansion of major blue-chip customer base in the industry, this business unit has reaped the benefits brought by the industry development and achieved significant growth in such product lines as multi-chip packaging (MCP) memory chips, radio frequency power amplifier (PA) chips, communication modules and narrow-band Internet of Things (NB-IoT). In the meantime, the in-depth cooperation with numerous blue-chip customers in the industry has driven the sharp rise in the sales and profits of this business unit for two consecutive years with cumulative sales of HK$643.6 million in 2021, representing a significant increase of 139.5% compared to the corresponding period in 2020.

**Memory Products**

Memory chip is an important branch of the semiconductor industry, accounting for approximately a third of the global semiconductor market. According to the historical data, the memory chip industry has always seen fluctuating prices, but its overall performance within the industry cycle was better than the average of the electronic components market. According to IC Insight, the scale of memory chip market is expected to grow by 22% year-on-year to US$155.2 billion in 2021. Although the scale was growing throughout the year, price volatility was evident during the year. The price for memory chip gradually falled from July onwards after an increase in the second quarter, and continued to fall throughout the second half of the year. Since there was a greater risk of price declines in price fluctuations due to the rapid changes in market supply and demand, the business unit was restructuring and consolidating its resources during the year, therefore we promoted our business in a more conservative way. As a result, in 2021, the business unit maintained a slight growth in revenue and achieved cumulative sales of HK$556.6 million, an increase of 13.1% compared to the corresponding period in 2020.

**Automotive Electronics**

According to the Statistics, the number of vehicles nationwide reached 302 million by the end of 2021, with the increase in new energy vehicles by 59.25% year-on-year to 7.84 million. According to an analysis report released by Newsijie Industry Centre (新思界產業研究中心), the configuration of automotive DVRs in low-end vehicles has become a new selling point, and the penetration rate of automotive DVRs in the factory-installed products market is expected to increase from 33% in 2020 to around 71% in 2025. In addition to the rapid growth in the penetration rate of the factory-installed products market, the huge aftermarket installed products market in China also provides strong support for the market demand for automotive DVRs of this business unit. According to QYResearch, a market research agency, China is the world's largest manufacturing base for automotive DVRs, accounting for over 42% of the global market in terms of shipments. Meanwhile, China is also the world's largest consumer market for automotive DVRs, accounting for approximately 30% of the global market. Given the size of the intelligent automotive DVRs market in the PRC amounted to approximately RMB15.83 billion as of December 2021, the sales of DVR SoC chips in the business unit has benefited therefrom, with a significant growth in shipments in 2021, achieving annual sales of HK$254.3 million, a significant increase of 113.3% compared to the corresponding period in 2020.

## Independent Distribution

The supply chain of semiconductor chips remained tight in 2021 due to the COVID-19 epidemic and other factors, which led to a severe imbalance between supply and demand in the market and thus shortages and price increases throughout the year, and the independent distribution business was booming as a result. Since the first half of the year, the Group's independent distribution business has been experiencing explosive growth and the robust momentum continued throughout the year. Moreover, according to the Statistics, the gross profit generated from the spot orders of independent distribution business has improved significantly over the traditional authorized distribution business. The independent distribution business achieved cumulative sales of HK$2,861.2 million in 2021, a significant increase of 371.6% compared to the corresponding period in 2020.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OUTLOOK

In the World Economic Situation and Prospects 2022 released by the United Nations in January this year, it stated that due to the continuation of the COVID-19 pandemic, continuous challenges in the labor market, unresolved supply chain problems and the pressure of increasing inflation, the global economic development is still facing greater uncertainties, and global economic growth is expected to decline to 4.0% and 3.5% in 2022 and 2023, respectively. In the latest Global Economic Outlook released by the World Bank in January, it also lowered its forecast for global economic growth in 2022 and 2023 to 4.1% and 3.2%, respectively. The overall global economy is in a weak recovery stage in the medium term, and the recovery journey is expected to be long, uneven and full of uncertainty.

In contrast, the development prospects of the semiconductor chip industry are relatively optimistic and positive. We have collected forecast data for the global market in 2022 released by authoritative market research agencies including IC Insight, Gartner, WSTS, Omdia, and SIA. The average growth rate is forecasted to reach about 8.0%, and the authoritative market research agency IC Insight even proposes a double-digit growth rate of 11%. Research agencies generally expect that the global semiconductor output value will probably exceed US$600 billion in 2022, and they believe that in the next 4 years, the semiconductor chip industry will maintain a sustained single-digit growth and exceed one trillion US dollars in 2030. Therefore, the future development prospects of the semiconductor industry are worth expecting. Given the correlation and leverage effect between the semiconductor industry and the development of the national economy, the continuous growth of the semiconductor industry will contribute to the recovery of the global economy.

Statistics show that the market size of semiconductor chips made in China has grown rapidly from US$13 billion in 2016 to US$177.2 billion in 2021, and the global market share also increased to 32%. However, according to IC Insight, excluding the sales data of non-Chinese chip companies that set up factories in Mainland China, the market share of Chinese local brand semiconductor chip companies only accounted for about 6%, which means that the development of China's semiconductor chip industry still has a long way to go. Data from the China Semiconductor Industry Association IC Design Branch suggests that the number of chip design companies in China has increased from 681 in 2014 to 2,810 in 2021, representing an increase of more than four times in seven years. Moreover, the capital market in Mainland China made active investments in the semiconductor industry in 2021. During the year, there were more than 570 investment and financing events in the semiconductor industry, with a total investment of more than RMB110 billion, which is also supported by the data from the securities regulatory authorities. In 2021, a total of 19 semiconductor-related companies in Mainland China successfully entered capital market. As of the end of December 2021, 52 semiconductor companies are lining up for IPOs. It is expected that the number of chip-related listed companies in A-share market in 2022 will increase significantly compared with that in 2021, and by then the number of listed companies engaging in chip-related businesses in the A-share market will probably exceed 500, making it an important industry sector in the securities market.

Looking forward to 2022, as the negative impact of the COVID-19 pandemic on the global economy is expected to be reduced, and the semiconductor production capacity newly established has been put into operation successively over the past two years, the supply constraint that has plagued the semiconductor industry chain for more than a year will be alleviated. There will be a window for another round of chip design and innovation due to the increasing demands from emerging application fields such as Artificial Intelligence & Internet of Things (AIoT), 5G communication application, new energy, electric vehicles, autonomous driving and industrial interconnection. We will pay close attention to the local semiconductor chip industry in Mainland China about whether it will be able to hit new heights by seizing such new development opportunity.

As a leading all-round distributor of electronic components in China, the Group achieved prominent performance in business diversification and development in 2021, representing by the rapid growth both in the Group's pillar business with sales exceeding HK$1 billion and newly commenced business with sales exceeding HK$100 million. The business of the Group's branches also achieved substantial growth with their sales contributing more than 30% of the Group's total sales, which is critical to improving the balance of the Group's business and enhancing its resilience to risk, as well as laying a solid foundation for the overall development of the Group's business across the Asia-Pacific region in the future.

# MANAGEMENT DISCUSSION AND ANALYSIS

Considering the expectation of steady growth in the global economy and semiconductor industry in the future, we believe that the Group's business will maintain steady growth in 2022. Specifically, for each business line of the Group, the outlook is as follows:

## Authorized Distribution

### Television Products

According to a forecast report by market research firm TrendForce, panel prices are expected to relatively stabilise in 2022 after a sharp correction in TV panel prices in the second half of 2021. The global TV shipments are expected to grow by 3.4% to reach 217 million units in 2022, as the market demand for some small-sized TVs that was previously deferred will be released as a result of drop in the prices for small-sized TV panels, which had been high. Market feedback indicates that major international brands are focusing on the promotion of new mid-to-large size products, and thus mid-to-high end OLED TVs will continue to grow at a faster pace, and miniLED TVs will see rapid growth. As a result, the market share of mid-to-high end TVs is expected to increase, which will be conducive to boosting the shipment of mid-to-high end TV chips from this business unit.

Statistics show that the penetration rate of colour TV ownership in China has reached 121.8 units per 100 households in 2021, suggesting a highly saturated market. However, industry analysts believe that there are many outmoded products among such huge stock that are obsolescent and in need for upgrade and replacement. According to market analysis, the proportion of large-screen colour TVs in size of above 70 inches is expected to increase by another 5 percentage points in 2022, with sales increasing by around 30%. The large-screen colour TV market in China is likely to see a market rebound in 2022 due to price drop and a trend of replacements with new large-size products. The TV SoC chips shipped by this business unit are expected to benefit from its evident advantages in mid-to-high end products and overseas markets.

### Optoelectronic Displays

In 2022, the shortage of wafers and packaging and testing capacity related to display will be eased but won't disappear, while market demand for screen modules for businesses of displays and notebook will remain strong, coupled with the stable demand of blue-chip customers, the robust production and sales of chips will continue until the middle of this year.

As the strategic direction of smart commercial display is becoming clear as well as the markets in education, conference commercial display and projection keep growing, smart commercial display will serve as an important contribution to the results of the optoelectronic displays sector in 2022. A mass of chips and solutions for this sector can be easily applied to the complete machine products related to "Metaverse". Our upstream core OEM partners have planned to establish a "metaverse business department" by integrating their advantages in connection, transmission, 5G, edge computing, multimedia etc., to equip wearable devices with more processors, higher computing power, less power consumption, shorter latency and supporting software and hardware technology solutions.

The business of CMOS image sensors and screen driver chips for cell phones is expected to maintain stable as the further implementation of the strategy of bundled shipment with cell phone terminal and the Group's requirements in risk management. For the new business directions of industrial control Touch and BLDC, we expect an opportunity to achieve significant business breakthroughs with the accumulation of market customer groups and the support of sales strategies.

Generally speaking, we are optimistic about the performance of the optoelectronic display business unit in 2022.

### Video Processing

According to data released by ASKCI (中商情報網), the market size of the security industry in Mainland China had grown from RMB601.6 billion in 2017 to RMB945.2 billion in 2021, and there is a good chance of exceeding RMB1 trillion in 2022, making it one of the few booming industries under the downward economic pressure. According to the 2021 Global Intelligent Video Surveillance Market Information Service (《全球智能視頻監控市場信息服務》) released by Omida, the size of the global intelligent video surveillance and related infrastructure market reached US$24.2 billion in 2021, and will grow to US$31.9 billion by 2025, with a CAGR of 7.1%. Omdia believes that unsatisfied demand for chips in the security industry will not be mitigated until the middle of 2022 due to the impacts caused by geopolitics and COVID-19 epidemic.

# MANAGEMENT DISCUSSION AND ANALYSIS

The market feedback from blue-chip customers of the industry suggests that the following three years will be a development window for the security industry, and opportunities mostly lie in the organic combination of video and intelligent IoT and its application in numerous industry segments. For example, in the field of water conservancy, video can be used to identify the water mark and thus to make diversion in time according to water flows. Also, video can be used to detect flaws in textile industry, or to identify whether workers at the construction sites wearing safety helmets in construction industry. As customers are generally optimistic about the demand in overseas markets, the overseas markets size is expected to maintain high growth. Therefore, with the significantly increased video processing application scenarios brought by the development of intelligentization and digitalization, the security video processing will generate numerous new business opportunities in addition to the traditional security application fields in 2022, from which this business unit is expected to benefit.

**Smart Terminals**

With the diversified development of business, product functions are becoming more and more complex, and the integration of programs is getting higher and higher. Set-top boxes have gradually become the dominant players in home entertainment and the speed of product replacement is also accelerating. Smart set-top boxes will have the potential to become a smart device hub that can integrate TVs, networks and various applications, to provide families with rich and comprehensive information services such as communication, entertainment, home appliance control and security. With the further development and popularization of the IoT, set-top boxes have also shifted from simple TV signal playback devices to one of the important entrances to smart homes. Therefore, it is expected that set-top box will play an increasingly important role in global digitization progress in the next 10 years or more. Benefiting from new opportunities brought by technological upgrades and growth in emerging markets around the world, it is expected that this business unit will maintain growth in 2022.

**Communication Products**

According to a research report released by CICC, with the landing of 5G applications and the development of AI technology, AIoT has entered the fast lane of development. At present, Mainland China has basically realized the full coverage of 5G networks. In the future, cellular communication will apply LPWAN as a substitute for 2G/3G technology in low-rate scenarios, and apply 4G/5G technology in high-rate scenarios. Communication modules will serve as main communication infrastructure for terminal device networking, ushering in new development opportunities. It is expected that the shipments of cellular communication modules will reach 460 million in 2023, with a market value of US$6.3 billion.

In the face of the rapid growth of the 5G mobile phone and communication module market, this business unit accurately captures the market dividend brought about by the growth of 5G through the layout of MCP memory chips, radio frequency PA chips, and the introduction of more new product lines and new customers. New product lines such as the new communication modules, NB-IoT and passive devices will be marketed with the existing customer resources, and it is expected that the IoT smart device business will continue to maintain rapid growth. Looking forward to 2022, this business unit will focus on the application of radio frequency devices, memory chips, SoC chips and communication modules, and deeply engage in the rapidly growing market of cellular IoT communication modules.

**Memory Products**

According to an analyst report released by IC Insights, the global market scale of memory chips is expected to grow by 22% to US$155.2 billion in 2021, and this market scale will continue to grow in 2022, having the potential to exceed US$200 billion by 2023.

As for market supply and demand, a research by TrendForce shows that, the demand growth rate of DRAM bits is expected to be 17.1% while the supply growth rate is expected to be 18.6% in 2022. Therefore, the price of DRAM chips may slip due to the oversupply, and the total output value of DRAM chips is estimated to slightly rise by only approximately 0.3% to reach US$91.54 billion in 2022. In terms of the flash memory of Nand Flash, with the stacked layer technology of each memory chip manufacturer continuing to be advanced, it is expected that the growth rate of bits supplied will be approximately 31.8% in 2022, higher than the growth rate of 30.8% on the demand side. Therefore, it is expected that the price of flash memory chips will decrease more significantly than that of DRAM. However, it is expected that the total output value of Nand Flash will increase by 7.4% to US$74.19 billion in 2022, benefiting from the rapid growth of the overall market scale.

The Group's memory business has been sorted out and adjusted in the second half of 2021, and has begun to actively expand in new data center applications, expecting to achieve better results in 2022.

**Automotive Electronics**

From the perspective of technological development trend, DVRs with high definition, wide view, high resolution and enhanced night vision have become a popular trend in the industry, and a large number of DVR products on the market have begun to integrate ADAS functions, equipped with various sensors and image recognition technology to assist driving. In the future, as DVR products gradually develop from having the original single function to becoming intelligent, large-screen, AI-based and interactive, the functions and types of the products will be upgraded, which will promote the increase in the sales unit price of chips of DVR products, the increase in both demand and the value of a single machine, and the market size is thus expected to achieve substantial growth.

We believe that the development trend of electrification, intelligence and autonomous driving of automobiles is relatively clear and lasting, and the market volume is huge. In the future, for both autonomous driving based on single-vehicle intelligent technology and autonomous driving function based on vehicle-road coordination, the demand and dependence of the automotive industry on semiconductor chips will increase significantly. This market may be the largest incremental market for the semiconductor industry in the future. Therefore, in the new year, this business unit will introduce more valuable new product lines and strive to expand its business in the factory-installed automobile market.

## Independent Distribution

The serious imbalance in supply and demand in the semiconductor chip supply chain brought a lot of business opportunities to the independent distribution business in 2021. Although it is generally believed that the supply chain imbalance has improved in 2022, it should be noticed that there are no fundamental improvements in the COVID-19 pandemic or geopolitics, so uncertainties on the market side still exists, and demand will still exist. In this regard, the Group will continue to invest resources to develop independent distribution business and enhance the professionalism and business scale of its services. This business unit will also carry out business cooperation with various branches of the Group and self-operated e-commerce platforms according to the new industry development trend, so as to develop its own characteristics and advantages while becoming bigger and stronger.

For the semiconductor industry, 2021 is a rare harvest year, and 2022 is full of opportunities and challenges. We need to support the sustainable development of our business through more accurate operations. Therefore, the Group will continue to promote the digital development of enterprises and strive to improve its all-round distribution ability. In the field of mature authorized distribution, we will continue to increase resource investment in business units that have made breakthroughs to consolidate and expand market share. At the same time, the Group will seize the development opportunities of the new semiconductor industry by setting up a new business unit, so as to better meet the needs and challenges from the upstream and downstream of the industry chain, and to grasp the market development opportunities.

In the field of technology value-added business, the Group will continue to sort out the business of technology value-added business units, focusing on reducing costs and increasing efficiency through resource integration. At the same time, in specific sub-sectors, we will fully apply technology to realize productization, programization and conversion to IP, so as to realize true integration of hardware design, software development, and cloud data services on the Group’s technology value-added platform to meet the needs of the closed-loop business of the local semiconductor industry chain, with an aim to achieve high-quality growth in business revenue.

In the design and manufacturing of optical communication chips, we will make full use of the national and local industrial preferential policies for the development of semiconductor chips, seize new opportunities for the development of optical communication chips, and take this opportunity to build the Group’s core technical capabilities in the design and manufacturing of semiconductor chips.

In 2022, we will accelerate the expansion of the Group’s business on the basis of sound operation and active innovation to further enhance the scale and profitability of the Group’s business, and continue to improve the quality of operations, bringing better returns and long-term value to the shareholders of the Company (“**Shareholders**”).

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2021, the Group's revenue amounted to HK$10,389.3 million (2020: HK$5,541.0 million), representing an increase of HK4,848.3 million (87.5%) as compared with the revenue for the year ended 31 December 2020.

The increase in revenue was mainly caused by the increase in the sales from our optoelectronic displays, communication products, smart terminals and video processing of approximately HK$2,363.3 million and the increase in the sales from independent distribution of approximately HK$2,254.5 million.

### Gross profit

Our gross profit for the year ended 31 December 2021 increased by HK$679.5 million to HK$990.0 million as compared with the prior year (2020: HK$310.5 million). Our gross profit margin increased by 3.9 percentage points to 9.5% for the year ended 31 December 2021 (2020: 5.6%). The increase in gross profit margin was principally the effect of the higher gross profit margin from the independent distribution.

### Research and development expenses

Research and development expenses mainly comprise of staff costs incurred for our research and development department. For the year ended 31 December 2021, research and development expenses amounted to HK$40.2 million, increased by 56.4% as compared with the year ended 31 December 2020 (2020: HK$25.7 million). The increase was mainly due to an increase in staff costs.

### Administrative and selling and distribution expenses

Administrative and selling and distribution expenses aggregated to HK$414.2 million for the year ended 31 December 2021 (2020: HK$168.5 million), which accounted for 4.0% of the revenue for the year ended 31 December 2021 as compared with 3.0% over the corresponding year in 2020. The net increase of HK$245.7 million was mainly attributable to an increase in staff costs and marketing expenses to support the expansion of business.

### Finance costs

The Group's interest expense on bank and other borrowings for the year ended 31 December 2021 amounted to HK$53.8 million, an increase of HK$35.6 million as compared with that in 2020 (2020: HK$18.2 million). Interest expenses mainly represent the borrowings cost from entering into various factoring agreements with some of the principal bankers and import loans from our principal bankers. The increase was due to the increase in bank borrowings to meet the operating needs.

### Share of result of an associate

The Group had recorded a loss on share of result of an associate for the year ended 31 December 2021 of approximately HK$4.8 million (2020: Nil). The loss was mainly due to the increase in the amount of sharing of result of an associate, namely Galasemi (Shanghai) Co. Ltd. (GSCL), which was established in February 2021, as a result of the initial phase of company operation.

### Profit for the year

For the year ended 31 December 2021, the Group's profits amounted to HK$391.9 million, representing an increase of HK$306.5 million as compared to HK$85.4 million in 2020, representing an increase of 358.9%. The net profit margin for the year ended 31 December 2021 was 3.8%, compared to 1.5% for the year ended 31 December 2020. The increase in the profit for the year was mainly contributed by the increase in gross profit.

## Net profit attributable to the owners of the Company

The net profit attributable to the owners of the Company for the year ended 31 December 2021 amounted to HK$214.1 million, representing an increase of 201.5% as compared with the year ended 31 December 2020 (2020: HK$71.0 million).

## Use of proceeds from the global offering

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

For the year ended 31 December 2021, the Group had utilised HK$33.3 million of the net proceeds from the Listing. The Group has utilised approximately HK$171.7 million of the net proceeds as at 31 December 2021 according to the intentions set out in the prospectus of the Company dated 27 September 2016 (the "**Prospectus**"). The unutilised net proceeds in the amount of HK$34.1 million have been placed as deposits with licensed banks and are expected to be utilised as set out on the Prospectus.

| Use of Proceeds | | Net proceeds (in HK$ million) | Utilised during 31 December 2021 (in HK$ million) | Utilised as at 31 December 2021 (in HK$ million) | Amount remaining (in HK$ million) | Expected timeline for utilising the remaining net proceeds (Notes 1 and 2) (in HK$ million) |
|---|---|---|---|---|---|---|
| 1. | Hiring additional staff for sales and marketing and business development and improvement of warehouse facilities | 20.6 | 0.0 | (20.6) | 0.0 | – |
| 2. | Advertising and organising marketing activities for the promotion of our e-commerce platform Smart Core Planet and our new products | 41.2 | 0.0 | (41.2) | 0.0 | – |
| 3. | Enhancing, further developing and maintain our e-commerce platform and improving our technology infrastructure | 41.2 | (0.2) | (7.1) | 34.1 | Expected to be fully utilised on or before 31 December 2022 |
| 4. | For research and development | 20.6 | 0.0 | (20.6) | 0.0 | – |
| 5. | Funding potential acquisition of, or investment in business or companies in the e-commerce industry or electronics industry | 61.7 | (33.1) | (61.7) | 0.0 | – |
| 6. | General working capital | 20.5 | 0.0 | (20.5) | 0.0 | – |
| | | 205.8 | (33.3) | (171.7) | 34.1 | |

*Notes:*

1. The expected timeline for utilising the remaining net proceeds is made based on the best estimation of the Company taking into account, among others, the prevailing and future market conditions and business developments and need, and therefore is subject to change.

2. The unutilised net proceeds from the Listing are expected to be used as intended except that the original timeline for utilising the remaining net proceeds as disclosed in the Prospectus has been delayed due to, among others things, the business environment being affected by the rapid change in technology in the past few years, the Sino-US trade tension since 2018, the social unrest in Hong Kong since June 2019 and the outbreak COVID-19 since January 2020. Additional time is therefore needed for the Group to identify suitable resource, including personnel, suppliers and service providers, for the development of e-commerce platform and technology infrastructure.

## Liquidity and financial resources

The Group's primary source of funding included cash generated from operating activities and the credit facilities provided by banks.

The Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements. As at 31 December 2021, the Group maintained aggregate restricted and unrestricted bank balances and cash of HK$711.8 million (31 December 2020: HK$416.7 million).

As at 31 December 2021, the outstanding bank borrowings of the Group were HK$1,638.1 million (31 December 2020: HK$727.1 million). The Group's gearing ratio, which is calculated by the interest-bearing borrowings divided by total equity, increased from 108.5% as at 31 December 2020 to 159.8% as at 31 December 2021 as a result of the increased level of bank borrowings to finance our expanded working capital needs.

As at 31 December 2021, the total and unutilised amount of the Group's banking facilities (excluding standby letter of credit) were HK$2,917.6 million and HK$1,427.7 million (31 December 2020: HK$1,173.5 million and HK$449.6 million) respectively.

As at 31 December 2021, the Group had current assets of HK$3,387.4 million (31 December 2020: HK$2,009.2 million) and current liabilities of HK$2,571.4 million (31 December 2020: HK$1,481.4 million). The current ratio was 1.32 times as at 31 December 2021 (31 December 2020: 1.36 times). The increase in current assets is primarily due to the increase in trade receivables as compared with 31 December 2020, which is attributable to the increase in revenue and transaction volume.

The Group's debtors' turnover period was 54 days for the year ended 31 December 2021 as compared to 62 days for the year ended 31 December 2020. The overall debtors' turnover period was within the credit period. The decrease in debtors' turnover period was due to the higher debtors' turnover rate of independent distribution which revenue increased sharply during the current period.

The creditors' turnover period was 22 days for the year ended 31 December 2021 as compared with 34 days for the year ended 31 December 2020. The creditors' turnover period improved which was due to the more timely repayment of the amounts due to our suppliers during the current period.

The inventories' turnover period was 20 days for the year ended 31 December 2021 as compared with 21 days for the year ended 31 December 2020. Inventory control was always one of the primary tasks of the Group's management team to maintain the liquidity and healthy financial position of the Group. Inventories' turnover period remained relatively stable in both years.

## Foreign currency exposure

The Group's transactions are principally denominated in US dollars and Renminbi. The Group had not experienced any material difficulties or material adverse impacts on its operation despite the fluctuations in currency exchange rates and the net foreign exchange gain of approximately HK$0.8 million for the year ended 31 December 2021 (31 December 2020: net foreign exchange loss of HK$0.5 million). At the date of this report, the Group has not adopted any foreign currency hedging policy. However, the Group will consider the use of foreign exchange forward contracts to reduce the currency exposures in case the exposures become significant.

## Pledge of assets

As at 31 December 2021, the financial assets at fair value through profit or loss (the "**FVTPL**") amounted to HK$147.3 million (31 December 2020: HK$130.1 million), trade receivable factored amounted to HK$854.3 million (31 December 2020: HK$580.3 million) and bank deposits amounted to HK$420.8 million (31 December 2020: HK$178.2 million) had been charged as security for the bank borrowings and financing arrangement of the Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Capital commitment and contingent liabilities

The Group had no material capital commitment and contingent liabilities during the years ended 31 December 2021 and 2020.

## Significant investment held

Save for the financial assets at FVTPL as disclosed above, the Group did not hold any significant investments during the years ended 31 December 2021 and 2020.

## Material acquisitions and disposals of subsidiaries and associated companies

The Group has no material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 December 2021.

## Employees

As at 31 December 2021, the Group had 570 employees (31 December 2020: 444 employees), with a majority based in Shenzhen, Suzhou and Hong Kong. Total employee cost for the year ended 31 December 2021, excluding the remuneration of the Directors were approximately HK$279.7 million (31 December 2020: HK$108.3 million). There have been no material changes to the information disclosed in the prospectus dated 27 September 2016 in respect of the remuneration of employees, remuneration policies, share award scheme, share option scheme and staff development.

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

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

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

During the year ended and as at 31 December 2021, no share awards and share options were granted to the employees by the Company pursuant to the Share Award Scheme and the Share Option Scheme respectively.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2021, the Company bought back a total of 1,960,000 shares on the Stock Exchange (the "**Share Repurchase**") and a total of 4,274,000 shares bought back were cancelled by the Company on 5 March 2021. Details of the purchases of shares are as follows:

| Month of buy-back | Number of Shares bought back | Price per Share Highest | Price per Share Lowest | Aggregate price (excluding commission fee and etc) |
|---|---|---|---|---|
| | | HK$ | HK$ | HK$ |
| January 2021 | 1,960,000 | 1.26 | 1.20 | 2,421,660 |

The Board believes that the Share Repurchase may, depending on market conditions and funding arrangements at that time, lead to an enhancement of its earning per Share, and will benefit the Company and Shareholders.

Save as disclosed above, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries during the year ended 31 December 2021.

## EVENTS AFTER THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

Up to the date of announcement, the Group has no significant subsequent event after 31 December 2021 which required disclosure.

# DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Board of directors (the "**Directors**") and the senior management of the Company who held office during the Reporting Period and up to the date of this report are as follows:

## EXECUTIVE DIRECTORS

**Mr. Tian Weidong,** aged 55, is the chairman of the Board, an executive Director and chief executive officer of our Company. He is the founder of our Group and has been leading our Group for over 15 years. Mr. Tian was appointed as a Director of our Company on 22 October 2015. He is also the chairman of the Company's nomination committee and a member of the Company's remuneration committee. Mr. Tian is responsible for overseeing the overall business strategy, development of projects, management and operations of our Group. Further, Mr. Tian is currently serving as a director of a number of subsidiaries of the Company, namely, Smart-Core International Holdings Limited, Smart-Core International Company Limited, Smart Link Holdings Limited, Smart-Core Cloud Holdings Limited, Smart-Core Cloud Limited, UDStore Solution Holdings Limited, UDStore Solution Limited, Smart-Core Link Holdings Limited, Smart-Core Link Limited, Smart-Core IC Cloud Holdings Limited, IC Cloud Holdings Limited, IC Cloud Limited, Smart IC Cloud Holdings Limited, Quiksol HK, Smart-Core Overseas Holdings Limited, Smart-Core Development Company Limited, Smart-Core DTDS Limited, DTDS Smart-Core Pte Limited and Smart-Core Japan Holdings Ltd.. He is also the sole director and sole shareholder of Smart IC Limited, a controlling shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")) of the Company.

Mr. Tian has more than 20 years' experience in the semiconductor industry and its related distribution. He was the sales director of Shenzhen Dadong Electronics Co., Ltd. (which was principally engaged in sales of semiconductors) from October 1993 to June 1997 where he was in charge of the management of the sales team, formulation of sales and marketing strategies and maintenance of business partnerships with clients and suppliers. He was the sales manager of Trident Multimedia Technologies (Shanghai) Co., Ltd. (which was principally engaged in the design of IC products and the development of associated system software and application software) from December 1999 to March 2002 where he was in charge of sales and marketing.

Mr. Tian obtained a degree in Bachelor of Electronic Engineering from Xiamen University in July 1989 and a degree in Master of Business Administration from the National University of Singapore in March 2000 and a degree in Master Business Administration from the National Taiwan University in January 2019.

**Mr. Wong Tsz Leung,** aged 58, is an executive Director and chief financial officer of our Company. He was appointed as a Director of our Company on 22 October 2015. Mr. Wong joined our Group in March 2007 and subsequently promoted to the vice general manager. Mr. Wong is responsible for overseeing the overall strategy and responsible for the financial operations and management of our Group. Mr. Wong is currently serving as a director of a number of subsidiaries of the Company, namely, Smart-Core DTDS Limited, Quiksol HK and UDStore Solution Limited. Mr. Wong is also the chairman of supervisor committee of Henan Jinma Energy Company Limited (stock code: 6885) since July 2016. He is also the sole director and sole shareholder of Insight Limited, a substantial shareholder (as defined in the Listing Rules) of the Company.

Mr. Wong has more than 20 years of experience in business management. Prior to joining our Group, Mr. Wong was the financial controller of OSSIMA Publishing Group Limited (which was engaged in travel media business) from January 1995 to September 2005. Mr. Wong obtained a degree in Master of Business Administration from University of Wales via its distance learning program in December 2011.

# DIRECTORS AND SENIOR MANAGEMENT

**Mr. Liu Hongbing,** aged 55, is an executive Director of our Company. He was appointed as a Director of our Company on 22 October 2015. Mr. Liu joined Shenzhen Smart-Core Technology Co., Ltd. in February 2007 and acted as the manager of the development department and was subsequently promoted to vice general manager. Mr. Liu is responsible for overseeing the overall strategy and responsible for the research and development matters of our Group. Further, Mr. Liu is currently serving as a director of a number of subsidiaries of the Company, namely, Shenzhen Smart-Core Technology Co., Ltd., Shenzhen Smart-Core Cloud Information Technology Co., Ltd and Shenzhen IC-Cloud Information Technology Co., Ltd.

Mr. Liu has more than 20 years' experience in the electronic engineering industry. Prior to joining our Group, he was the engineer of Hebei Tengfei Electronics Co., Ltd. (which was principally engaged in the design, manufacturing and sales of LCD TVs and other electronic appliances) from October 1993 to May 1999 and was the senior engineer of Shenzhen Zhong Tian Xin Electrical Technologies Co., Ltd. (which was principally engaged in the design, manufacturing and sales of electronic products including LED products, LCD TVs and audio devices) from June 1999 to January 2007. Mr. Liu obtained a degree in Bachelor of Physics from Shandong University in July 1988 and a degree in Executive Master of Business Administration from The Chinese University of Hong Kong in November 2015.

**Mr. Yan Qing** (resigned with effect from 6 December 2021), aged 52, was appointed as an executive Director of our Company on 1 April 2019 and was resigned on 6 December 2021. Mr. Yan is currently servicing as the chief executive officer and director of Quiksol HK, a non-wholly owned subsidiary of our Group. Mr. Yan has more than 20 years of experience in electronics distribution industry. Prior to joining our Group, he served in the Beijing Magnet Health-care Product Co. Ltd as the sales engineer from August 1992 to August 1995. From November 1995 to July 1998, he acted as a sales manager of Nison Industrial & Commercial Pte Ltd-Singapore. From November 1999 to January 2006, he acted as a purchasing director of Converge Singapore. From January 2006 to August 2012, he worked as a director of APAC of Converge China.

Mr. Yan obtained a degree in Bachelor of Engineering in Geophysics Engineer from Jilin University in July 1992 and a degree in Master of Business Administration from the National University of Singapore in March 2000.

**Mr. Mak Hon Kai Stanly** (appointed with effect from 6 December 2021), aged 60, is an executive Director of our Company. He was appointed as a Director of our Company on 6 December 2021. Mr. Mak is currently the chief marketing officer of the Group, responsible for the overall marketing strategy and marketing of the Group. Mr. Mak has more than 30 years' experience in the sales and marketing of electronic components. Mr. Mak joined the Group in December 2020. Prior to joining our Group, Mr. Mak acted as the group CEO (distribution business) and group executive director in Daiwa Associate Holdings Limited, a company listed on the Stock Exchange (stock code: 1037) from October 1988 to March 2013. Mr. Mak acted as the chief executive officer and vice chairman of Protech Century Limited from February 2013 to August 2018, Mr. Mak acted as the chief executive officer and vice chairman of V & V Technology Limited, a subsidiary of S.A.S. Dragon Holdings Limited, a company listed on the Stock Exchange (stock code: 1184) from November 2018 to August 2019.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Zheng Gang,** aged 54, is an independent non-executive Director of our Company. He was appointed as an independent non-executive Director of our Company on 16 March 2016. Mr. Zheng has been the executive director of Good Fellow Healthcare Holdings Limited (formerly known as Hua Xia Healthcare Holdings Limited), a company listed on the Stock Exchange (stock code: 8143) since August 2007. Mr. Zheng had also been appointed as the independent non-executive director of China Internet Investment Finance Holdings Limited (formerly known as Open Asia Development Limited), a company listed on the Stock Exchange (stock code: 810) from July 2012 to May 2013. Mr. Zheng has extensive experience in management in the finance and investment industry. Mr. Zheng obtained a degree in Bachelor of Electronic Engineering from Xiamen University in July 1989 and a degree of Master of Business Administration from University of Wales in April 1994.

# DIRECTORS AND SENIOR MANAGEMENT

**Mr. Tang Ming Je,** aged 68, is an independent non-executive Director of our Company. He was appointed as an independent non-executive Director of our Company on 16 March 2016. Mr. Tang was a tenured associate professor of the department of business administration of University of Illinois at Urbana-Champaign from August 1991 to August 1995, a visiting associate professor of Hong Kong University of Science and Technology from January 1994 to January 1995 and a professor of department of industrial administration of Chang Gung University from December 1994 to August 1996. He held various positions in National Taiwan University, including Professor of the department of international business from August 1996 to February 2019, founding executive director of the executive master of business administration program from August 1997 to July 1999, director of the division of professional development from March 1998 to July 2004 and vice president for finance from August 2007 to May 2014. Mr. Tang obtained a degree in Bachelor of Civil Engineering from National Taiwan University in June 1975 and a degree in Doctor of Philosophy from Massachusetts Institute of Technology in September 1985. Mr. Tang has been an independent director of Fubon Financial Holding Co., Ltd., a company listed on the Taiwan Stock Exchange (stock code: 2881) since June 2014. He has also been appointed as an independent director of Mediatek Inc., a company listed on the Taiwan Stock Exchange (stock code: 2454) since June 2017.

**Ms. Xu Wei** (appointed with effect from 6 December 2021), aged 51, is an independent non-executive Director of our Company. She was appointed as an independent non-executive Director of our Company on 6 December 2021. Ms. Xu is an executive director and financial controller of PT International Development Corporation Limited, a company listed on the Stock Exchange (stock code: 372) since 2017. Ms. Xu is also a director of various subsidiaries of PT International Development Corporation Limited.

Ms. Xu obtained a Bachelor of Economics degree majoring in Accounting from Xiamen University in the PRC in July 1992. Ms. Xu is a fellow member of the Institute of Public Accountants in Australia and has extensive experience in finance and accounting.

**Mr. Wong Hok Leung** (resigned with effect from 6 December 2021), aged 69, was appointed as an independent non-executive Director of our Company on 1 July 2018 and was resigned on 6 December 2021. He has over 20 years of experience in banking, finance, IT and retail banking, and his last position in banking was in Singapore, as the head of distribution channels for DBS Bank.

Mr. Wong served in the Sun Hung Kai Properties Group as the group head of financial control and business development, and served as the chairman of Sun Hung Kai Logistics Holdings Limited from August 2002 to April 2008. From May 2008 to November 2009, Mr. Wong was a director of China Metal Recycling (Holdings) Limited (stock code: 773), which was delisted from the Main Board of the Stock Exchange in 2016. Mr. Wong was the chief corporate officer of IMC Industrial Pte Ltd. (formerly known as IMC Corp Pte Ltd) from January 2010 to August 2011. From August 2011 to February 2016, Mr. Wong served as the head of Asia Pacific of Scholz AG (now known as Scholz Holding GmbH) and was responsible for its business development in the People's Republic of China and Asian region. Mr. Wong was appointed as the head of capital markets and company secretary of Henan Jinma Energy Company Limited (stock code: 6885) from January 2017.

Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of The Chartered Association of Certified Accountants and obtained his accounting qualification experience in Price Waterhouse Lowe Bingham & Matthews. Mr. Wong obtained his bachelor's degree in science from the University of Hong Kong in November 1975.

## SENIOR MANAGEMENT

**Mr. Yau Chak Man,** aged 42, joined the Group in February 2019 as the financial controller. Mr. Yau was also appointed as the company secretary of the Company in March 2019. He has extensive experience in auditing and financial management. He obtained the degree in Bachelor of Science in Quantitative Finance from The Chinese University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

# DIRECTORS' REPORT

The Directors hereby present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2021.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of the principal subsidiaries are trading of electronic components. The Group has a strong capability to provide engineering support, and operate a distinctive e-commerce platform. Through closely co-operating with IC technology vanguards, the Group uses a comprehensive approach in consolidating industry resources and adopt an OAO (online and offline) business model to provide high quality core IC and value-added services to a broad base of customers. Our products include a wide range of IC and other electronic components used in applications such as TV products, smart terminals, memory products, optoelectronic display, communication, security monitoring, IoT and optical communication, etc..

## BUSINESS REVIEW

A review of the business of the Group and a discussion on the Group's future business development is set out in the Chairman's Statement on pages 6 to 9 and in the Management Discussion and Analysis on pages 10 to 21 of this annual report.

### Compliance with laws and regulations

As far as the Directors are aware, the Group has complied with all the relevant laws and regulations that have a significant impact on the business and operation of the Group during the year.

The Group and its activities are subject to requirements under various laws. These include, among others, Company Law of the PRC (《中華人民共和國公司法》), Wholly Foreign-Owned Enterprise Law of the PRC (《中華人民共和國外資企業法》), Detailed Implementing Rules for the "Wholly Foreign-Owned Enterprise Law of the PRC" (《外資企業法實施細則》), Guidance Catalogue for Industrial Structure Adjustment (2011 Version) (《產業結構調整指導目錄》(2011年本)), the State Council promulgated Several Policies on Further Encouraging the Development of the Software and Integrated Circuit Industries (Guo Fa [2011] No. 4) (《國務院關於印發進一步鼓勵軟件產業和集成電路產業發展的若干政策的通知》(國發[2011]4號)), Announcement of the National Development and Reform Commission of the PRC [2017] No. 1 — Guiding Catalogue of Key Products and Services for strategic Emerging Industries (2016 Edition) (《中華人民共和國國家發展和改革委員會公告2017年第1號 — 戰略性新興產業重點產品和服務指導目錄》(2016年版)), Companies Ordinance (Chapter 622), Business Registration Ordinance (Chapter 310), Inland Revenue Ordinance (Chapter 112) and Employment Ordinance (Chapter 57) and the applicable regulations, guidelines, policies issued or promulgated under or in connection with our business activities. In addition, the Listing Rules apply to the Company.

The Group seeks to ensure compliance with these requirements through various measures such as internal controls and approval procedures, trainings and oversight of various business units with the designated resources at different levels of the Group. While these measures require considerable internal resources and result in additional operational cost, the Group highly values the importance of ensuring compliance with applicable legal and regulatory requirements.

### Environmental policies and performance

Environment protection is critical to the long term development of the Group. The Group considers the importance of environmental affairs and believes business development and environment affairs are highly related. The Group has endeavoured to comply with laws and regulations regarding environment protection. These policies were supported by our staff and were implemented effectively. During the year ended 31 December 2021, we had not been subject to any fines or other penalties due to any non-compliance with health, safety or environmental regulations.

### Relationship with employees

We believe our employees are the most valuable resources in achieving our success. We are committed to offering competitive remuneration package to employees and have implemented a self-appraisal program to provide incentive and motivation to the staff to attain periodic goals. The Company has adopted a share award scheme and a share option scheme to reward our senior management and employees for their hard work, contribution and loyalty.

To ensure the quality of our employees at all levels, we have intensive and standardised in-house training programmes to train our new joiners, mainly focusing on skills like company introduction and working procedure. The goal of the training programmes is to train our employees and to identify talent, with the aim of providing upward mobility within the Group, fostering employee loyalty and incorporating customized mentoring, coaching and training.

### Relationship with suppliers, customers and other stakeholders

The Company understands the importance of maintaining good relationship with its suppliers and customers to meet its goals and to gain further success. We strive to maintain long-term and stable relationship with our major suppliers, which help to ensure our reliable access to their products. Our customer service team enables us to maintain close business relationships with our customers. Our application engineering support helps us maintain symbiotic relationship with suppliers and customers. We believe that our application engineering support promotes the use of our suppliers' products and streamlines our customers' development process at the same time. Both our suppliers and customers value our capability to provide application engineering support in end-product-development.

Our major suppliers are generally reputable IC and other electronic component companies, and had business relationship with the Group from 9 to 15 years. Our largest supplier is headquartered in Taiwan and has a diverse product portfolio of application specific ICs in various markets such as TV, set-top box and LCD monitor. Our major suppliers include IC companies that supply memory and silicon turner IC as well. The credit period from the major suppliers is 30 to 60 days.

Our major customers include leading brand-name consumer electronic product manufacturing companies, original design manufacturer ("**ODMs**") and original equipment manufacturer ("**OEMs**") in the electronic product industry in the PRC region. The years of business relationship with the Group ranged from 6 to 15 years and the credit terms granted to the major customers from 30 to 120 days.

### Principal risks and uncertainties

We believe that the following are some of the major risks that may have adverse effect on our business:

- We are dependent on our major suppliers ("**Major Suppliers**"). If our distributorship rights with these Major Suppliers are terminated, interrupted, or modified in any way adverse to us, our business, financial condition and results of operations could be adversely affected. We are expanding our supplier base by means such as organic growth of our business, expansion into various product segments which the Major Suppliers are not the supplier and through investment in, acquisition of and strategic cooperation with IC companies and distributors. We have been expanding and will continue to expand our supplier base by exploring co-operation opportunities with new suppliers as well as introducing new product segments that we consider to have growth potential. We have implemented guidelines for selecting and introducing new suppliers and/or new products to our offering.

- We generally do not enter into long-term agreements with our customers, and some of them may cancel, change or postpone their orders. Furthermore, more than 30% of our revenue during the year was generated from our largest five customers. The concentration of our customers exposes us to risks, and the performance of our major customers may in turn lead to fluctuation or decline in our revenue. We are investing more resources on our advertising and organizing marketing activities for the promotion of our e-commerce platform, Smart-Core Planet and our new products, with the aim of expanding our customer base. Apart from expanding our customer base through Smart-Core Planet, we keep enriching our product portfolio and expanding our supplier base. We have identified a number of strategic product segments which we consider to be fast developing. We will continue to expand our product portfolio and invest in our value added engineering support services in relation to such strategic segments.

- Our profit margins are slim and therefore our profitability could be adversely affected if our profit margins cannot be sustained.

- We are dependent on short-term financing. In the event that our bankers cancel these facilities or the interest rates at which we could obtain such facilities increases, our business operations, revenue and profitability could be adversely affected.

- As a distributor, we do not directly monitor the quality control procedures of our major suppliers. If a product that we distribute has defects or performance problems, our reputation and operation could be adversely affected.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2021 and the Group's financial position at that date are set out in the Group's consolidated financial statements on pages 82 to 84.

Subsequent to the end of the Reporting Period, a final dividend of HK8 cents per share (2020: HK4 cents) had been recommended by the Directors and is subject to the approval by the Shareholders in the forthcoming annual general meeting. Interim dividend of HK4 cents per share (2020: HK2 cents) was declared and paid during the year.

## FINANCIAL SUMMARY

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years is set out on pages 4 and 5.

## SEGMENT INFORMATION

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

## NON-COMPETITION UNDERTAKING

In order to ensure that direct competition does not develop between the Group and each of Mr. Tian and Smart IC Limited ("**Controlling Shareholders"**)'s other activities, our Controlling Shareholders have entered into the deed of non-competition dated 19 September 2016 executed by the Controlling Shareholders in favour of the Company ("**Deed of Non-competition**"). Under the Deed of Non-competition, each of the Controlling Shareholders had undertaken to the Company (for ourselves and for the benefit of our subsidiaries) that, save for the Retained Business (as defined in the Company's prospectus dated 27 September 2016 ("**Prospectus**")), they will not, and they will use their best endeavours to procure that their respective close associates (except any members of the Group) will not, whether directly or indirectly (including through anybody corporate, partnership, joint venture or other contractual arrangement and for projects or otherwise) or as principal or agent, and whether on their own account or with each other or in conjunction with or on behalf of any person, firm or company or through any entities (except in or through any member of the Group), carry on, engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business (the "**Restricted Business**") which is in competition with the business of any member of the Group, the details of which are set out in the Prospectus.

Under the Deed of Non-competition, the Controlling Shareholders have, among others, (i) undertaken, in the situation when the Controlling Shareholders or their respective close associates identify any new business opportunity relating to the Restricted Business ("**Business Opportunity**") to refer such Business Opportunity to the Company; (ii) undertaken not to pursue such Business Opportunity unless our independent non-executive Directors declines the Business Opportunity and do not veto the pursuit of such Business Opportunity by the Controlling Shareholders; and (iii) Mr. Tian granted an option for the Company to purchase all of his shareholding interest in Smart-Core Technology Co., Ltd. (芯智股份有限公司) ("**SMC Taiwan**"), and/or the assets or other interests of SMC Taiwan and/or any new business similar to our core business which has been developed, operated or owned (whether directly or indirectly) by Mr. Tian, or any companies controlled (whether directly or indirectly) by him. For further details, please refer to the Prospectus — "Relationship with Our Controlling Shareholders".

Mr. Tian and Smart IC Limited have confirmed their compliance with the Non-Competition Undertaking during the year ended 31 December 2021. The independent non-executive Directors have also reviewed the compliance with the Deed of Non-Competition by Mr. Tian and Smart IC Limited and are satisfied that they have complied with the undertakings.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 34 to the consolidated financial statements.

## RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and reserves of the Company on page 85 and note 46 to the consolidated financial statements of this annual report respectively.

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2021, the Company had distributable reserves amounted to HK$185.0 million (2020: HK$230.0 million).

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

## DONATIONS

During the year, the Group made charitable and other donations in the aggregate amount of approximately HK$83,000 (2020: HK$66,000).

## BANK AND OTHER BORROWINGS

Particulars of the bank and other borrowings of the Group at 31 December 2021 are set out in note 32 to the consolidated financial statements.

## MAJOR SUPPLIERS AND CUSTOMERS

During the year, the aggregate amount of purchase from the Group's five largest suppliers was approximately 68.8% of the Group's total purchases, while the purchases from the Group's largest supplier was approximately 50.3% of the Group's total purchases.

During the year, the aggregate amount of sales to the Group's five largest customers was approximately 38.3% of the Group's total revenue, while the sales to the Group's largest customer was approximately 11.0% of the Group's total revenue.

None of the Directors, their close associates, or any shareholder (which to the best knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interests in the Group's five largest suppliers or customers.

# DIRECTORS' REPORT

## DIRECTORS

The Directors during the year ended 31 December 2021 and up to the date of this Directors' report were:

### Executive Directors

Mr. Tian Weidong
Mr. Wong Tsz Leung
Mr. Liu Hongbing
Mr. Yan Qing *(resigned on 6 December 2021)*
Mr. Mak Hon Kai Stanly *(appointed on 6 December 2021)*

### Independent non-executive Directors

Mr. Tang Ming Je
Mr. Zheng Gang
Mr. Wong Hok Leung *(resigned on 6 December 2021)*
Ms. Xu Wei *(appointed on 6 December 2021)*

In accordance with the articles of association of the Company, one third of the Directors will retire at the forthcoming annual general meeting (the "**AGM**"), and being eligible, offer themselves for re-election at the AGM. Accordingly, Mr. Wong Tsz Leung, Mr. Liu Hongbing, Mr. Mak Hon Kai Stanly and Ms. Xu Wei will retire by rotation at the forthcoming AGM of the Company and being eligible, will offer themselves for re-election at the AGM.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2021, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing more than one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise. The Company has received written confirmation from each of the independent non-executive Directors in respect of his or her independence in accordance with the independence guidelines set out in rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent.

## DIRECTORS' SERVICE CONTRACTS

### Executive Directors

Each of the executive Directors has entered into a service contract with the Company pursuant to which they agreed to act as executive Directors for a term of three years with effect from the date of appointment, which shall be renewed as determined by the Board or the Shareholders of the Company. The appointment of each of the executive Directors may be terminated by either party by giving at least three months' written notice to the other.

### Independent non-executive Directors

Each of the independent non-executive Directors has been appointed for a term of three years commencing from the date of appointment, which shall be renewed as determined by the Board or the Shareholders of the Company. The appointment of each of the independent non-executive Directors may be terminated by either party giving at least three months' written notice to the other.

None of the Directors who is proposed for re-election at the forthcoming AGM has with the Group an unexpired service contact which is not determined by the Group within one year without payment of compensation (other than statutory compensation).

# DIRECTORS' REPORT

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2021, the interests and short positions of our Directors or chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Future Ordinance ("**SFO**")) as recorded in the register required to be kept under Section 352 of the SFO; or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange are as follows:

| Name of Director | Nature of Interest | Class of Shares | Number of Shares held | Approximate shareholding percentage[3] |
|---|---|---|---|---|
| Mr. Tian Weidong [1] | Interest in a controlled corporation | Ordinary | 262,500,000 (L) | 53.72% |
| Mr. Wong Tsz Leung [2] | Interest in a controlled corporation | Ordinary | 90,000,000 (L) | 18.42% |

Notes:

(1) Smart IC Limited is wholly owned by Mr. Tian Weidong. Therefore, Mr. Tian is deemed to be interested in all the shares held by Smart IC Limited.

(2) Insight Limited is wholly owned by Mr. Wong Tsz Leung. Therefore, Mr. Wong is deemed to be interested in all the shares held by Insight Limited.

(3) Based on 488,681,030 Shares in issue as at 31 December 2021.

(L) represents long positions.

Save as disclosed above, as at 31 December 2021, none of the Directors nor their associates had any interests or short positions in any share, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed under the sections headed "Connected Transactions" and "Related Party Transactions" on pages 33 and 34 of this report, no transactions, arrangements or contracts of significance, to which the Company, or its holding companies, subsidiaries or fellow subsidiaries was a party and in which the Director or the Director's connected entity had a material interest, whether directly or indirectly, subsisted at the end or at any time during the year ended 31 December 2021.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed under the section headed "Non-Competition Undertaking" on page 27 of this report, during the year ended 31 December 2021, none of the Directors has an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

# DIRECTORS' REPORT

## PERMITTED INDEMNITY

Pursuant to the articles of association of the Company, every Director, auditor or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director, auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

The Company has arranged Directors and officer insurance policy to protect the Directors against potential costs and liability arising from claims brought against the Directors.

## EVENTS AFTER THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

Details of the events after reporting period of the Group are set out in note 45 to the consolidated financial statements.

## PRINCIPAL SUBSIDIARIES

The Group's operations are conducted on a global basis through its direct or indirect subsidiaries. Details of the subsidiaries of the Company as at 31 December 2021 are set out in note 44 to the consolidated financial statements.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2021, the Company bought back a total of 1,960,000 Shares on the Stock Exchange (the "**Share Repurchase**") and a total of 4,274,000 Shares were cancelled by the Company.

Details of the purchases of shares are as follows:

| Month of buy-back | Number of Shares bought back | Price per Share Highest | Price per Share Lowest | Aggregate price (excluding commission fee and etc) |
|---|---|---|---|---|
| | | HK$ | HK$ | HK$ |
| January 2021 | 1,960,000 | 1.26 | 1.20 | 2,421,660 |

The Board believes that the Share Repurchase may, depending on market conditions and funding arrangements at that time, lead to an enhancement of its earning per Share, and will benefit the Company and Shareholders.

Save as disclosed above, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries during the year ended 31 December 2021.

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

As at 31 December 2021, so far as the Directors are aware, the following persons (other than a Director or a chief executive of the Company) have interests or short positions in the shares or underlying shares of the Company, as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO:

| Name of Director | Nature of Interest | Number of Shares held | Approximate shareholding percentage[3] |
|---|---|---|---|
| Mr. Tian Weidong [1] | Interest in a controlled corporation | 262,500,000 (L) | 53.72% |
| Mr. Wong Tsz Leung [2] | Interest in a controlled corporation | 90,000,000 (L) | 18.42% |

Notes:

(1) Smart IC Limited is wholly owned by Mr. Tian Weidong. Therefore, Mr. Tian is deemed to be interested in all the shares held by Smart IC Limited.

(2) Insight Limited is wholly owned by Mr. Wong Tsz Leung. Therefore, Mr. Wong is deemed to be interested in all the shares held by Insight Limited.

(3) Based on 488,681,030 Shares in issue as at 31 December 2021.

(L) Represents long position.

Saved as disclosed above, as at 31 December 2021, the Company had not been notified by any persons who had any interests or short positions in the shares or underlying shares of the Company which would fall under the provisions of Division 2 and 3 of Part XV of the SFO to be disclosed to the Company, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

There were no contracts of significance (including for the provision of services) with any member of the Group as the contracting party and in which any of the Controlling Shareholders and their respective associates possessed direct or indirect substantial interests, and which was still valid on 31 December 2021 or any time during such year and related to the business of the Group.

## CONNECTED TRANSACTIONS

On 8 May 2020, Smart-Core International, a wholly-owned subsidiary of the Company, and Quiksol HK entered in the Loan Agreement ("**Loan Agreement**"), pursuant to which Smart-Core International agreed to make available to Quiksol HK a US$ revolving loan facility in an aggregate amount of US$3,800,000 at an interest rate of 7% per annum, which is determined with reference to the prevailing interest rate in the market. Smart-Core International agrees to make the facility available to Quiksol HK from the date of the Loan Agreement up to and inclusive of 29 April 2021, and the Maturity Date is 30 April 2021. Quiksol HK shall apply all loans solely towards financing purchase orders of electronic components of commodity nature goods arising from orders placed by customers of Quiksol HK with Quiksol HK from time to time.

On 28 April 2021, Smart-Core International and Quiksol HK entered into the Supplemental Agreement, pursuant to which certain terms of the Loan Facility Agreement dated 8 May 2020 had been supplemented, including but not limited to, the maturity date of the Amended Facility of US$3,500,000 is extended to 30 April 2022 with interest rate of 8% per annum for the period from 1 May 2021 to 30 April 2022 (both days inclusive).

Smart IC Cloud Holdings Limited, a wholly-owned subsidiary of the Company, holds 25% of the issued share capital of the Quiksol HK. At the material time, Mr. Yan Qing is an executive Director (which he had resigned as an executive Director on 6 December 2021) and therefore a connected person of the Company. He is also a substantial shareholder of Quiksol HK. Quiksol HK is therefore regarded as a commonly held entity within the meaning in rule 14A.27 of the Listing Rules.

Accordingly, the loan made by Smart-Core International to Quiksol HK under the Loan Agreement (the "**Loan**") and the amended facility made available by Smart-Core International to Quiksol HK as set out in the Supplemental Agreement (the "**Amended Facility**") constitute a connected transaction of the Company under rule 14A.26 of the Listing Rules.

As Mr. Yan Qing is a connected person of the Company as disclosed above and Mr. Li Hong Sheng is a substantial shareholder of Quiksol HK, each of the personal guarantees made by Mr. Li Hong Sheng and Mr. Yan Qing as guarantors in favour of Smart-Core International constitutes a connected transaction of the Company in the form of financial assistance under the Listing Rules. According to rule 14A.90 of the Listing Rule, such financial assistance received by the Group is fully exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules as the Directors consider that it is conducted on normal commercial terms or better and it is not secured by the assets of the Group.

For details of the loan agreement, please refer to the announcements of the company dated 8 May 2020 and 28 April 2021.

During the year ended 31 December 2021, the Group had the following continuing connected transactions with the following companies:

| Name of the company | Nature of transaction | Year ended 31 December 2021 HK$'000 | Year ended 31 December 2020 HK$'000 |
|---|---|---|---|
| SMC Taiwan (Note a) | Sales of goods | **372** | 101 |
| SMC Taiwan (Note a) | Purchase of goods | **(1,228)** | (1,408) |
| Quiksol International Components Pte Ltd (Note b) | Sales of goods | **88** | 228 |
| Quiksol International Components Pte Ltd (Note b) | Purchase of goods | **–** | (13) |

Notes:

(a) A Company owned as to 90% by Mr. Tian Weidong, our executive Director and controlling shareholder.

(b) A non-controlling shareholder of a non-wholly owned subsidiary is a shareholder of Quiksol International Components Pte Ltd.

Our Directors (including the independent non-executive Directors) consider the above transactions have been entered into: (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms and consideration payable was determined based on arms' length negotiations between the parties and with reference to the price offered to independent similar customers; and (3) in accordance with the respective agreements governing them on the terms that one fair and reasonable and in the interest of the Shareholders as a whole. The Company has followed its pricing policies and guidelines when determining the price and terms of the above transactions conducted during the year, and has complied with the disclosure requirements of Chapter 14A of Listing Rules in respect of the above connected transactions or continuing connected transactions.

## RELATED PARTY TRANSACTIONS

Certain related party transactions as disclosed in note 42 to the consolidated financial statements prepared under Hong Kong Financial Reporting Standards also constituted connected transactions under the Listing Rules required to be disclosed in accordance with Chapter 14A of the Listing Rule. The Company has complied with the disclosure requirements of Chapter 14A of Listing Rules in respect of the above connected transactions or continuing connected transactions.

## EMPLOYEE INCENTIVE SCHEMES

On 19 September 2016, the Company adopted a Share Award Scheme and conditionally approved and adopted a Share Option Scheme. During the year ended 31 December 2021, no new shares had been subscribed by the Trustee and no shares of the Company were acquired by the Trustee pursuant to the rules and trust deed of the Share Award Scheme. No share-based payment expenses were recognized in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021 (2020: nil). No share option had been granted or agreed to be granted by the Company pursuant to the Share Option Scheme as at 31 December 2021.

### Share Option Scheme

Details of the Share Option Scheme (which became effective on the Listing Date) are set out as follows:

**(a) Purpose of the Share Option Scheme**

The purpose of the Share Option Scheme is to incentivize and reward the ESOS Eligible Persons (as defined below) for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company.

**(b) Participants of the Share Option Scheme**

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

**(c) Maximum number of Shares in respect of which options may be granted**

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes (the "**Other Schemes**") of the Company must not in aggregate exceed 50,000,000 shares (representing 10.23% of the issued capital of the Company as at the date of this report) (the "**ESOS Mandate Limit**"). Options lapsed in accordance with the terms of the Share Option Scheme and any Other Schemes of the Company will not be counted for the purpose of calculating the ESOS Mandate Limit.

The Board may, with the approval of the Shareholders in general meeting, refresh the ESOS Mandate Limit provided that the total number of Shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme and any Other Schemes of the Company under the ESOS Mandate Limit as refreshed must not exceed 10% of the Shares in issue as at the date on which the Shareholders approve the refreshment of the Scheme Mandate Limit. Options previously granted under the Share Option Scheme and any Other Schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the terms of the relevant scheme, or exercised options) will not be counted for the purpose of calculating the ESOS Mandate Limit as "refreshed". The Board may, with the approval of the Shareholders in general meeting, grant options to any ESOS Eligible Person or ESOS Eligible Persons specifically identified by them which would cause the ESOS Mandate Limit to be exceeded. The Company shall send to the Shareholders a circular containing the information required under the Listing Rules for the purpose of seeking the approval of the Shareholders.

At any time, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the Share Option Scheme and any Other Schemes of the Company to ESOS Eligible Persons must not exceed 30% of the total number of Shares in issue from time to time.

The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of the Company or independent financial adviser appointed by the Board shall certify in writing to the Board to be fair and reasonable, in the event of any alteration in the capital structure of the Company whether by way of capitalisation of profits or reserves, rights issue, consolidation or subdivision of shares, or reduction of the share capital of the Company, provided that no such adjustment shall be made in the event of an issue of Shares as consideration in respect of a transaction.

As at the date prior to the issue of this annual report, the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme is 50,000,000 Shares, representing 10% of the total number of Shares as at the Listing Date.

**(d) Maximum Entitlement of Each Individual**

No options shall be granted to any ESOS Eligible Person under the Share Option Scheme which, if exercised, would result in such ESOS Eligible Person becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all options granted to him (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of offer of such options, exceeds 1% of the Shares in issue at such date.

Any further grant of options to an ESOS Eligible Person in excess of this 1% limit shall be subject to the approval of the Shareholders in general meeting with such ESOS Eligible Person and his close associates (or if such ESOS Eligible Person is a connected person, his associates) abstaining from voting. The Company must send a circular to the Shareholders disclosing the identity of the ESOS Eligible Person in question, the number and terms of the options to be granted (and options previously granted to such ESOS Eligible Person) and such other information required under the Listing Rules.

The number and terms (including the exercise price) of the options to be granted to such ESOS Eligible Person must be fixed before the Shareholders' approval and the date of the Board meeting approving such further grant shall be taken as the date of grant for the purpose of determining the exercise price of the options.

**(e) Acceptance of an Offer of Options**

An offer of options shall be open for acceptance for such period (not exceeding 30 days inclusive of, and from, the date of offer) as the Board may determine and notify to the ESOS Eligible Persons concerned provided that no such offer shall be open for acceptance after the expiry of the duration of the Share Option Scheme. An offer of options not accepted within this period shall lapse. An amount of HK$1.00 is payable upon acceptance of the grant of an option and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price.

**(f) Exercise Price**

Subject to any adjustment made in respect of alteration of share capital, the exercise price shall be such price as determined by the Board and notified to an option-holder and which shall not be less than the higher of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of offer of the option;

(ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option; and

(iii) the nominal value of the Shares.

**(g) Duration of the Share Option Scheme**

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the Listing Date, after which period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto which are at that time or become thereafter capable of exercise under the Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Option Scheme.

**(h) Time of Vesting and Exercise of Options**

Any option shall be vested on an option-holder immediately upon his acceptance of the offer of options provided that if any vesting schedule and/or conditions are specified in the offer of the option, such option shall only be vested on an option-holder according to such vesting schedule and/or upon the fulfilment of the vesting conditions (as the case may be). Any vested option which has not lapsed and which conditions have been satisfied or waived by the Board in its sole discretion may, unless the Board determines otherwise in its absolute discretion, be exercised at any time from the next business day after the offer of options has been accepted. Any option which remains unexercised shall lapse upon the expiry of the option period, which period shall be determined by the Board and shall not exceed ten years from the offer date of the option (the "**Option Period**").

An option shall be subject to such terms and conditions (if any) as may be determined by the Board and specified in the offer of the option, including any vesting schedule and/or conditions, any minimum period for which any option must be held before it can be exercised and/or any performance target which needs to be achieved by an option-holder before the option can be exercised. Any terms and conditions determined by the Board must not be contrary to the purpose of the Share Option Scheme and must be consistent with such guidelines (if any) as may be approved from time to time by the Shareholders.

No option may be exercised in circumstances where such exercise would, in the opinion of the Board, be in breach of a statutory or regulatory requirement.

**(i) Restriction on the Time of Grant of Options**

A grant of options may not be made after inside information has come to our knowledge until such inside information has been announced as required under the Listing Rules. In particular, no option may be granted during the period commencing one month immediately preceding the earlier of:

(i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and

(ii) the deadline for the Company to publish an announcement of the results for any year, or half year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement. The period during which no option may be granted will cover any period of delay in the publication of a results announcement.

For further details on the Share Award Scheme, please refer to section headed "Appendix IV — Statutory and General Information — D. Employee Incentive Schemes — 2. Share Option Scheme" of the Prospectus.

## Share Award Scheme

Details of the Share Award Scheme (which became effective on 19 September 2016) are set out as follows:

**(a) Purpose of the Share Award Scheme**

The purpose of the Share Award Scheme is to reward our directors, senior managers and employees of the Group ("**Eligible Persons**") for their hard work, contribution and loyalty and align their interests with those of the Shareholders.

**(b) Duration of the Share Award Scheme**

Subject to any early termination as may be determined by the Board pursuant to the rules of the Share Award Scheme, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on 19 September 2016, after which period no further Awards (as defined below) will be granted but the provisions of the Share Award Scheme shall remain in full force and effect to the extent necessary to give effect to the vesting of any Awards granted prior to the expiration of the Share Award Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Award Scheme.

**(c) Participants of the Share Award Scheme and Basis for Determining the Eligibility of the Selected Participants**

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

**(d) Maximum number of Shares that can be awarded**

The Company shall not make any further grant of award under the Share Award Scheme ("**Award**") which will result in the number of Shares allotted and issued to or acquired by the Trustee (as defined in the prospectus) amounting or exceeding 10% of the total number of issued Shares from time to time.

**(e) Maximum entitlement of each awardee**

The maximum number of Award which may be granted to an awardee but unvested under the Share Award Scheme shall not exceed 1% of the total number of issued Shares from time to time.

**(f) Appointment of Trustee**

The Company will appoint a trustee to assist with the administration and vesting of the Awards granted pursuant to the Share Award Scheme ("**Trustee**") and will enter into a trust deed with the Trustee that constitute a trust to service the Share Award Scheme ("**Trust**").

**(g) Settlement and/or Payment of Award**

Upon the satisfaction of conditions including without limitation, the vesting of the Award, the Board may at its absolute discretion to either:

(i) direct and procure the Trustee to release the Award Shares to the Grantees by transferring the number of Award Shares to the Grantees in such manner as determined by the Board in its absolute discretion from time to time; or

(ii) to the extent where it is in the reasonable opinion of the Company not practicable for the Grantee to receive the Award Shares, direct and procure the Trustee to sell the number of Award Shares on such dates and in such manner as the Board shall in its absolute discretion determine and pay the Grantee the proceeds arising from such sale based on the Actual Selling Price of the Shares in cash as set out in the vesting notice ("**Vesting Notice**") to be sent by the Company to the relevant Grantee prior to any Vesting Date, in accordance with the procedure set out in the Share Award Scheme.

For further details on the Share Award Scheme, please refer to section headed "Appendix IV — Statutory and General Information — D. Employee Incentive Schemes — 1. Share Award Scheme" of the Prospectus.

## RETIREMENT BENEFIT PLANS

Details of retirement benefit plans of the Group during the year are set out in note 39 to the consolidated financial statements.

## REMUNERATION POLICY

The remuneration policy of the employees of the Group is set by the Board of Directors, having regards to the positions, duties and performance of the employees, together with the comparable market practice. The emoluments of the Directors are decided by remuneration committee, having regard to the Company's operating results, individual performance and comparable market statistics.

## CHANGE OF INFORMATION IN RESPECT OF DIRECTORS

Save as disclosed in the section headed "Directors and Senior Management" in this annual report, there was no change to any of the information required to be disclosed in relation to any Director pursuant to rule 13.51B(1) of the Listing Rules since the date of the interim report of the Company for the period ended 30 June 2021.

## PRE-EMPTIVE RIGHTS

The articles of association of the Company and the relevant law of the Cayman Islands do not entitle any Shareholder to any pre-emptive right or other similar rights to subscribe for the new shares on a pro-rata basis.

## EQUITY-LINKED AGREEMENTS

Save for the share-based payment transactions under note 38 to the consolidated financial statements, the Company has not entered into any equity-linked agreements for the year ended 31 December 2021.

## SUFFICIENCY IN PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, were held by the public during the year ended 31 December 2021 and up to the date of this report.

# DIRECTORS' REPORT

## PROFESSIONAL TAX ADVICE RECOMMENDED

If the Shareholders of the Company are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the Shares of the Company, they are advised to consult an expert.

## AUDIT COMMITTEE

The audited consolidated financial statements for the year ended 31 December 2021 have been reviewed by the audit committee of the Company.

## AUDITOR

The Group's consolidated financial statements have been audited by Messrs. Deloitte Touche Tohmatsu, Certified Public Accountants, who will retire and offer itself for re-appointment at the forthcoming AGM. A resolution will be submitted to the AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

**Tian Weidong**
*Chairman*
Hong Kong, 31 March 2022

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THE REPORT

As a leading distributor of electronic components in China, Smart-Core Holdings Limited (the "**Group**") has been disclosing its management strategies, actions and achievements in environmental and social aspects annually since 2017 to enhance stakeholders' understanding of the Group's sustainable development strategies. This is the fifth Environmental, Social and Governance ("**ESG**") report of the Group, which discloses the effectiveness of the Group's communication with stakeholders and its sustainability achievements. The Board has reviewed the report and confirms its accuracy, truthfulness and completeness.

### Reporting Guidelines

This report is prepared in line with the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guidelines**") set out in under Appendix 27 of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited ("**HKEX**") and taking into account the actual situation of the Group.

The report is prepared in accordance with disclosure principles recommended by the ESG Reporting Guideline, including:

- **Materiality:** Environmental, social and governance issues that have a significant impact on investors and other stakeholders should be reported in this report.

- **Quantitative:** If key performance indicators (KPIs) are established, they must be measurable and be conducive to valid comparison under appropriate conditions. They must also be able to describe their purposes and impacts.

- **Balance:** This report must provide an unbiased picture of the Group's ESG performance and avoid selectiveness, omissions, or presentation formats that may inappropriately influence a decision or judgment by the reader.

- **Consistency:** This report uses consistent methodologies to allow for meaningful comparison of related data over time. If the statistical methods change in the future, it shall be specified in the report.

### Reporting Period and Boundary

This report describes sustainability initiatives of the Group at locations of its major operations, including most of the Group's environmental and social impacts, for the 2021 financial year (1 January to 31 December 2021). The reporting boundary covers over 90% of the Group's revenue streams, including the operations of Smart-Core Holdings Limited in Hong Kong and Shenzhen, and the operations of its subsidiaries Quiksol International HK Pte Limited and Suzhou Kuke Electronics Co., Ltd. in Hong Kong and Suzhou.

### Feedback

Continuous improvement of ESG performance of the Group relies on your valuable opinions. We welcome your feedback or suggestions on this Report or the Group's sustainability management. Our contact details are as follows:

**Smart-Core Holdings Limited**
Address: 15/F, Tower B, Regent Centre, No. 70 Ta Chuen Ping Street, Kwai Chung, New Territories, Hong Kong
Telephone: 852-2755 1101
Fax: 852-2755 9866
Email: smg@smart-core.com.hk

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## SUSTAINABLE DEVELOPMENT MANAGEMENT

### Board Statement

In response to stakeholders' concerns about environmental sustainability, the Group continues to optimise its internal management processes to integrate ESG strategies into its operations. The Board plays a supervisory role in ESG matters and guides the formulation and implementation of ESG strategies and policies.

The ESG working group is responsible for implementing ESG related plans and policies, including formulation of ESG strategies and objectives, implementing ESG-related strategies, and participating in the preparation of ESG reports. The ESG working group reports to the Audit Committee on a regular basis, and the Audit Committee reports to the Board. We regularly assess and prioritise ESG issues related to the Group. The Board reviews the assessment results and incorporates them into the Group's ESG management strategy.

The Board assesses the potential ESG risks faced by the Group, identifies and prioritises them according to the likelihood of occurrence and the potential impact, and incorporates the results into its risk management procedures. To enhance our sustainability performance, we set specific ESG-related goals based on the nature and characteristics of our business. The ESG-related goals are reviewed by the Board and the progress of the goals is reviewed on an ongoing basis.

### Stakeholder Engagement

Understanding and responding to stakeholders' opinions helps us continuously improve our service quality and promote sustainable development. To this end, we communicate closely with our stakeholders, including employees, investors, customers, suppliers, distributors and the community through various communication channels, and adjust our internal strategies and governance methods based on stakeholders' feedback.

### Materiality Assessment

The Group regularly conducts materiality assessment and identifies material issues that are closely related to its operations and are of high concern to stakeholders with reference to the HKEX ESG Reporting Guide and the GRI Sustainability Reporting Standards.

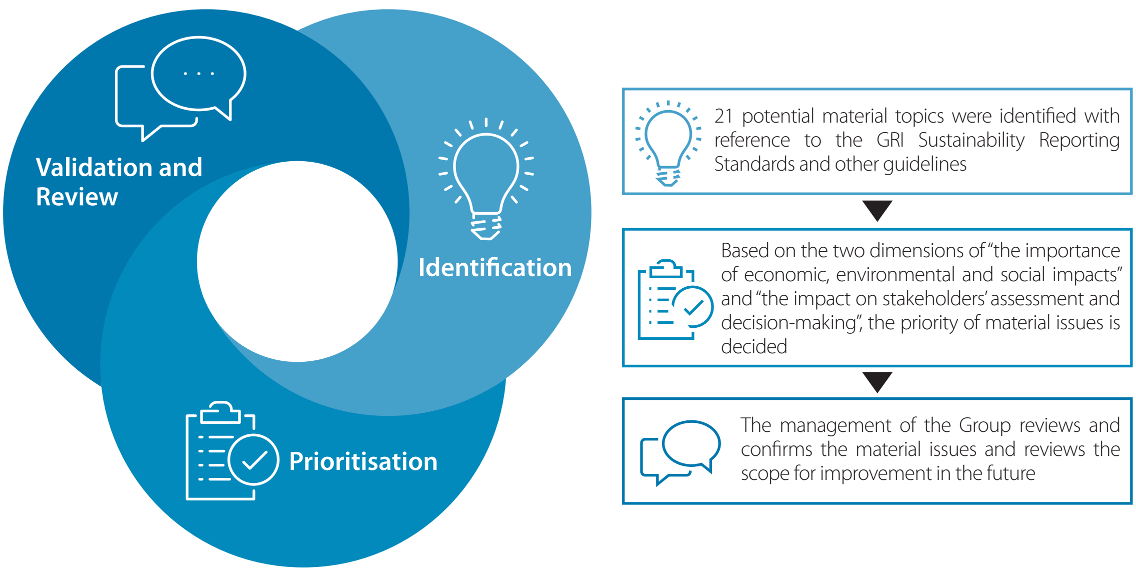



*Figure 1: Materiality Assessment Process*

Based on the assessment results, the Group ranked 21 material issues by importance. After review by the Board, the results are as shown in the following matrix.

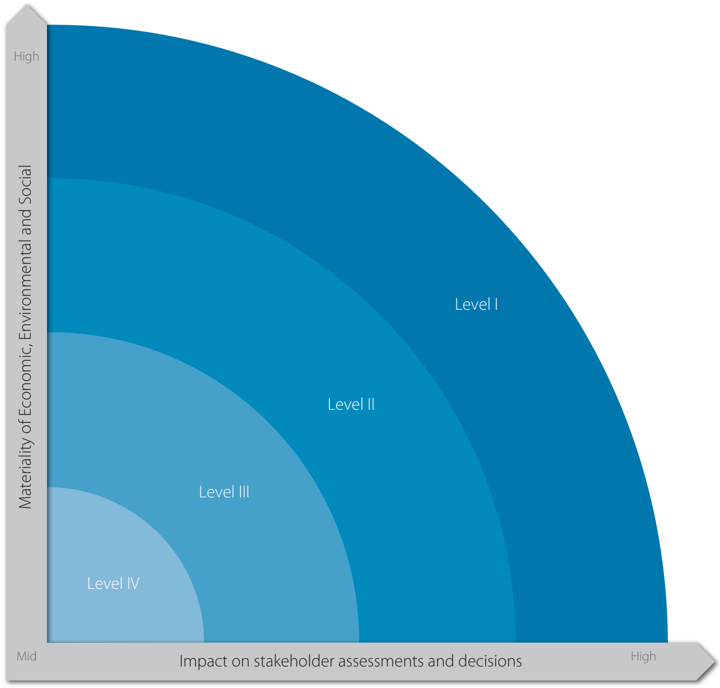



*Figure 2: Materiality Matrix*

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Level I | Level II |
|---|---|
| • Environmental Compliance<br>• Human Resources and Welfare System<br>• Occupational Health and Safety<br>• Training and Development<br>• Prevention of Child and Forced Labour<br>• Customer Information and Privacy Management<br>• Supply Chain Management<br>• After-sales services<br>• Intellectual Property<br>• Anti-corruption<br>• Management of Improper Competition | • Waste Management<br>• Diversity and Equal Opportunity |

| Level III | Level IV |
|---|---|
| • Energy<br>• Water resources<br>• Packaging Material Consumption for Finished Products<br>• Community Engagement<br>• Provision of local employment and local procurement | • Exhaust gas<br>• Greenhouse Gas Emissions<br>• Climate Change |

## AWARDS AND MEMBERSHIP

During the reporting period, the Group's sustainability performance was recognised by various institutions and associations, and it continued to maintain a number of certifications and awards (please refer to the table below for details). In the future, the Group will continue to promote sustainable development of the enterprise in alignment with industry best practices.

| Achievement and membership Issuing organisation | Issuing authority |
|---|---|
| 2020 "Top 10 Best Chinese Brand Distributors" | Electronics Supply and Manufacturing-China |
| National High-tech Enterprise | Shenzhen Science and Technology Innovation Committee and State Taxation Administration Shenzhen State Taxation Bureau |
| HDMI® adopter | HDMI® Licensing Administrator Inc. |
| Nanshan District "Green Channel" Enterprise | Shenzhen Nanshan |
| Guangdong Province Enterprise of "Observing Contract and Valuing Credit" | Market Supervision Administration of Shenzhen Municipality |
| ISO 9001-2015 Quality System Certification | ACM-CCAS Limited |

*Table 1 — Awards, Achievements and Membership Received by the Group during the reporting period*

## ENVIRONMENTAL MANAGEMENT

The Group is principally engaged in distribution of integrated circuits and other electronic components, and providing technical value-added services. As the Group's work is mainly office-based operations, the impact on the environment is not significant. However, in order to move towards green operations and reduce carbon emissions, the Group strictly complies with all relevant environmental laws and regulations, and implements energy conservation and emission reduction measures at all locations. In order to improve the environmental performance more effectively, the Group has set a number of environmental targets during the reporting year to promote implementation of environmental protection measures and monitoring of environmental performance of the Group. In order to achieve the goal, we will review the achievement of the targets in due course.

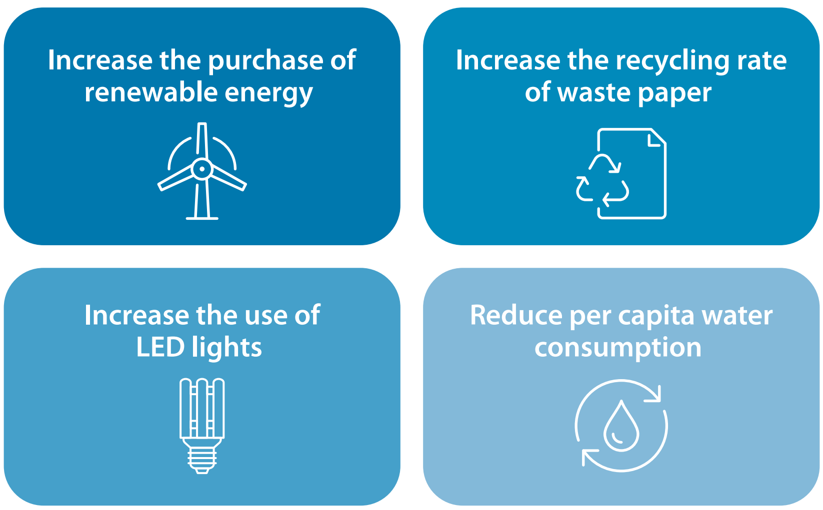



*Figure 3: Environmental Targets*

During the reporting period, the Group was not aware of any non-compliance with laws and regulations[1] that have a significant impact on the Group relating to greenhouse gas emissions, discharges into water and land, and generation of non-hazardous waste.

1 Please refer to the section headed "Laws and Regulations" for Environmental-related laws and regulations.

## Resources Consumption

The Group's resource consumption mainly includes purchased electricity, gasoline, water resources and packaging paper for finished products. Due to the inclusion of Quiksol International's operating locations into the ESG reporting boundary this year, and the gradual resumption of operations as a result of the easing of the pandemic, consumption of resources increased. In order to reduce resource consumption, we take measures to improve energy efficiency and save energy, and encourage employees to reduce the use of resources. The Group did not record any issue in sourcing water that is fit for the purpose during the reporting period.

| **Resource Consumption** | **Consumption** | | **Consumption per employee** | | **Year-on-year** |
|---|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 | |
| Electricity (kWh) | **507,041.52** | 234,990.69 | **932.06** | 610.37 | +115.77% |
| Gasoline (litres) | **12,438.30** | 8,677.65 | **22.86** | 22.54 | +43.34% |
| Water ($m^3$) | **2,298.02** | 1,331.72 | **4.22** | 3.46 | +72.56% |
| Paper (tonnes) | **5.11** | 0.97 | **0.009** | 0.003 | +426.80% |

*Table 2 — Total Resource Consumption during the reporting period*

## Greenhouse Gas and Air Emissions

The Group is not an energy-intensive enterprise and thus greenhouse gases and air emissions are relatively low. Direct carbon emissions (Scope 1) are mainly generated from the consumption of gasoline, indirect carbon emissions (Scope 2) are generated from purchased electricity, and other indirect carbon emissions (Scope 3) are generated from the use of paper. During the reporting period, the total GHG emissions recorded were 345.69 $tCO_2e$. We will continue to monitor greenhouse gas emissions to reduce emissions and intensity.

| **Greenhouse Gas Emissions** | **Emissions ($tCO_2e$)** | | **Emission per employee ($tCO_2e$/employee)** | | **Emission Percentage (in percentage)** | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| **Scope 1** | | | | | | |
| Direct emissions | **33.09** | 23.08 | **0.06** | 0.06 | **9.57** | 10.42 |
| **Scope 2** | | | | | | |
| Indirect Emissions | **309.35** | 196.62 | **0.57** | 0.51 | **89.49** | 88.76 |
| **Scope 3** | | | | | | |
| Other Indirect Emissions | **3.26** | 1.82 | **0.006** | 0.005 | **0.94** | 0.82 |
| **Total** | **345.69** | 221.52 | **0.64** | 0.58 | **100.0** | 100.00 |

*Table 3 — Total GHG emissions during the reporting period*

Air pollutants generated from combustion of gasoline by transportation of products include nitrogen oxides ($NO_X$), sulphur oxides ($SO_X$) and particulate matter (PM). During the reporting period, the Group emitted a total of 5.56 kg of nitrogen oxides ($NO_X$), 0.18 kg of sulphur oxides ($SO_X$) and 0.41 kg of particulate matter.

| **Air Emissions** | **Emissions (kg)** | | **Emission per employee (kg/employee)** | | **Year-on-year** |
|---|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 | |
| Nitrogen oxides ($NO_x$) | **5.56** | 4.29 | **0.01** | 0.01 | +29.60% |
| Sulphur oxides ($SO_x$) | **0.18** | 0.13 | **0.0003** | 0.0003 | +38.46% |
| Particulate matter | **0.41** | 0.32 | **0.0008** | 0.0008 | +28.13% |

*Table 4 — Total Air Emissions during the reporting period*

## Waste Management

Waste generated during the Group's operations are mainly office wastepaper and packaging materials. In order to reduce the impact on the environment, the Group implements various waste reduction measures, including encouraging a paperless office, sorting and recycling of paper, reusing packaging materials for transportation, and using original packaging for product packaging. During the reporting period, the Group generated a total of approximately 0.68 tonnes of non-hazardous waste, of which approximately 0.15 tonnes were generated from the operation of Quiksol International. The Group did not generate hazardous waste during the reporting period.

| **Waste** | **Production** | | **Generation per employee (tonnes/employee)** | | **Year-on-year** |
|---|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 | |
| Non-hazardous waste (tonnes) | **0.68** | 0.38 | **0.001** | 0.001 | +78.95% |

*Table 5 — Total Waste Produced during the reporting period*

### The Environment and Natural Resources

The Group's business involves only distribution and storage of goods, and does not involve any manufacturing or production activities, so it does not directly have a significant impact on the environment and natural resources. Even so, the Group has incorporated environmental protection elements into its operations.

**Green office**

- Encourage paperless office and store documents in the central server
- Adopt advanced computer system to achieve office automation
- Carry out double-sided printing to reduce paper use
- Remind employees to turn off idle electrical appliances and equipment, and inspection office areas after work
- Unified adjustment of air-conditioning hours and temperature by season

**Energy Saving and Emission Reduction Measures**

- Use LED lighting system to reduce lighting in non-operating areas
- Use shuttle buses that meet the National Stage 4 Pollutant Discharge Standard to transport employees to work
- Reuse packaging cartons and fillers

**Work closely with business partners**

- Ongoing communication with business partners and implementation of environmental protection measures
- Understand the packaging requirements with customers and design the most suitable packaging methods

**Green supply chain**

- Give priority to suppliers with relevant green policies on their products, production and manufacturing processes in terms of waste reduction and environmental protection
- Give priority to materials that are easy to disassemble, easily degradable, non-toxic and harmless when purchasing materials
- Purchase FSC-certified paper and prioritise purchase of energy efficient electrical appliances

## Climate Change

In response to stakeholders' concerns about climate change, the Group began to disclose climate change risks and countermeasures related to its business in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures ("**TCFD**") in 2020. Below is a summary of the Group's disclosure on climate change-related risks during the reporting period.

| Subject Areas | Our Actions |
|---|---|
| **Governance**<br>The Group's governance measures on climate-related risks and opportunities | • Regularly review climate policies to ensure that climate change-related physical and transitional risks are effectively mitigated |
| **Strategy**<br>Actual and potential impact of climate-related risks and opportunities on the Group's business, strategy and financial planning | • Strictly follow the government's guidelines on extreme weather and purchase natural disaster insurance to reduce the risk of property loss<br>• The Group will continue to pay attention to the potential risks and opportunities caused by climate change |
| **Risk management**<br>The Group's processes to identify, assess and manage climate-related risks and opportunities | • Identify and assess climate change risks and disclose the physical and transitional risks faced by the Group under different climate scenarios |
| **Metrics and Targets**<br>Indicators and targets for the Group to identify and manage climate-related risks and opportunities | • The Group regularly collects and calculates the greenhouse gas emissions, covering the direct and indirect greenhouse gas emissions of the business, and regularly reviews the emissions. For GHG emissions, please refer to the section headed "Greenhouse Gas and Air Emissions". |

*Table 6 — Summary of the Group's Disclosures on Climate Change-related Risks*

The following table lists the risks that may have a higher potential impact on the Group's business:

| Risks | Potential impacts |
|---|---|
| **Physical risks:**<br>Frequent extreme weather events | Extreme weather affects normal operations and damages or destroys goods, leading to instability in the supply chain and rising costs |
| **Transitional risks:**<br>Market risk | Rising prices of resources, such as energy, lead to increased procurement costs, thus endangering the stability of the supply chain<br>Consumers are changing their consumption concepts to combat climate change, such as preference for more environmentally friendly products, including high-efficiency energy-saving smart displays or television. This in turn reduces sales of existing products, resulting in a decrease in revenue |

*Table 7 — Description of the Group's potential climate change-related risks*

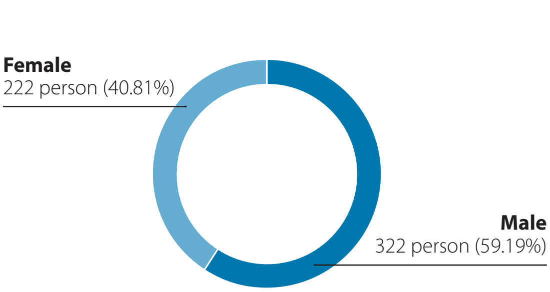
# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## TALENT MANAGEMENT

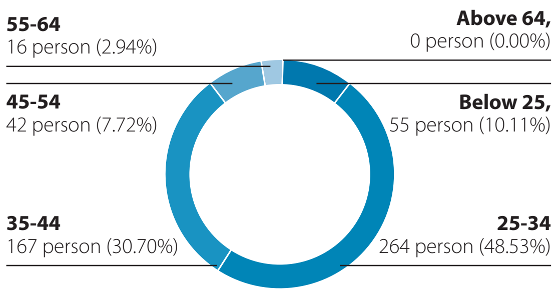
The Group insists on the "people-oriented" principle and attaches great importance to talent development and management, so as to achieve the goal of stable, efficient, and long-term development of the Group itself and of its employees.

As of 31 December 2021, the Group had 544 employees, of which 108 were employees of Quiksol HK, with a total male-to-female ratio of approximately 3:2. Among them, the highest number is in age group 25-34 years old (48.53%) and 35-44 years old (30.70%). About 62% of the Group's employees hold a bachelor's degree or above. Among all employees, 42 are middle and senior management, 46 are supervisors, and 456 are general employees, of which 92.65% are based in Mainland China and the rest are based in Hong Kong. There were 256 new employees, with a total male-to-female ratio of approximately 1:1, of which 89% were based in Mainland China and the rest were based in Hong Kong. Among them, the highest number is in age group 25-34 years old (52%)

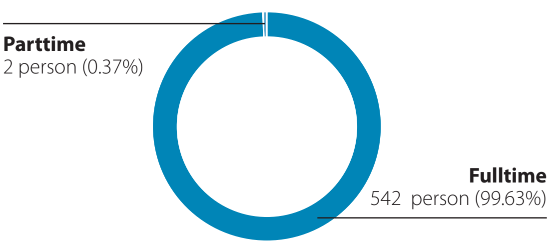
**Employee gender distribution**



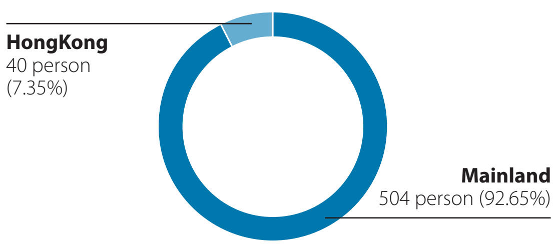

**Employee age distribution**



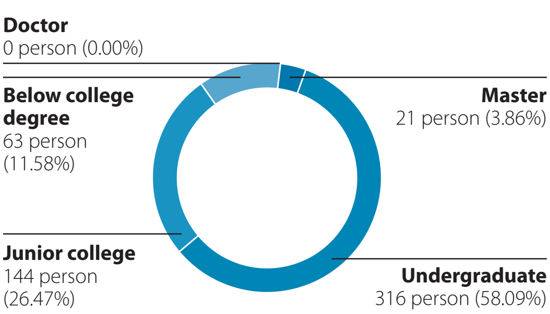

**Employee employment type distribution**



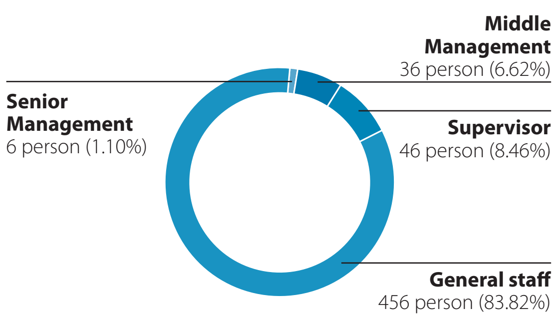

**Employee geographical distribution**




**Employee education distribution**




**Employee function distribution**



## Employment and Labour Practices

In order to improve labour management, the Group's personnel management system clearly sets out the procedures for induction, promotion and resignation. The Group's Code of Conduct for Employees' Work and Behaviour clearly regulates the management of employees and behaviours, ensuring employees are treated fairly. We strictly comply with all employment regulations, relevant policies and guidelines applicable where we operate. During the reporting period, there were no cases of non-compliance with relevant employment laws and regulations, and no cases of recruitment-related complaints were recorded.[2]

### Remuneration System

In order to attract, retain and motivate outstanding talents, the Group provides competitive remuneration packages including basic salary, mandatory provident fund, and other benefits based on the principles of fairness, motivation, reasonableness, and legality. The Group also regularly reviews the remuneration level with reference to the overall market environment and other market information. In addition, the Group has a talent incentive mechanism to reward and commend employees with outstanding performance.

### Employee benefits

The Group is committed to creating an ideal and pleasant working environment for employees, establishing long-term and stable labour relations, and regularly reviewing the employee benefit policies. During the reporting period, employee benefits provided by the Group included:

**Employee Benefit Policy**

- Irregularly organised tours, hiking, parent-child meetings, mountaineering competitions, annual meetings or other collective events
- Set up amateur interest groups such as football, basketball, badminton, swimming, reading clubs, etc.
- Paid leave such as statutory holidays, annual leave, marriage leave, bereavement leave, maternity leave, paternity leave and work injury leave
- Education and training
- Holiday gifts, various gifts
- Health Checkup

**"Share Award Scheme"**

- Distribution of shares of the Group to directors, senior management and employees of the Group, subject to the conditional approval of the Board of Directors, taking into account various factors such as functions, work performance, and length of service
- Designed to reward employees for their hard work while driving productivity

2 Please refer to the section headed Laws and Regulations for labour-related laws and regulations.

**Equal Opportunity Policy**

The Group is committed to promoting anti-discrimination work practices and equal opportunities and has formulated and adopted an open and equal recruitment process. The selection criteria are based on the knowledge and talents of the candidates to ensure that employees are not subject to any form of discrimination during the recruitment process. All departmental policies of the Group are based on factors irrespective of age, gender, religion, family status, or any other non-job-related factors. All employees have the same rights.

The Group respects the wishes of its employees based on their work performance and workability, combined with the actual work needs, and provides opportunities for full play to their strengths, timely adjustment of their positions, and provides talents with space for training and development.

## Occupational Health and Safety

In order to implement the safety management policy of "safety first, prevention-oriented and comprehensive management", the Group has implemented a series of occupational health and safety measures. The Company's public security and security management system sets out in detail the work process, safety measures, and inspection procedures for ensuring the safety of the office environment under various scenarios, and covers the standard procedures for prevention and handling of safety incidents to ensure the safety of the Company's personnel and property. All employees are required to strictly follow the relevant safety guidelines to minimise the occurrence of OHS risks.

During the reporting period, the Group was inevitably affected by the volatile COVID-19 pandemic, which included certain unforeseeable risks. In order to respond properly, the Group closely monitors the trend of the pandemic on one hand and adjusts its internal management measures in a timely manner, so as to provide appropriate support for employees and take care of their physical and mental health.

| Scope | Our Actions |
|---|---|
| **Safety of office environment** | • Access control cards are used for employees' entry and exit, and signs are worn in the office area<br>• Visitors are required to register the information at the front desk of the Company, and visitors are strictly prohibited from entering the non-designated reception area<br>• Registration and distribution of the key of the independent office in the office area, and timely update of the key management account<br>• Employees of the Company are required to ensure that they logout of their computers when leaving the seat, and important documents of the Company are stored in the personal file cabinet<br>• Materials warehouse is managed in strict accordance with the Company's regulations. Warehouse managers implement relevant standards in strict accordance with the warehouse management entry and exit requirements, and regularly carry out inspections<br>• The materials managed by the welding laboratory of the Company are placed and set in strict accordance with the fire safety inspection requirements |
| **Office environment inspection** | • The administrative department regularly conducts daily environmental hygiene and safety inspections of the environment of office areas<br>• The administrative department regularly inspects the monitoring equipment in the office area of the Company<br>• Ensures doors are locked in office areas during normal working days and registered and confirmed in the OA system<br>• Conducts monthly inspections of the Company's fire safety facilities |

| Scope | Our Actions |
|---|---|
| **Prevention and handling of emergencies** | • Mobile phones of employees at the manager level and above must be kept on 24 hours a day<br>• In case of emergency, employees shall report to their department manager within 10 minutes<br>• The department manager shall notify the Administration Department immediately after receiving an incident report, and the Administration Department shall carry out remedial measures or temporary treatment according to the nature and type of the incident, and report the situation to the management of the Company within 30 minutes<br>• In case of emergency, all employees are required to cooperate with the administrative department to ensure that there are special personnel on the site responsible until the incident is handled and the safety hazards of emergency are eliminated |
| **Fire Safety** | • Disseminate fire safety knowledge and provide training regularly<br>• Employees must participate in fire safety seminars and fire drills organised by the property management office<br>• Timely improve fire safety hazards identified by government departments<br>• Inspect and maintain fire equipment and appliances on a monthly basis to confirm that they are still valid |

*Table 8 — The Group's Occupational Health and Safety Measures*

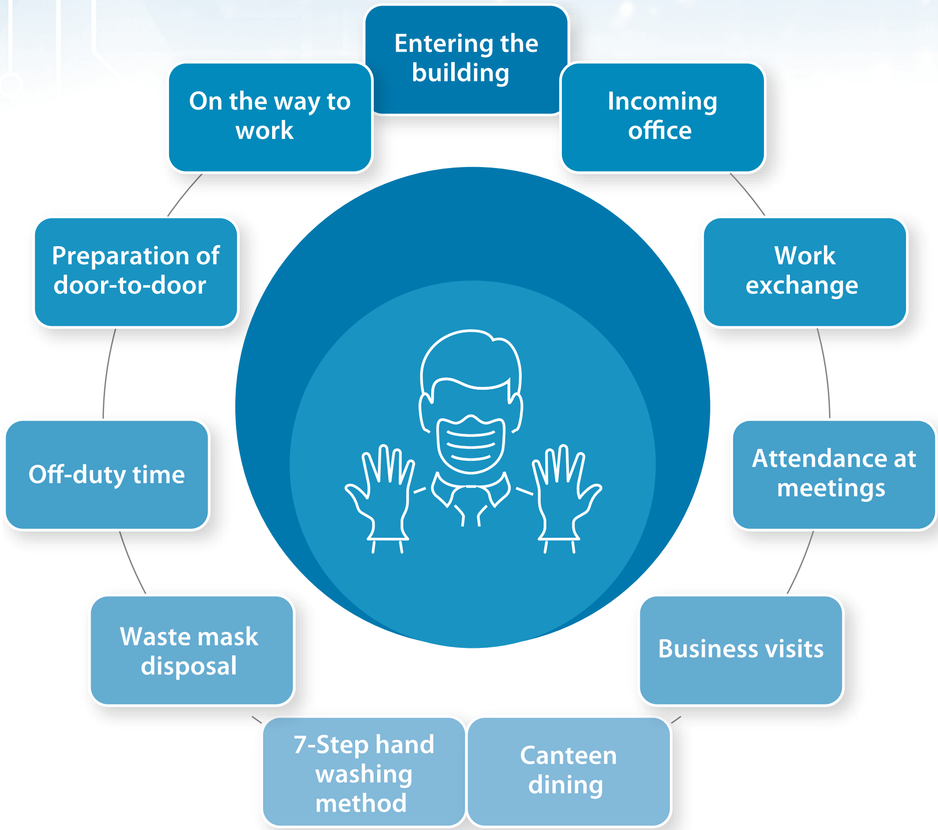
### Safety Training

Safety training helps to ensure that employees are well-equipped to deal with emergencies. During the reporting period, the Group held 16 regular fire safety training sessions, covering the operation of fire extinguishers, use of fire hydrants, common knowledge of fire escape, disposal methods of LPG fire, and disposal methods of LPG leakage. 130 person-times participated in the training, with a total of 62 training hours. During the reporting period, the Group did not notice any cases of non-compliance or complaints regarding occupational safety and health. There were no work-related fatalities or work-related injuries in the past three years.[3]

### Pandemic Prevention and Control

As the COVID-19 pandemic continued, the Group fully understood the importance of maintaining pandemic prevention and control work. Based on the policy of "common battles in the city", the Group formulated a corporate pandemic prevention and control guideline. The guideline covers 11 scenarios such as entering the building, business visit, and dining in canteens. The Group insisted on "normalised pandemic prevention and control", guided employees to follow the necessary protection measures, maintained the results of pandemic prevention and control, prevented the rebound of the pandemic, and continuously consolidated the continuous improvement of the pandemic situation.

[3] Please refer to the section headed "Laws and Regulations" for Health and Safety-related laws and regulations.




### Development and Training

In order to enhance employees' professional skills and knowledge and ability to adapt to their respective positions, and to enable them to grow together with the Company, the Group has formulated an employee training management system, which specifies the training leaders of various departments and their management responsibilities. The Group also prepares diversified training contents for employees, including various internal training methods such as business internal training, technical exchange, management skills internal training, and email training, and systematically implements the internal training mechanism and monitors its results.

The Group allows new employees to understand the development history and business conditions of the Company, and to understand and recognise the corporate culture and values the Company follows, so as to promote communication and interaction between teams. After the training, feedback and evaluation on the training results are collected, combined with business development and employee needs, and the training plan is revised and adjusted according to the "Annual Training Plan" to improve employees' professional skills and to promote team building.

According to business needs and aptitudes of individuals and recommendations of their departments, the human resources department determines training activities. External professional training institutions or information companies are commissioned where necessary. During the reporting period, a total of 421 employees of the Group completed training, with a total of 4,182 training hours. During the reporting period, the employee training rate by gender and function is as follows:

**Average training hours**

| | **2021** | 2020 | **Year-on-year** |
|---|---|---|---|
| **By gender** | | | |
| Male | **8.60** | 2.09 | 311.48% |
| Female | **6.36** | 2.05 | 210.24% |
| **By Function** | | | |
| Senior Management | **6.85** | 10.75 | –36.28% |
| Middle Management | **8.74** | 4.33 | 101.85% |
| Supervisor | **11.46** | 3.73 | 207.24% |
| General staff | **7.23** | 1.60 | 351.88% |
| **Total** | **7.69** | 2.07 | 271.50% |

*Table 9 — Average Training Hours by Gender and Employee Category during the Reporting Period*

**Percentage of employees trained**

| | **2021** | 2020 | **Year-on-year** |
|---|---|---|---|
| **By gender** | | | |
| Male | **80%** | 64% | 25.00% |
| Female | **72%** | 62% | 16.13% |
| **By Function** | | | |
| Senior Management | **83%** | 75% | 10.67% |
| Middle Management | **92%** | 79% | 16.46% |
| Supervisor | **93%** | 84% | 10.71% |
| General staff | **75%** | 59% | 27.12% |
| **total** | **77%** | 63% | 22.22% |

*Table 10 — Percentage of Employees Trained by Gender and Employee Category during the Reporting Period*

The Group has set up a book corner "any books". By creating a comfortable reading space, we are able to create an atmosphere conducive to employees getting interested in self-learning. Employees can not only enhance their knowledge but also foster communication between them.

### Labour Standards

#### Prohibition of child labour and forced labour

The Group resolutely resists employment of child labour and forced labour. In the process of selecting candidates, recruitment interviews, and entry, relevant departments strictly follow the internal work process to avoid employment of child labour and forced labour. The Group's standard recruitment process includes checking identity documents to verify age information, ensuring that new employees sign employment contracts voluntarily, etc. The Group has established a whistle-blowing mechanism for identifying any accidental employment of child labour and forced labour. Employees can report anonymously and truthfully through a dedicated channel. The Group respects and complies with all laws and regulations relating to the prevention of child and forced labour in places where it operates. During the reporting period, the Group was not aware of any cases of non-compliance with relevant laws and regulations in this context.[4]

## OPERATIONAL EXCELLENCE

### Supply Chain Management

In 2021, the "Action Plan for Building a High-Standard Market System" issued by the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council further enthused investors about 5G. Facing the huge development prospects of the 5G industry, the Group will continue to strictly control product quality and continue to manage the quality of the supply chain. We effectively avoid the risk of non-compliance due to substandard supply and service quality of suppliers, and promote best practices in the industry supply chain.

The Group proactively takes effective measures to regularly assess, control and supervise suppliers. During the reporting period, we maintained cooperation and mutual trust with 762 suppliers, including 276 in Hong Kong, 432 in Mainland China and 54 in other regions. Compared with 2020, 423 suppliers were added due to expansion of the reporting scope. The Group selects high-quality suppliers based on multi-dimensional performance, including on-site visits to shortlisted suppliers, online and telephone communications to ensure that they meet the Group's requirements. The scope of review covers production capacity, technical abilities, product quality, quality assurance capability, supply capacity, safety and environmental management qualifications, etc., and is subject to the final approval of the Group's Chief Executive Officer. In order to encourage suppliers to use more environmentally friendly products and services, suppliers with relevant green policies in reducing waste and protecting the environment are given priority in the assessment.

In order to ensure efficiency and quality of products and services delivered to downstream customers, the Group regularly evaluates the delivery rate and quality of suppliers during the supply contract cycle. In general, the Group submits monthly order forecasts to suppliers for the next three to six months to allow sufficient time for preparations. In addition, the Group conducts annual assessment of suppliers, and gives them quantitative scores on indicators such as compliance status and industry reputation, so as to give reasonable improvement opinions to suppliers. This score serves as an important reference for the Group to continue a new round of cooperation with suppliers.

### Product Responsibility

In order to standardise and improve the management of after-sales service and maintenance process, the Group has established a after-sales system mainly consisting of customer service department, quality department, maintenance department and technology department, and clarified the responsibilities of each department in the after-sales and maintenance process in the "After-sales Maintenance Management Standards". When handling customer complaints, the customer service department actively maintains communication with customers, provides timely feedback on the latest progress and circulates the case to the appropriate departments. The quality department, maintenance department and technical department then analyse the complaint cases and implement corrective measures within one working day as required. Each department performs its own duties and links with others to solve after-sales problems and ensure after-sales service quality.

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4 Please refer to the section headed "Laws and Regulations" for Labour standards-related laws and regulations.

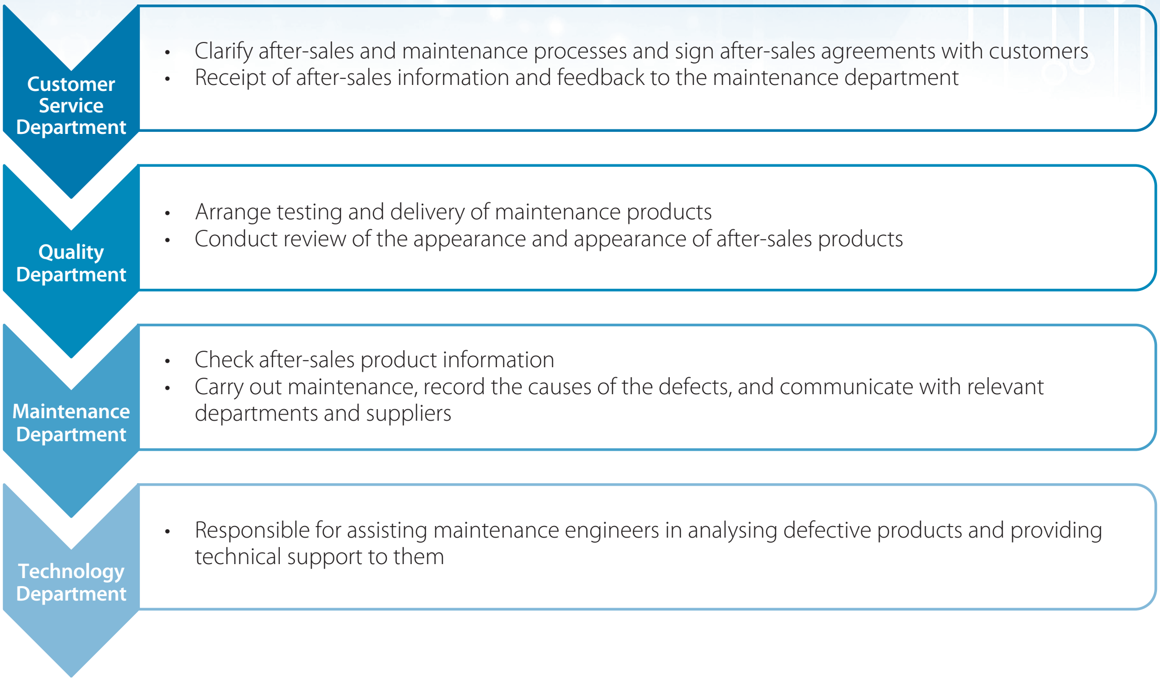


*Figure 4: Product after-sales and maintenance process.*

If it is necessary to recover the goods, the Group deals with the goods according to the original factory's judgment and the signed agency agreement, and provides assistance to the customer and the original factory. During the reporting period, the Group received a total of 25 complaints related to product quality, all of which have been followed up and resolved satisfactorily.

The Group complies with safety standards and specifications set by the Communications Authority and actively adopts appropriate and adequate safety measures to ensure the safety of life and property in the operation of devices, equipment or appliances, and to prevent the risks of electrical appliances or radiation hazards in the process. We strictly comply with requirements of the Trade Descriptions Ordinance in business operations. The Group has provided in-house training conducted by legal practitioners to staff responsible for sales and marketing. During the reporting period, no sold or shipped products were subjected to recall due to health and safety reasons.

In order to enhance employees' awareness of importance of intellectual property rights, and prevent them from using unauthorised products inadvertently, the Group's monitoring system led by the Information Management Department regularly inspects the use of software within the Group to ensure that all purchased software are genuine. The Group is also actively expanding the ownership of intellectual property rights to support the interests of stakeholders. During the reporting period, the Group owned a total of 184 intellectual property rights. In view of this, the Group has not slackened its ethical requirements in the supply chain and only selects legally compliant manufacturers or suppliers to avoid being a sales channel for pirated goods.

The Group attaches great importance to security and privacy of customer data and has set up a complete internal privacy protection mechanism to eliminate customer concerns and win customer trust, so that customers can complete the sales and purchase safely. Customer orders and personal information are processed and stored by a designated department, and unauthorised staff is not allowed to access customer information. At the same time, the Group strictly complies with the laws and regulations related to personal data privacy, and is not aware of any violation of privacy matters related to products and services in the reporting year.[5]

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5 Please refer to the section headed "Laws and Regulations" for Product Responsibility-related laws and regulations.

## Integrity

As a leading chip distributor in China, Smart-Core Holdings is committed to creating a trading environment with fair competition and win-win cooperation. We believe that a transparent and ethical management system can help the Company enhance its operational conditions and play a critical role in long-term development in the future. To foster a fair and harmonious corporate culture, we have formulated a compliance management manual and established a whistle-blowing system to prevent insider trading and corruption within the Group. This enhances our risk management and integrity system, ensuring that all employees can maintain integrity and honesty both internally and publicly. Additionally, the Group informs employees via internal notices as necessary to avoid activities involving bribery and improper acceptance of advantages.

The Group clearly stipulates conducts that violate the rules and regulations. Individuals who use their position to take bribes or seek personal benefit and create economic losses to the Group of more than RMB1,000 are immediately reported to the appropriate authorities and held liable.

Other conducts that violate rules include: 1. Using their positions to engage in the operation, share subscription, part-time activities of suppliers and customers (including relatives and their spouses) without permission; 2. Accepting rebates, commissions, and other types of advantages from customers and suppliers, such as but not limited to gifts, monetary gifts, marketable securities, valuables, rebates, handling fees, gratitude fees, and other property, etc; 3. Failure to report and submit the advantages to the Group; 4. Violation of the Group's Commitment of Integrity and self-discipline. Any act that violates the Group's usual procedures and is proven to be for personal gain is documented. If the total number of violations exceeds three times, it is considered a serious violation of the Group's management system and is severely punished. To maintain fairness and integrity at the organizational and individual levels, all corporate actions within the Group are carefully in alignment with legal requirements and social codes.

The Group's Audit Committee collaborates with third-party professional institutions to consolidate reported cases and to focus on examining corruption-related risks, offering clear advice on wrongdoing, and halting the development of connected cases immediately. If the case is found to be true, the Group takes different follow-up actions, including disciplinary action, termination of contract, and even report to the judicial authorities for follow-up when necessary.

During the reporting period, the Group was not aware of any non-compliance with laws and regulations that have a significant impact on the Group relating to bribery, extortion, fraud and money laundering and was not involved in any corruption cases.[6]

## Community Engagement

The development of Smart-Core Holdings is inseparable from the support of the local community. The Group focuses on creating a good community atmosphere, promoting the healthy development of the community, and making donations to the disadvantaged groups in the society to the extent of its ability. During the reporting period, the Group invested a total of HK$83,172 in social welfare agencies to support community investment.

During the year, the Group also actively participated in public welfare activities and organised employees to donate clothes, books and school supplies to poor children in mountainous areas. At the same time, the Group continued to focus on and vigorously promoted rehabilitation services and youth community services.

In the future, the Group will continue to expand its social investment, broaden its scope of participation, and give back to the community in a variety of ways. In addition, we will continue to participate in diversified community activities and sponsor people in need to optimise our community investments, regularly review our investment objectives and directions, and ensure that various charity and sponsorship activities meet the needs of the community. To achieve mutual and sustainable growth with the community, we will continue to encourage our employees to participate in charity and public welfare services to give back to the society.

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6 Please refer to the section headed "Laws and Regulations" for Anti-corruption-related laws and regulations.

## APPLICABLE LAWS AND REGULATIONS

With regard to various ESG aspects, the Group follows standardised management approaches, including various policies and initiatives, to ensure compliance with all relevant laws and regulations. The relevant laws and regulations are detailed below.

| Aspects | Applicable Laws and Regulations | Section/Remarks |
|---|---|---|
| **Emissions** | • Environmental Protection Law of the PRC<br>• Law of the PRC on Promotion Clean Production | Environmental Management |
| **Use of Resources** | • Energy Conservation Law of the PRC | Environmental Management |
| **Employment and Labour Standards** | • Labour Law of the PRC<br>• Labor Contract Law of the PRC<br>• Employment Ordinance in Hong Kong<br>• Employees' Compensation Ordinance in Hong Kong | Talent Management |
| **Health and Safety** | • Labour Law of the PRC<br>• Occupational Health and Safety Ordinance in Hong Kong | Talent Management |
| **Product Responsibility** | • Intellectual Property Law of the PRC<br>• Cyber Security Law of the PRC<br>• Patent Law of the PRC<br>• Personal Data (Privacy) Ordinance of Hong Kong | Operational Excellence |
| **Anti-corruption** | • Supervision Law of the PRC<br>• Prevention of Bribery Ordinance in Hong Kong<br>• Competition Ordinance in Hong Kong | Operational Excellence |

## PERFORMANCE DATA SUMMARY

| | | 2021 | 2020 |
|---|---|---|---|
| Environment | **Resource Consumption** | | |
| | **Electricity (kWh)** | **507,041.52** | 234,990.69 |
| | Intensity (kWh/employee) | **932.06** | 610.37 |
| | **Gasoline (litre)** | **12,438.30** | 8,677.65 |
| | Intensity (litre/employee) | **22.86** | 22.54 |
| | **Water ($m^3$)** | **2,298.02** | 1,331.72 |
| | Intensity ($m^3$/employee) | **4.22** | 3.46 |
| | **Packaging materials (paper) (tonnes)** | **5.11** | 0.97 |
| | Intensity (tonnes/employee) | **0.009** | 0.003 |
| | **Emissions** | | |
| | **Greenhouse Gas[7]** | | |
| | **Scope 1: Direct carbon emissions ($tCO_2e$)** | **33.09** | 23.08 |
| | Emission per capita ($tCO_2e$/employee) | **0.06** | 0.06 |
| | Emission Percentage (Percentage) | **9.57** | 10.42 |
| | **Scope 2: Indirect carbon emissions ($tCO_2e$)** | **309.35** | 196.62 |
| | Emission per capita ($tCO_2e$/employee) | **0.57** | 0.51 |
| | Emission Percentage (Percentage) | **89.49** | 88.76 |
| | **Scope 3: Other indirect carbon emissions ($tCO_2e$)** | **3.26** | 1.82 |
| | Emission per capita ($tCO_2e$/employee) | **0.006** | 0.005 |
| | Emission Percentage (Percentage) | **0.94** | 0.82 |
| | **Total ($tCO_2e$)** | **345.69** | 221.52 |
| | **Exhaust gas** | | |
| | **Nitrogen oxides ($NO_x$) (kg)** | **5.56** | 4.29 |
| | Emission per capita (kg/employee) | **0.01** | 0.01 |
| | **Sulphur oxides ($SO_x$) (kg)** | **0.18** | 0.13 |
| | Emission per capita (kg/employee) | **0.0003** | 0.0003 |
| | **Particulate matter (kg)** | **0.41** | 0.32 |
| | Emission per capita (kg/employee) | **0.0008** | 0.0008 |
| | **Waste** | | |
| | **Hazardous waste (tonnes)** | **0.00** | 0.00 |
| | Per capita generation (tonnes/employee) | **0.00** | 0.00 |
| | **Non-hazardous waste (tonnes)** | **0.68** | 0.38 |
| | Per capita generation (tonnes/employee) | **0.001** | 0.001 |

[7] Computation method of carbon emission adopts

— Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purpose) in Hong Kong" published by the Environmental Protection Department (EPD) of Hong Kong Government (all Hong Kong operations). Emission factors are applied to the emission factors listed in Baseline

— Emission Factors for Regional Power Grids in China, 2019 Edition

| | | 2021 | 2020 |
|---|---|---|---|
| Staff Distribution | **Total number of employees** | **544** | 385 |
| | **By gender** | | |
| | Male | **322 (59.19%)** | 255 (66.23%) |
| | Female | **222 (40.81%)** | 130 (33.77%) |
| | **By age** | | |
| | < 25 | **55 (10.11%)** | 32 (8.31%) |
| | 25-34 | **264 (48.53%)** | 191 (49.61%) |
| | 35-44 | **167 (30.70%)** | 124 (32.21%) |
| | 45-54 | **42 (7.72%)** | 29 (7.53%) |
| | 55-64 | **16 (2.94%)** | 9 (2.34%) |
| | > 64 | **0 (0.00%)** | 0 (0.00%) |
| | **By region** | | |
| | Hong Kong | **40 (7.35%)** | 25 (6.49%) |
| | Mainland China | **504 (92.65%)** | 360 (93.51%) |
| | **By employment category** | | |
| | Full-time | **542 (99.63%)** | 385 (100.00%) |
| | Part-time | **2 (0.37%)** | 0 (0.00%) |
| | **By education level** | | |
| | Doctor | **0 (0.00%)** | 0 (0.00%) |
| | Master | **21 (3.86%)** | 18 (4.68%) |
| | Undergraduate | **316 (58.09%)** | 217 (56.36%) |
| | Non-tertiary qualification | **144 (26.47%)** | 117 (30.39%) |
| | Non-tertiary qualification and below | **63 (11.58%)** | 33 (8.57%) |
| | **By function** | | |
| | Senior Management | **6 (1.10%)** | 4 (1.04%) |
| | Middle Management | **36 (6.62%)** | 24 (6.23%) |
| | Supervisor | **46 (8.46%)** | 37 (9.61%) |
| | General staff | **456 (83.82%)** | 320 (83.12%) |

| | | 2021 | 2020 |
|---|---|---|---|
| | **Employee Turnover Rate[8]** | **33.64%** | 27.27% |
| | **By gender** | | |
| | Male | **35.71%** | 28.24% |
| | Female | **30.63%** | 25.38% |
| | **By age** | | |
| | < 25 | **49.09%** | 40.63% |
| | 25-34 | **38.26%** | 34.03% |
| | 35-44 | **28.74%** | 14.52% |
| | 45-54 | **16.67%** | 24.14% |
| | 55-64 | **0.00%** | 11.11% |
| | > 64 | **0.00%** | 100.00% |
| | **By region** | | |
| | Hong Kong | **32.50%** | 28.00% |
| | Mainland China | **33.73%** | 27.22% |
| **Staff Distribution** | | | |
| | **New hire rate** | **47.06%** | 39.74% |
| | **By gender** | | |
| | Male | **45.03%** | 43.92% |
| | Female | **50.00%** | 31.54% |
| | **By age** | | |
| | < 25 | **94.55%** | 103.13% |
| | 25-34 | **50.38%** | 46.07% |
| | 35-44 | **34.73%** | 16.94% |
| | 45-54 | **21.43%** | 34.48% |
| | 55-64 | **25.00%** | 11.11% |
| | > 64 | **0.00%** | 0.00% |
| | **By region** | | |
| | Hong Kong | **70.00%** | 40.00% |
| | Mainland China | **45.24%** | 39.72% |

| | | **2021** | 2020 |
|---|---|---|---|
| **Development and Training** | **Number of employees trained** | **421** | 243 |
| | **By gender** | | |
| | Male | **259** | 162 |
| | Female | **162** | 81 |
| | **By function** | | |
| | Senior Management | **5** | 3 |
| | Middle Management | **33** | 19 |
| | Supervisor | **43** | 31 |
| | General staff | **340** | 190 |
| | **Total training hours of employees (hours)** | **4,182** | 798 |
| **Health and Safety** | **Occupational Safety and Health Performance** | | |
| | Number of industrial accidents | **0** | 0 |
| | Lost days due to work injury | **0** | 0 |
| | Number of work-related fatalities | **0** | 0 |
| | Total number of employees trained in occupational safety | **130** | 180 |
| | Total hours of occupational safety training | **62** | 72 |

## CONTENT INDEX

| KPIs | HKEX ESG Reporting Guide Requirements | | Section/Remarks |
|---|---|---|---|
| **A. Environmental** | | | |
| **Aspect A1: Emissions** | | | |
| **General Disclosure** | Information relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste:<br>(a) the Policy; and<br>(b) Compliance with relevant laws and regulations that have a significant impact on the issuer. | | Environmental Management |
| | **KPI A1.1** | The types of emissions and respective emissions data. | Greenhouse Gas and Air Emissions |
| | **KPI A1.2** | Greenhouse gas emissions in total and, where appropriate, intensity. | Greenhouse Gas and Air Emissions |
| | **KPI A1.3** | Total hazardous waste generated and, where appropriate, intensity. | Waste Management |
| | **KPI A1.4** | Total non-hazardous waste produced and, where appropriate, intensity. | Waste Management |
| | **KPI A1.5** | Description of emissions target(s) set and steps taken to achieve them. | Environmental Management; Waste Management |
| | **KPI A1.6** | Description of emissions target(s) set and steps taken to achieve them. | Environmental Management; Waste Management |
| **Aspect A2: Use of Resources** | | | |
| **General Disclosure** | Policies on the efficient use of resources, including energy, water and other raw materials. | | Resources Consumption, The Environment and Natural Resources |
| | **KPI A2.1** | Direct and/or indirect energy consumption by type in total and intensity. | Resource Consumption |
| | **KPI A2.2** | Water consumption in total and intensity. | Resource Consumption |
| | **KPI A2.3** | Description of energy use efficiency target(s) set and steps taken to achieve them. | Environmental Management; The Environment and Natural Resources |
| | **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. | Environmental Management; Resource Consumption |
| | **KPI A2.5** | Total packaging materials used for finished products and, if applicable, with reference to per unit produced. | Resource Consumption |

| KPIs | HKEX ESG Reporting Guide Requirements | | Section/Remarks |
|---|---|---|---|
| **Aspect A3: The Environment and Natural Resources** | | | |
| **General Disclosure** | Policies on minimising the issuers' significant impact 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 |
| **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 |
| **B. Social** | | | |
| **Aspect B1: Employment** | | | |
| **General Disclosure** | Information relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare:<br>(a) the Policy; and<br>(b) Compliance with relevant laws and regulations that have a significant impact on the issuer. | | Talent Management, Employment and Labour Practices |
| | **KPI B1.1** | Total workforce by gender, employment type (e.g. full-time or part-time), age group and geographical region. | Talent Management |
| | **KPI B1.2** | Employee turnover rate by gender, age group and geographical region. | Performance Data Summary |
| **Aspect B2: Health and Safety** | | | |
| **General Disclosure** | Relating to providing a safe working environment and protecting employees from occupational hazards:<br>(a) the Policy; and<br>(b) Compliance with relevant laws and regulations that have a significant impact on the issuer. | | Occupational 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. | Occupational Health and Safety |
| | **KPI B2.2** | Lost days due to work injury. | Performance Data Summary |
| | **KPI B2.3** | Description of occupational health and safety measures adopted, how they are implemented and monitored. | Occupational Health and Safety |

| KPIs | HKEX ESG Reporting Guide Requirements | | Section/Remarks |
|---|---|---|---|
| **Aspect B3: Development and Training** | | | |
| **General Disclosure** | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | | 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** | For prevention of child or forced labour:<br>(a) the Policy; and<br>(b) Compliance with relevant laws and regulations that have a significant impact on the issuer. | | Labour Standards |
| | **KPI B4.1** | Description of measures to review employment practices to avoid child and forced labour. | Labour Standards |
| | **KPI B4.2** | Description of steps taken to eliminate such practices when discovered. | Labour Standards |
| **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, how they are implemented and monitored. | Supply Chain Management |
| | **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 |
| | **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 |

| KPIs | HKEX ESG Reporting Guide Requirements | | Section/Remarks |
|---|---|---|---|
| **Aspect B6: Product Responsibility** | | | |
| **General Disclosure** | Relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress:<br>(a) the Policy; and<br>(b) Compliance with relevant laws and regulations that have a significant impact on the issuer. | | Product Responsibility |
| | **KPI B6.1** | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | Product Responsibility |
| | **KPI B6.2** | Number of products and service related complaints received and how they are dealt with. | Product Responsibility |
| | **KPI B6.3** | Description of practices relating to observing and protecting intellectual property rights. | Product Responsibility |
| | **KPI B6.4** | Description of quality assurance process and recall procedures. | Product Responsibility |
| | **KPI B6.5** | Description of consumer data protection and privacy policies, how they are implemented and monitored. | Product Responsibility |
| **Aspect B7: Anti-corruption** | | | |
| **General Disclosure** | In relation to prevention of bribery, extortion, fraud and money laundering:<br>(a) the Policy; and<br>(b) Compliance with relevant laws and regulations that have a significant impact on the issuer. | | Integrity |
| | **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. | Integrity |
| | **KPI B7.2** | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored. | Integrity |
| | **KPI B7.3** | Description of anti-corruption training provided to directors and staff. | No training is provided during the year. |
| **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 Engagement |
| | **KPI B8.1** | Focus areas of contribution. | Community Engagement |
| | **KPI B8.2** | Resources contributed to the focus area. | Community Engagement |

# CORPORATE GOVERNANCE REPORT

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

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code of corporate governance. Except for code provision A.2.1 as disclosed below in this report, the Company has complied with the applicable code provisions of the CG Code during the year ended 31 December 2021. The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code.

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

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

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiry of the Directors, and all Directors confirmed that they had fully complied with the Model Code during the year ended 31 December 2021.

## THE BOARD OF DIRECTORS

### Board Composition

As at the date of this report, the Board comprises seven members, of whom four are executive Directors and three are independent non-executive Directors. Directors who held office during the year ended 31 December 2021 and up to the date of this report are:

### Executive Directors

Mr. TIAN Weidong *(Chairman and Chief Executive Officer)*
Mr. WONG Tsz Leung *(Chief Financial Officer)*
Mr. LIU Hongbing
Mr. YAN Qing *(resigned on 6 December 2021)*
Mr. MAK Hon Kai Stanly *(appointed on 6 December 2021)*

### Independent non-executive Directors

Mr. TANG Ming Je
Mr. ZHENG Gang
Mr. WONG Hok Leung *(resigned on 6 December 2021)*
Ms. XU Wei *(appointed on 6 December 2021)*

The list of Directors and their roles and functions are posted on the websites of the Company and the Stock Exchange. The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 22 to 24 of this report. None of the Directors has any family, financial or business relations with each other.

During the year ended 31 December 2021 and up to the latest practicable date prior to the issue of this annual report, the Board has complied with rules 3.10(1) and 3.10(2) of the Listing Rules to have not less than three independent non-executive Directors and at least one of the independent non-executive Directors has the requisite professional qualification in accounting or relevant financial management experience. In addition, the Company has complied with rule 3.10A of the Listing Rules which stipulates that the number of independent non-executive Directors appointed by a listed company shall not be less than one third of the Board.

The Board is responsible for the overall strategic plans and key policies of the Group; monitor the financial performance; review the effectiveness of internal control system; risk management and ensures good corporate governance practices and procedures are established and compliance with regulatory requirements. It delegates the daily operations and administration to the senior management with clear directions. The board members are fully committed to their roles and have acted in good faith to maximise the value of the Company and safeguard the interests of the stakeholders.

### Board meetings

The Board meets four times regularly each year. Between scheduled regular meetings, Directors may approve various matters by way of passing written resolutions and additional meetings may be arranged if required. Notice of each regular Board meeting will be given to all members at least 14 days before the meeting. Agenda and all the relevant information is normally despatched to the Directors three days in advance of the relevant meetings.

The Company Secretary assists the Chairman in preparing the agenda for the Board meeting and ensures that all applicable rules and regulations regarding Board meetings are complied with. Each director may request the inclusion of items in the agenda. Directors considered having conflict of interests are required to declare their interests and abstain from voting for the relevant resolution.

Minutes of the meetings are recorded in detail and draft minutes are circulated to all Directors for review and comment within a reasonable time after the Board meetings are held. All the minutes of the meeting are properly kept by the Company Secretary after approval and are available to all Directors for inspection.

The attendance records of the Directors at the Board meeting held during the year ended 31 December 2021 are set out below:

| Name of Directors | Board Meetings attended | General Meeting attended |
|---|---|---|
| ***Executive Directors*** | | |
| Mr. Tian Weidong | 9/9 | 1/1 |
| Mr. Wong Tsz Leung | 9/9 | 1/1 |
| Mr. Liu Hongbing | 9/9 | 1/1 |
| Mr. Yan Qing *(resigned on 6 December 2021)* | 9/9 | 1/1 |
| Mr. Mak Hon Kai Stanly *(appointed on 6 December 2021)* | 0/0 | 0/0 |
| ***Independent non-executive Directors*** | | |
| Mr. Tang Ming Je | 9/9 | 1/1 |
| Mr. Zheng Gang | 9/9 | 1/1 |
| Mr. Wong Hok Leung *(resigned on 6 December 2021)* | 9/9 | 1/1 |
| Ms. Xu Wei *(appointed on 6 December 2021)* | 0/0 | 0/0 |

# CORPORATE GOVERNANCE REPORT

## Chairman and Chief Executive Officer

Pursuant to code provision A.2.1 of the CG Code set out in Appendix 14 to the Listing Rules, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual.

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

## Appointment, Re-election and Removal

The procedures for appointing and re-electing Directors are set out in the articles of association of the Company (the "**Articles of Association**"). The appointment of a new director must be approved by the Board. The nomination committee of the Company (the "**Nomination Committee**") is responsible for making recommendations to the Board on the selection of individuals nominated for directorship taking into factors such as appropriate professional knowledge, industry experience, personal ethics, integrity, personal skills, gender, age, cultural and educational background.

Pursuant to article 16.18 of the Articles of Association, at every annual general meeting of the Company one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

The Company has entered into service agreements with each executive Director, and appointment letters with independent non-executive Directors. The tenure of all Directors is 3 years.

## Independent non-executive Director

Since the Listing Date, the Company at all times met the requirements of the Listing Rules relating to having independent non-executive Directors who represent at least one-third of the Board, and at least one of whom must have appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from all independent non-executive Directors their confirmation of independence in accordance with the independence guidelines as set out in rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent in accordance with the terms of independence guidelines.

All of the independent non-executive Directors are appointed for a term of three years and are subjected to retirement by rotation once every three years.

## Directors' training and development

All Directors should keep abreast of the responsibilities as a director of the Company and of the conduct and business activities of the Company. The Company is responsible for arranging suitable training for its Directors. The Company has arranged for Directors to attend a training session which places emphasis on the roles, functions and duties of a listed company director, as well as the latest development regarding the Listing Rules and other applicable regulatory requirements. All the Directors had also participated in appropriate continuous professional development activities by reading materials regarding regulatory updates and corporate governance matters.

### Board diversity policy

The Board has a board diversity policy and the Company believes that the diversity will support the attainment of the Company's objective and enhance the value of the Company. The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural, educational background, professional experience, skills, knowledge and other qualities. The Nomination Committee of the Company will review the board diversity policy regularly to ensure its continued effectiveness. Pursuant to the amended Rule 13.92 of the Listing Rules (effective from 1 January 2022), the Stock Exchange will not regard a single gender board of directors as achieving member diversity. As at the date of this report, the Board consists of one female Director and six male Directors, which is in compliance with the requirement of appointing at least a director of a different gender.

### Nomination policy

The Company has developed and adopted the board diversity policy to enhance the performance of the Company. When recommending candidates to join the Board, the Nomination Committee will consider the candidates according to objective conditions, and will take due consideration of the benefits of diversity among the Board members. The committee will also conduct discussions each year and agree on all the measurable objectives for board diversity, and will recommend to the Board relevant objectives for adoption.

Moreover, the Company has formulated and adopted the "Nomination Policy of Directors". The Nomination Policy of Directors covers selection criteria, nomination procedures, terms of confidentiality, supervision and reporting, and policy review. Several aspects are considered when nominating Board candidates, including but not limited to the following:

- reputation;
- achievements, talents, skills, knowledge and experience in the semi-conductor industry, business and economics area, accounting;
- views and perspectives that can be brought to the Board;
- commitment in respect of available time and relevant interest;
- independence of independent non-executive Directors; and
- diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service etc.

A summary of the nomination process for Directors is as follows:

- the chairman of the Nomination Committee shall convene a Nomination Committee meeting and invite the Board members to nominate candidates (if any) for consideration before the meeting. The Nomination Committee may also nominate candidates from other different sources (such as professional societies, professional headhunting companies, recommendations by the Shareholders or management, internal promotion, etc.);
- the Nomination Committee shall recommend candidates for consideration and approval by the Board, with reasons for consideration and recommendation provided to the Board;
- the Board recommends candidates to stand for election at a general meeting;
- the Company will issue a circular to shareholders to provide information on candidates nominated by the Board for election at a general meeting. The names, resumes (including eligibility and related experience), independence, proposed emoluments and other information of the candidates will be set out in the circular to the shareholders in accordance with the applicable laws, rules and regulations; and
- the election of Board members shall be proposed as ordinary resolutions at a general meeting, and should be passed by more than one-half of the voting rights held by shareholders (including proxies) attending the general meeting.

# CORPORATE GOVERNANCE REPORT

### Dividend policy

The Board had adopted a dividend policy for the Company on 5 July 2017 (the "**Dividend Policy**"). Under the Dividend Policy, subject to compliance with applicable rules and regulations (including Cayman Islands laws) and the articles of association of the Company, provided the Group is profitable without affecting the normal operations of the Group and the Company will pay dividend to the Shareholders from the year of 2017 and onwards. Based on the Dividend Policy, the Company intends to share its profits with Shareholders in the form of annual dividend in an amount of no less than 15% of the Group's annual consolidated net profit attributable to the owners of the Company, subject to the criteria as set out below. The remaining net profits will be used for the Group's development and operations.

The Company's ability to pay dividends will depend upon, among other things, the general financial condition of the Group, the Group's current and future operations, liquidity position and capital requirement of the Group as well as dividends received from the Company's subsidiaries. The payment of the dividend by the Company is also subject to any restrictions under the Cayman Islands laws and articles of association of the Company.

The Dividend Policy will continue to be reviewed from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period.

## CORPORATE GOVERNANCE DUTIES

The Board is responsible for performing the corporate governance duties according to the code provision D.3.1 of the CG Code, which includes:

(a) developing and reviewing the policies and practices on corporate governance of the Group;

(b) reviewing and monitoring the training and continuous professional development of Directors and senior management;

(c) reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements;

(d) developing, reviewing and monitoring the code of conduct and compliance manual applicable to Directors and employees; and

(e) reviewing the Company's compliance with the Code and disclosure in the corporate governance report of the Company.

## BOARD COMMITTEES

The Company has set up three committees, namely the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**") and the Nomination Committee, for overseeing particular aspect of the Company. The terms of reference of these committees are available on the websites of the Company and the Stock Exchange.

### Audit Committee

The Audit Committee comprises all the independent non-executive Directors of the Company (i.e. Ms. Xu Wei, Mr. Zheng Gang and Mr. Tang Ming Je) and Ms. Xu Wei, who has professional qualification in accounting and financial management expertise, is the chairlady of the Audit Committee.

The major roles and functions of the Audit Committee are as follows:

(a) To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

(b) To make recommendations to the Board on the appointment, reappointment and removal of the external auditor;

(c) To oversee the internal audit system of the Company and its implementation;

(d) To review the Group's financial controls, risk management, internal control systems, financial and accounting policies and practices;

(e) To review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;

(f) To develop and review the Company's policies and practices on corporate governance, and make recommendations to the Board and report to the Board on matters; and

(g) To review the corporate governance report disclosed in our annual report.

During the year ended 31 December 2021, individual attendance of each member of the Audit Committee is set out below:

| **Audit Committee member** | **Attended/Held** |
|---|---|
| Mr. Wong Hok Leung (*Chairman, resigned on 6 December 2021)* | 2/2 |
| Mr. Zheng Gang | 2/2 |
| Mr. Tang Ming Je | 2/2 |
| Ms. Xu Wei *(Chairman, appointed on 6 December 2021)* | 0/0 |

### Remuneration committee

The Remuneration Committee consists of one executive Director (Mr. Tian Weidong) and three independent non-executive Directors (i.e. Ms. Xu Wei, Mr. Zheng Gang and Mr. Tang Ming Je) and is chaired by Mr. Zheng Gang. The major duties of the Remuneration Committee are as follows:

(a) To make recommendations to the Board on the Company's policy and structure for all Directors' and Senior Management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) To review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(c) To make recommendations to the Board on the remuneration packages of individual Directors and Senior Management;

(d) To consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and Senior Management and employment conditions elsewhere in the Group;

(e) To review and approve the compensation for the loss or termination of office or appointment executive directors and senior management;

(f) To review and approve the compensation arrangements with regard to the dismissal or removal of Directors due to their misconduct; and

(g) To ensure no Director or their contacts determine by themselves, or be involved in determining, their remuneration.

During the year ended 31 December 2021, individual attendance of each member of the Remuneration Committee is set out below:

| Remuneration Committee member | Attended/Held |
|---|---|
| Mr. Zheng Gang *(Chairman)* | 2/2 |
| Mr. Tian Weidong | 2/2 |
| Mr. Wong Hok Leung *(resigned on 6 December 2021)* | 2/2 |
| Mr. Tang Ming Je | 2/2 |
| Ms. Xu Wei *(appointed on 6 December 2021)* | 0/0 |

### Nomination Committee

The Nomination Committee comprises of three members and is chaired by the executive Director, Mr. Tian Weidong. The remaining two members are all independent non-executive Directors (i.e. Ms. Xu Wei and Mr. Tang Ming Je). The major duties of the Nomination Committee are as follows:

(a) To review the structure, size and composition (including the skills, knowledge and experience) required of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) To identify individuals suitably qualified to become Directors and selecting or making recommendations to the Board on the selection of individuals nominated for directorship;

(c) To make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive; and

(d) To assess the independence of independent non-executive Directors.

During the year ended 31 December 2021, individual attendance of each member of the Nomination Committee is set out below:

| Nomination Committee member | Attended/Held |
|---|---|
| Mr. Tian Weidong *(Chairman)* | 2/2 |
| Mr. Wong Hok Leung *(resigned on 6 December 2021)* | 2/2 |
| Mr. Tang Ming Je | 2/2 |
| Ms. Xu Wei *(appointed on 6 December 2021)* | 0/0 |

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended 31 December 2021 to ensure that the financial statements give a true and fair view of the Group's financial position and other financial disclosures. The Company provided all members of the Board with monthly updates on the Group's performance, financial positions and prospects to enable the Board to carry out an informed assessment of the Company's financial statements. The statement by the auditors of the Company regarding their responsibilities on the consolidated financial statements of the Company is set out on the Independence Auditor's Report on pages 78 to 81 of this annual report.

## Auditor's Remuneration

The audit committee monitors the audit and non-audit services rendered to the Group by the external auditor and ensures that the engagement of external auditor in non-audit services will not impair its audit independence or objectivity.

For the year ended 31 December 2021, the fees in respect of the audit and non-audit services provided to the Group by Messrs. Deloitte Touche Tohmatsu, is set out as follows:

| | **Fee**<br>HK$'000 |
|---|---|
| Audit services | 2,100 |
| Non-audit services: | |
| Review of interim results | 488 |
| Tax advisory | 94 |
| Others | 21 |
| | 2,703 |

## Risk management and internal control

The main features of the risk management and internal control systems are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage its risks across business operations.

The Group has established a risk management framework, which consists of the Board of Directors, the Audit Committee and the senior management. The Board of Directors shall be responsible for the determination of the nature and extent of risks that shall be taken in achieving the Group's strategic objectives. The Board of Directors acknowledges its overall responsibility for monitoring the Group's risk management and internal control systems and reviewing their overall effectiveness.

The Group has an internal audit function and has formulated and adopted risk management policy in providing direction in identifying, evaluating and managing significant risks. At least on an annual basis, the management identifies risks that would adversely affect the achievement of the Group's objectives, and assesses and prioritizes the identified risks according to a set of standard criteria. Risk mitigation plans and risk owners are then established for those risks considered to be significant.

The Board and the Audit Committee continue to evaluate the adequacy of resources, qualifications and experience of staff in the Group's accounting and financial reporting function. The Group will engage independent professional advisor to assist the Board of Directors and the Audit Committee in ongoing monitoring of the internal control systems of the Group from time to time when necessary. Deficiencies in the design and implementation of internal controls identified and recommendations are proposed for improvement. Significant internal control deficiencies are reported to the Audit Committee and the Board of Directors on a timely basis to ensure prompt remediation actions are taken.

Risk management report and internal control report are submitted to the Audit Committee and the Board of Directors at least once a year. The Board of Directors will perform annual review on the effectiveness of the Group's risk management and internal control systems, including but not limited to the Group's ability to cope with its business transformation and changing external environment; the scope and quality of management's review on risk management and internal control systems; result of internal audit work; the extent and frequency of communication with the Board of Directors in relation to result of risk and internal control review; significant failures or weaknesses identified and their related implications; and status of compliance with the Listing Rules. The Board of Directors considers the Group's risk management and internal control systems are effective and adequate.

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

### Procedures and internal controls for the handling and dissemination of inside information

The Group complies with requirements of SFO and the Listing Rules. The Group will disclose inside information to the public as soon as reasonably practicable unless the information falls within any of the "safe harbours" provisions under the SFO and satisfy the conditions. Before the information is fully disclosed to the public, the Group will ensuring that the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

## COMPANY SECRETARY

The Company Secretary supports the Board by ensuring good information flow within the Board and that board policy and procedures are followed. The Company Secretary is also responsible for advising the Board through the Chairman and/or the Chief Executive of the Company on corporate governance matters and also facilitate induction and professional development of directors. All Directors have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable laws, rules and regulations are followed. The selection, appointment and dismissal of the Company Secretary are subject to the Board approval.

Mr. Yau Chak Man was appointed as the company secretary of the Company on 15 March 2019. The biographical details of Mr. Yau is set out in the paragraph headed "Directors and Senior Management" on page 24 of this annual report.

During the year ended 31 December 2021, Mr. Yau took no less than 15 hours of relevant professional training.

## ARTICLES OF ASSOCIATION OF THE COMPANY

The amended and restated Articles of Association was adopted by the Company on 19 September 2016 and effective on the Listing Date. The Articles of Association has no change since the date of Listing to the year ended 31 December 2021.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Board believes that effective communication with shareholders is essential for enhancing investor relations. The Company also recognises the importance of transparency of information disclosure and timely communication with shareholders by different channels.

The general meetings of the company provide a direct channel for the shareholders to communicate with the Company. The Company shall in each year hold a general meeting as its annual general meeting and the annual general meeting shall be called by not less than 21 days' notice in writing. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution.

All general meetings other than annual general meetings shall be called extraordinary general meetings ("**EGM**"). Any two or more members of the Company, at the date of the deposit of written requisition holding not less than one-tenth of the paid up capital of the Company which carries the rights of voting at general meetings, shall at all times have the right to require an EGM to be called by the Board for the transaction of any business specified in such requisition.

The written requisition must be deposited at the Company's principal office in Hong Kong. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the EGM to be held within a further 21 days, the requisitionists themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the EGM, but any EGM shall not be held after the expiration of three months from the date of deposit of the requisition.

Shareholders may, at any time, direct questions or requests for information to the Directors or management through "Contact Us" section in the Company's website (www.smart-core.com.hk) or in writing and sent by post to the Company's principal place of business in Hong Kong or by email to smg@smart-core.com.hk.

The Company will publish the Company's information in an accurate and timely manner to improve the transparency of information disclosure. The latest development, announcements and press in relation to the Company are available on the Company's website (www.smart-core.com.hk) for investors.

# INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

**TO THE SHAREHOLDERS OF SMART-CORE HOLDINGS LIMITED**
**芯智控股有限公司**
*(incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Smart-Core Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as "**the Group**") set out on pages 82 to 168, which comprise the consolidated statement of financial position as at 31 December 2021, 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 a summary of significant accounting policies.

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 2021, 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 Hong Kong Institute of Certified Public Accountants ("**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 Auditor's 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.

## KEY AUDIT MATTERS (Continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment assessment of trade receivables*** | |
| We identified impairment assessment of trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("**ECL**") of the Group's trade receivables at the end of the reporting period.<br><br>As disclosed in note 24 to the consolidated financial statements, the Group's net trade receivables amounting to approximately HK$1,984,625,000 has been net off with lifetime ECL on trade receivables amounted to approximately HK$53,514,000 as at 31 December 2021.<br><br>As disclosed in note 36 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables with significant balances and credit-impaired are assessed for ECL individually. In addition, the Group uses practical expedient in estimating ECL on trade receivables which are not assessed individually using a provision matrix. The provision rates are based on aging of debtors as groupings of various debtors taking into consideration the Group's historical default rates and forward-looking information that is reasonable and supportive available without undue cost and effort. At every report date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. The loss allowance amount of the credit-impaired trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. | Our procedures in relation to impairment assessment of trade receivables included:<br><br>• Understanding key controls on how the management estimates the credit loss allowance for trade receivables;<br><br>• Testing the integrity of information used by management to develop the provision matrix, including trade receivables ageing analysis as at 31 December 2021, on a sample basis, by comparing individual items in the analysis with the relevant sales invoices and other supporting documents;<br><br>• Evaluating the competence, capabilities and objectivity of the independent qualified professional valuer and obtaining an understanding of their scope of work and terms of engagement;<br><br>• Challenging the valuation technique and reasonableness of the significant inputs used by the management and the valuer in the valuations, including their identification of significant balances and credit-impaired receivables and, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information);<br><br>• Evaluating the disclosures regarding the impairment assessment of trade receivables in note 36 to the consolidated financial statements; and<br><br>• Testing subsequent settlements of credit-impaired trade receivables, on a sample basis, by inspecting supporting documents in relation to cash receipt from trade debtors subsequent to the end of the current reporting period. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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.

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are 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 HKSAs 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 HKSAs, 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.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the 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 those charged with governance 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 those charged with governance 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, 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 the independent auditor's report is Chan King Yuen.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
31 March 2022

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

| | NOTES | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|---|
| **Revenue** | 5 | **10,389,312** | 5,541,009 |
| Cost of sales | | **(9,399,359)** | (5,230,549) |
| Gross profit | | **989,953** | 310,460 |
| Other income | 7 | **11,374** | 11,308 |
| Other gains or losses, net | 8 | **2,229** | 4,127 |
| Impairment losses recognised under expected credit loss model, net | 10 | **(18,911)** | (11,582) |
| Research and development expenses | | **(40,172)** | (25,693) |
| Administrative expenses | | **(113,604)** | (71,295) |
| Selling and distribution expenses | | **(300,642)** | (97,203) |
| Share of result of an associate | 22 | **(4,837)** | – |
| Finance costs | 9 | **(53,769)** | (18,171) |
| **Profit before tax** | | **471,621** | 101,951 |
| Income tax expenses | 11 | **(79,720)** | (16,600) |
| **Profit for the year** | 12 | **391,901** | 85,351 |
| **Other comprehensive income** | | | |
| *Item that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising on translation of foreign operations | | **2,823** | 4,078 |
| **Total comprehensive income for the year** | | **394,724** | 89,429 |
| **Profit for the year attributable to:** | | | |
| Owners of the Company | | **214,061** | 71,002 |
| Non-controlling interests | | **177,840** | 14,349 |
| | | **391,901** | 85,351 |
| **Total comprehensive income for the year attributable to:** | | | |
| Owners of the Company | | **216,885** | 75,075 |
| Non-controlling interests | | **177,839** | 14,354 |
| | | **394,724** | 89,429 |
| **Earnings per share** | 15 | | |
| Basic (HK cents) | | **43.82** | 14.42 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

| | NOTES | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 16 | **8,408** | 4,298 |
| Right-of-use assets | 17 | **26,689** | 26,197 |
| Goodwill | 18 | **9,735** | 9,735 |
| Intangible asset | 19 | **4,384** | 6,776 |
| Club debentures | 20 | **5,433** | – |
| Investment in an associate | 22 | **33,293** | – |
| Deposits, prepayments and other receivables | 25 | **2,543** | 3,634 |
| Deferred tax asset | 33 | **9,011** | 5,704 |
| Financial assets at fair value through profit or loss | 21 | **152,149** | 130,147 |
| | | **251,645** | 186,491 |
| **CURRENT ASSETS** | | | |
| Inventories | 23 | **606,026** | 416,285 |
| Trade receivables | 24 | **1,984,625** | 1,102,296 |
| Deposits, prepayments and other receivables | 25 | **84,954** | 73,867 |
| Pledged bank deposits | 26 | **420,830** | 178,191 |
| Bank balances and cash | 26 | **290,931** | 238,557 |
| | | **3,387,366** | 2,009,196 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 27 | **536,103** | 590,732 |
| Other payables and accrued charges | 28 | **272,945** | 90,390 |
| Lease liabilities | 29 | **13,705** | 9,704 |
| Contract liabilities | 30 | **33,895** | 51,665 |
| Amount due to a non-controlling shareholder of a subsidiary | 31 | **4,363** | – |
| Tax liabilities | | **81,829** | 11,829 |
| Bank and other borrowings | 32 | **1,628,565** | 727,065 |
| | | **2,571,405** | 1,481,385 |
| **NET CURRENT ASSETS** | | **815,961** | 527,811 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,067,606** | 714,302 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

| | NOTES | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liability | 33 | **724** | 1,119 |
| Lease liabilities | 29 | **14,440** | 17,840 |
| Bank and other borrowings | 32 | **9,567** | – |
| | | **24,731** | 18,959 |
| **NET ASSETS** | | **1,042,875** | 695,343 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 34 | **38** | 38 |
| Reserves | | **805,949** | 630,640 |
| Equity attributable to owners of the Company | | **805,987** | 630,678 |
| Non-controlling interests | | **236,888** | 64,665 |
| | | **1,042,875** | 695,343 |

The consolidated financial statements on pages 82 to 168 were approved and authorised for issue by the Board of Directors on 31 March 2022 and are signed on its behalf by:

**Tian Weidong**
*DIRECTOR*

**Wong Tsz Leung**
*DIRECTOR*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Other reserve HK$'000 (note a) | Statutory reserve HK$'000 (note b) | Exchange reserve HK$'000 | Treasury share reserve HK$'000 | Capital redemption reserve HK$'000 (note c) | Retained profits HK$'000 | Sub-total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| **At 1 January 2020** | 39 | 291,841 | 14,051 | 3,480 | 364 | (15,735) | – | 284,934 | 578,974 | 53,022 | 631,996 |
| Profit for the year | – | – | – | – | – | – | – | 71,002 | 71,002 | 14,349 | 85,351 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | 4,073 | – | – | – | 4,073 | 5 | 4,078 |
| Profit and total comprehensive income recognised for the year | – | – | – | – | 4,073 | – | – | 71,002 | 75,075 | 14,354 | 89,429 |
| Transfer to statutory reserves | – | – | – | 1,978 | – | – | – | (1,978) | – | – | – |
| Share repurchased but not yet cancelled (note 34) | – | – | – | – | – | (3,052) | – | – | (3,052) | – | (3,052) |
| Shares repurchased and cancelled (note 34) | (1) | (15,731) | – | – | – | 15,354 | 1 | (1) | (378) | – | (378) |
| Dividend recognised as distribution (note 14) | – | (19,941) | – | – | – | – | – | – | (19,941) | – | (19,941) |
| Contribution from non-controlling interest | – | – | – | – | – | – | – | – | – | 975 | 975 |
| Distribution paid to non-controlling interest | – | – | – | – | – | – | – | – | – | (3,686) | (3,686) |
| **At 31 December 2020** | **38** | **256,169** | **14,051** | **5,458** | **4,437** | **(3,433)** | **1** | **353,957** | **630,678** | **64,665** | **695,343** |
| Profit for the year | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **214,061** | **214,061** | **177,840** | **391,901** |
| Exchange differences arising on translation of foreign operations | **-** | **-** | **-** | **-** | **2,824** | **-** | **-** | **-** | **2,824** | **(1)** | **2,823** |
| Profit and total comprehensive income recognised for the year | **-** | **-** | **-** | **-** | **2,824** | **-** | **-** | **214,061** | **216,885** | **177,839** | **394,724** |
| Transfer to statutory reserves | **-** | **-** | **-** | **4,461** | **-** | **-** | **-** | **(4,461)** | **-** | **-** | **-** |
| Shares repurchased and cancelled (note 34) | **-** | **(5,482)** | **-** | **-** | **-** | **3,052** | **-** | **-** | **(2,430)** | **-** | **(2,430)** |
| Dividend recognised as distribution (note 14) | **-** | **(39,146)** | **-** | **-** | **-** | **-** | **-** | **-** | **(39,146)** | **-** | **(39,146)** |
| Distribution paid to non-controlling interests | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(5,616)** | **(5,616)** |
| **At 31 December 2021** | **38** | **211,541** | **14,051** | **9,919** | **7,261** | **(381)** | **1** | **563,557** | **805,987** | **236,888** | **1,042,875** |

Notes:

(a) Other reserve represents (i) the combined share capital of Smart-Core International Company Limited and Smart-Core Cloud Limited acquired by the Company at the time of the group reorganisation in 2015; and (ii) the difference between the carrying amounts of the non-controlling interests at acquisition date and the consideration paid to acquire the additional interests in subsidiaries.

(b) Pursuant to the relevant laws in the People's Republic of China (the "**PRC**"), the Group's subsidiaries established in the PRC is required to transfer 10% of its profit after tax as per statutory financial statements to the reserve funds. The general reserve fund is discretionary when the fund balance reaches 50% of the registered capital of the subsidiary and can be used to make up for previous years' losses or, expand the existing operations or can be converted into additional capital of the subsidiary.

(c) Treasury share reserve represents (i) Ordinary shares purchased by Computer Share Hong Kong Trustees Limited ("**Trustee**") from the market pursuant to the share award scheme of the Company for those unlisted awarded shares and ungranted shares; and (ii) shares repurchased but not yet cancelled during the year ended 31 December 2020.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit before tax | **471,621** | 101,951 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **2,207** | 1,610 |
| Depreciation of right-of-use assets | **12,689** | 8,973 |
| Finance costs | **53,769** | 18,171 |
| Share of result of an associate | **4,837** | – |
| Amortisation of intangible asset | **2,392** | 2,392 |
| Impairment loss trade and other receivables, net | **18,911** | 11,582 |
| Allowance (reversal of) for inventories | **12,360** | (1,493) |
| Interest income from loans to third parties | **(1,194)** | (1,661) |
| Unrealised exchange loss, net | **2,564** | 6,385 |
| Fair value loss (gain) on financial assets at fair value through profit or loss | **188** | (4,623) |
| (Gain) loss on disposal of property, plant and equipment | **(249)** | 19 |
| Gain on early termination of lease | **(13)** | (53) |
| Gain on bargain purchase from business combination (note 43) | **(1,340)** | – |
| Bank interest income | **(115)** | (612) |
| Written off of other payables | **–** | (438) |
| Operating cash flows before movements in working capital | **578,627** | 142,203 |
| Increase in inventories | **(194,983)** | (233,057) |
| Increase in trade receivables | **(878,208)** | (341,373) |
| (Increase) decrease in deposits, prepayments and other receivables | **(39,191)** | 501 |
| (Decrease) increase in trade payables | **(58,695)** | 220,178 |
| Increase in other payables and accrued charges | **182,229** | 18,687 |
| (Decrease) increase in contract liabilities | **(17,570)** | 34,000 |
| Cash used in operations | **(427,791)** | (158,861) |
| Income tax paid | **(13,439)** | (32,174) |
| **NET CASH USED IN OPERATING ACTIVITIES** | **(441,230)** | (191,035) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| **INVESTING ACTIVITIES** | | |
| Capital injection to an associate | **(37,495)** | – |
| Interest income received from loans to third parties | **1,213** | 3,038 |
| Interest received | **2,323** | 2,908 |
| Loans to third parties | **(3,900)** | (32,760) |
| Loan repayment from third parties | **35,100** | 32,760 |
| Net cash inflow on acquisition of a subsidiary (note 43) | **48** | – |
| Placement of pledged bank deposits | **(485,933)** | (69,224) |
| Withdrawal of pledged bank deposits | **243,294** | 52,406 |
| Purchase of financial assets at fair value through profit or loss | **(24,398)** | – |
| Purchase of club debentures | **(5,433)** | – |
| Purchase of property, plant and equipment | **(6,280)** | (1,078) |
| Proceeds from disposal of property, plant and equipment | **333** | – |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(281,128)** | (11,950) |
| **FINANCING ACTIVITIES** | | |
| New bank borrowings raised | **8,854,567** | 3,144,834 |
| Repayment of bank borrowings | **(8,081,682)** | (2,856,007) |
| Interest paid | **(53,769)** | (17,906) |
| Dividend paid | **(39,146)** | (19,941) |
| Distribution paid to non-controlling interests | **(5,616)** | (3,686) |
| Repayment to a non-controlling shareholder of a subsidiary | **–** | (255) |
| Repayments of lease liabilities | **(12,331)** | (8,239) |
| Payment on repurchase of shares | **(2,430)** | (3,430) |
| Proceeds from bills discounted | **115,430** | 19,775 |
| Contribution from non-controlling interests | **–** | 975 |
| **NET CASH FROM FINANCING ACTIVITIES** | **775,023** | 256,120 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **52,665** | 53,135 |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | **238,557** | 186,068 |
| Effect of foreign exchange rate changes | **(291)** | (646) |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER,** represented by bank balances and cash | **290,931** | 238,557 |

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as combined and revised) of the Cayman Islands with its registered office at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Its principal place of business is located at 15/F, Tower B, Regent Centre, 70 Ta Chuen Ping Street, Kwai Chung, New Territories, Hong Kong. The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited ("**Stock Exchange**"). Its parent is Smart IC Limited, a private company incorporated in the British Virgin Islands and its ultimate controlling party is Mr. Tian Weidong ("**Mr. Tian**").

The Company is an investment holding company. The Company's subsidiaries are principally engaged in the trading of electronic components.

The functional currency of the Company is United States Dollars ("**US$**") and the presentation currency of the Group's consolidated financial statements is Hong Kong Dollars ("**HK$**"). For the convenience of the financial statements users, the consolidated financial statements are presented in HK$, as the Company's shares are listed on The Stock Exchange of Hong Kong Limited.

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

| | |
|---|---|
| Amendment to HKFRS 16 | Covid-19-Related Rent Concessions |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform — Phase 2 |

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee (the "**Committee**") of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

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

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

#### 2.1 Impacts on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform — Phase 2

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 *Financial Instruments: Disclosures* ("**HKFRS 7**").

As at 1 January 2021, the Group has several financial liabilities, the interests of which are indexed to benchmark rates that will or may be subject to interest rate benchmark reform. The following table shows the total amounts of these outstanding contracts. The amounts of financial liabilities are shown at their carrying amounts and derivatives are shown at their notional amounts.

| | **London Interbank Offered Rate** HK$'000 |
|---|---|
| **Financial liabilities** | |
| Bank and other borrowings | 524,945 |

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year. The Group will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for bank and other borrowings measured at amortised cost. Additional disclosures as required by HKFRS 7 are set out in note 36.

#### 2.2 Impacts on application of the agenda decision of the Committee — Cost necessary to sell inventories (HKAS 2 Inventories)

In June 2021, the Committee, through its agenda decision, clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories. In particular, whether such costs should be limited to those that are incremental to the sale. The Committee concluded that the estimated costs necessary to make the sale should not be limited to those that are incremental but should also include costs that an entity must incur to sell its inventories including those that are not incremental to a particular sale.

The Group's accounting policy prior to the Committee's agenda decision was to determine the net realisable value of inventories taking into consideration incremental costs only. Upon application of the Committee's agenda decision, the Group changed its accounting policy to determine the net realisable value of inventories taking into consideration both incremental costs and other cost necessary to sell inventories. The new accounting policy has been applied retrospectively.

The application of the Committee's agenda decision has had no material impact on the Group's financial positions and performance.

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### New and amendments to HKFRSs in issue but not yet effective

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

| | |
|---|---|
| HKFRS 17 | Insurance Contracts and the related Amendments[3] |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Amendment to HKFRS 16 | Covid-19-Related Rent Concessions beyond 30 June 2021[1] |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2021)[3] |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies[3] |
| Amendments to HKAS 8 | Definition of Accounting Estimates[3] |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3] |
| Amendments to HKAS 16 | Property, Plant and Equipment — Proceeds before Intended Use[2] |
| Amendments to HKAS 37 | Onerous Contracts — Cost of Fulfilling a Contract[2] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2018–2021[2] |

1 Effective for annual periods beginning on or after 1 April 2021.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after 1 January 2023.
4 Effective for annual periods beginning on or after a date to be determined.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

**Amendments to HKFRS 3 *Reference to the Conceptual Framework***

The amendments:

- update a reference in HKFRS 3 Business Combinations so that it refers to the Conceptual Framework for Financial Reporting 2018 issued in June 2018 (the "**Conceptual Framework**") instead of Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting 2010 issued in October 2010);

- add a requirement that, for transactions and other events within the scope of HKAS 37 Provisions, Contingent Liabilities and Contingent Assets or HK(IFRIC)-Int 21 Levies, an acquirer applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and

- add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### New and amendments to HKFRSs in issue but not yet effective (Continued)

**Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2021)***

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

    (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

    (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at 31 December 2021, the application of the amendments will not result in reclassification of the Group's liabilities.

**Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies***

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the "**Practice Statement**") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies.

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### New and amendments to HKFRSs in issue but not yet effective (Continued)

**Amendments to HKAS 8 *Definition of Accounting Estimates***

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty — that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

**Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction***

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 Income Taxes so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in note 3.2 to the consolidated financial statements, for leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

Upon the application of the amendments, the Group will recognise a deferred tax asset (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 deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. As at 31 December 2021, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to HK$26,689,000 and HK$28,145,000, respectively. The Group is still in the process of assessing the full impact of the application of the amendments.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and by the Hong Kong Companies Ordinance.

The directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

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, as explained in the accounting policies set out below.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, 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. Fair value for measurement and/or disclosure purposes in the consolidated financial statements are determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment* leasing transactions that are accounted for in accordance with HKFRS 16 *Leases* ("**HKFRS 16**") and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 *Impairment of Assets* ("**HKAS 36**").

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies

**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 when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains controls until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income 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 has a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

**Business combinations or asset acquisitions**

***Business combinations***

Acquisitions 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 are generally recognised in profit or loss as incurred.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in October 2010).

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, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date;

- 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 measurement at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases 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 the same amount as the relevant 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 sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum 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.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

**Business combinations or asset acquisitions** (Continued)

***Business combinations*** (Continued)

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9 *Financial Instruments* ("**HKFRS 9**") would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

**Investment in an associate**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of an associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

**Investment in an associate** (Continued)

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

**Revenue from contracts with customers**

The Group recognises 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 the customer.

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 the 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 or enhances an asset that the customer controls as the Group performs; 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 good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

***Principal versus agent***

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

**Leases**

***Definition of a lease***

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

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

***The Group as a lessee***

*Allocation of consideration to components of a contract*

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

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

*Short-term leases*

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

*Right-of-use assets*

The cost of right-of-use asset includes:

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

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

**Leases** (Continued)

***The Group as a lessee*** (Continued)

*Right-of-use assets* (Continued)

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

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

*Refundable rental deposits*

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

*Lease liabilities*

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

The lease payments include:

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

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

The Group remeasures lease liabilities (and make a corresponding adjustment to the related right-of-use assets) when the lease term has changed, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

**Leases** (Continued)

***The Group as a lessee*** (Continued)

*Lease modifications*

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

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

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

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

**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 recognised at the rates of exchanges prevailing on 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.

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 Group (i.e. HK$) using exchange rate prevailing at the end of each reporting period. Income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

**Foreign currencies** (Continued)

Exchange differences relating to the retranslation of the Group's net assets in US$ to the Group's presentation currency (i.e. HK$) are recognised directly in other comprehensive income and accumulated in exchange reserve. Such exchange differences accumulated in the exchange reserve are not reclassified to profit or loss subsequently.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

**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.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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 related to income 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. Such grants are presented under "other income".

**Retirement benefits costs**

Payments to the defined contribution retirement benefit plan and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

**Short-term employee benefits**

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

**Share-based payments**

***Equity-settled share-based payment transactions***

*Shares granted to employees*

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payment reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve.

When the shares are forfeited/lapsed after the vesting date, the amount previously recognised in share-based payments reserve will be transferred to retained profits.

When shares granted are vested, the amount previously recognised in share-based payments reserve will be transferred to treasury share reserve.

**Taxation**

Income tax expenses represent 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 because of income or expense that are taxable or deductible in other years and 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 statement of financial position and the corresponding tax base 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 assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where 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 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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

**Taxation** (Continued)

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 each reporting period, to recover or settle the carrying amount of its assets and liabilities.

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 leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary difference.

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 to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

**Property, plant and equipment**

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment 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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

**Property, plant and equipment** (Continued)

An item of property, 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 property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Intangible assets**

***Intangible assets acquired separately***

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

***Internally generated intangible assets — Research and development expenditure***

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

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.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

**Intangible assets** (Continued)

***Intangible assets acquired in a business combination***

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gain and loss arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

**Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill**

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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 individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

**Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill** (Continued)

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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit or a group of cash-generating units) 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 or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less estimated cost necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

**Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. 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 market place.

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 *Revenue From Contracts with Customers*. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("**FVTPL**")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

***Financial assets***

*Classification and subsequent measurement of financial assets*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

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

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

**Financial instruments** (Continued)

***Financial assets*** (Continued)

*Classification and subsequent measurement of financial assets* (Continued)

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income
Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. 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 from the next reporting period. If 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 from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Financial assets at FVTPL
Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains or losses, net" line item.

*Impairment of financial assets*

The Group performs impairment assessment under expected credit loss ("**ECL**") model on financial assets (including trade receivables, deposits and other receivables, pledged bank deposits and bank balances and cash) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done 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 conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when 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 increases in the likelihood or risk of a default occurring since initial recognition.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

**Financial instruments** (Continued)

***Financial assets*** (Continued)

*Impairment of financial assets* (Continued)

(i) Significant increase in credit risk

In assessing whether the credit risk 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.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- 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; and
- 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 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.

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.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when 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, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

**Financial instruments** (Continued)

***Financial assets*** (Continued)

*Impairment of financial assets* (Continued)

(iii) 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:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, 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 three years 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. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL 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. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience and forward looking information that is available without undue cost or effect.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Company expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for certain trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

**Financial instruments** (Continued)

***Financial assets*** (Continued)

*Impairment of financial assets* (Continued)

(v) Measurement and recognition of ECL (Continued)
For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables where the corresponding adjustment is recognised through a loss allowance account.

*Derecognition/modification 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 entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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.

A modification of a financial asset occurs if the contractual cash flows are renegotiated or otherwise modified.

When the contractual terms of a financial asset are modified, the Group assesses whether the revised terms result in a substantial modification from original terms taking into account all relevant facts and circumstances including qualitative factors. If qualitative assessment is not conclusive, the Group considers the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset.

For non-substantial modifications of financial assets that do not result in derecognition, the carrying amount of the relevant financial assets will be calculated at the present value of the modified contractual cash flows discounted at the financial assets' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial assets and are amortised over the remaining term. Any adjustment to the carrying amount of the financial asset is recognised in profit or loss at the date of modification.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

**Financial instruments** (Continued)

***Financial liabilities and equity***

*Classification as debt or equity*

Debt and equity instruments 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 the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments, is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

*Financial liabilities at amortised cost*

Financial liabilities including trade and other payables, amount due to a non-controlling shareholder of a subsidiary and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

*Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND 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 is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying 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 on-going 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.

### Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

#### Principal versus agent consideration (principal)

The Group engages in trading of electronic components. The Group concluded that the Group acts as the principal for such transactions as it controls the specified good before it is transferred to the customer after taking into consideration indicators such as the Group is primarily responsible for fulfilling the promise to provide the goods. The Group has inventory. When the Group satisfies the performance obligation, the Group recognises trading revenue in the gross amount of consideration to which the Group expects to be entitled as specified in the contracts.

During the year ended 31 December 2021, the Group recognised revenue relating to trading of electronic components amounted to approximately HK$10,389,312,000 (2020: HK$5,541,009,000).

#### Control over Quiksol International HK Pte Limited and its subsidiary

During the year ended 31 December 2018, the Group acquired altogether 25% ownership interest in Quiksol International HK Pte Limited ("**Quiksol HK**"), which has a wholly-owned subsidiary (hereinafter collectively referred to as "Quiksol Group"), from the then four shareholders of Quiksol HK ("**Four Shareholders**"), who hold in total the remaining 75% equity interest upon the completion of this acquisition.

A shareholders' agreement was entered into among the Group, Quiksol HK and the Four Shareholders upon the acquisition, which, among others, granted the Group the right to appoint a majority representatives on the board of directors of Quiksol HK and veto rights to certain decisions and actions by the board and shareholders relating to the relevant activities of Quiksol HK. The Articles of Association of Quiksol HK ("**A&A**") was also amended at the same time to reflect the rights given to the Group pursuant to the shareholders' agreement.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Critical judgements in applying accounting policies (Continued)

**Control over Quiksol International HK Pte Limited and its subsidiary** (Continued)

The directors of the Company assessed whether or not the Group has control over Quiksol Group as a result of the rights given by the shareholders' agreement and A&A based on whether the Group has the power to direct the relevant activities of Quiksol Group unilaterally. In making their judgement, the directors of the Company took into consideration: (i) the fact that the relevant activities of Quiksol Group are directed by the board of Quiksol HK as a result of the rights of the Group given under the shareholders' agreement as well as the amendments to the A&A upon the acquisition; and (ii) the power of the Group to appoint a majority of the directors of the board of Quiksol HK.

After this assessment, the directors of the Company concluded that although the Group has only 25% ownership interest in Quiksol HK, the Group has rights that give them the unilateral ability to direct the relevant activities of Quiksol HK and therefore the Group has obtained control over Quiksol Group.

**Deferred taxation on undistributed profit of certain subsidiaries in the PRC**

The Group provides deferred tax liabilities in relation to the earnings expected to be distributed from its subsidiaries in the PRC. During the year ended 31 December 2021 and 2020, deferred tax liabilities have not been provided on all distributable profits of these subsidiaries as the Group plans to retain the profits in the respective entities for their daily operations and future developments. In case where the actual distribution of profits is larger than expected or changes in the Group's future development plan which affects the expected timing and amounts of future distributions, material tax liabilities may arise, which will be recognised in profit or loss in the period in which such events occur.

### Key sources of estimation uncertainty

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

**Provision of ECL for trade receivables**

Trade receivables with significant balances and credit-impaired are assessed for ECL individually.

In addition, the Group uses practical expedient in estimating ECL on trade receivables which are not assessed individually using a provision matrix. The provision rates are based on aging of debtors as groupings of various debtors taking into consideration the Group's historical default rates and forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 36b and 24, respectively.

**Fair value measurement of financial instruments**

Certain of the Group's financial assets as described in note 36c are measured at fair value with fair value being determined based on significant unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could result in material adjustments to the fair values of these instruments.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Key sources of estimation uncertainty (Continued)

**Net realisable value of inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated cost necessary to make the sale. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of changes in market condition. The Group will reassess the estimation at the end of each reporting period.

At 31 December 2021, the carrying amounts of inventories of the Group were approximately HK$606,026,000 (2020: HK$416,285,000) which includes allowance of approximately HK$17,726,000 (2020: HK$7,047,000). Details are set out in note 23.

**Income tax provision and corresponding penalty**

During the year ended 31 December 2015, the directors of the Company have identified certain errors in the statutory financial statements of a group entity incorporated in Hong Kong for the year ended 31 December 2012 and prior periods, and the year ended 31 December 2014, and consequently those statutory financial statements were restated and reissued. The Group then voluntarily submitted the revised tax computations of the relevant group entity to the Inland Revenue Department of Hong Kong ("**IRD**") for the years of assessment 2012/2013 and 2014/2015 based on the revised assessable profits calculated based on the reissued statutory financial statements. The additional tax provision for the year ended 31 December 2012 and prior periods, and the year ended 31 December 2014 amounted to HK$6,006,000 and HK$6,505,000, respectively, was recognised in the consolidated financial statements in the respective years.

As the Group may have understated its assessable profits and/or made an incorrect tax returns or statement to the IRD for the relevant years of assessment, it may be liable for penalty, the amount of which according to the penalty policy of the IRD would be at a maximum of (i) a fine of HK$10,000 (equivalent to US$1,290) to HK$50,000 (equivalent to US$6,450) for each offense; (ii) trebling the amount of tax undercharged or would have been undercharged; and (iii) imprisonment for 6 months to 3 years. However, the penalty may be less than the maximum level if the Group can prove to the satisfaction of the Commissioner of the IRD that there is reasonable excuse for committing the offense and the Company does not have any willful intention to omit/understate the profit in question.

The directors of the Company have also considered reasonably possible penalty that may be imposed by the IRD on the Group at each of the reporting date, if any, arising from omission or understatement of assessment profits for the years of assessment 2012/2013 and 2014/2015 by the relevant group entity. After seeking professional advice, the directors of the Company understand that the reasonably possible penalty, if any, is likely to be at the level of 30% of the amount of tax undercharged and HK$10,000 for each offense, that is, HK$1,802,000 and HK$1,950,000 for the year ended 31 December 2012 and 31 December 2014, respectively, and relevant provisions on potential penalty were made and included in administrative expenses in the profit or loss for the relevant years. The directors of the Company believe that adequate provision has been made against the potential penalty. However, the ultimate penalty may be different from the amounts provided, such difference will be charged to profit or loss in the period during which such a determination is made.

## 5. REVENUE

### (i) Disaggregation of revenue from contracts with customers

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| **Types of goods** | | |
| Sale of electronic components | **10,389,312** | 5,541,009 |
| **Timing of revenue recognition** | | |
| A point in time | **10,389,312** | 5,541,009 |
| **Sales channel/product lines** | | |
| *Authorised distribution* | | |
| Television products | **2,065,553** | 2,049,321 |
| Smart terminals | **730,272** | 396,171 |
| Optoelectronic displays | **1,859,576** | 947,287 |
| Memory products | **556,628** | 492,208 |
| Security monitoring | **1,084,936** | 342,890 |
| Communication products | **643,604** | 268,775 |
| Others (note) | **587,533** | 437,601 |
| | **7,528,102** | 4,934,253 |
| *Independent distribution* | **2,861,210** | 606,756 |
| | **10,389,312** | 5,541,009 |

Note: Others mainly comprising the sales of automotive electronics and other products.

In addition, the Group's disaggregation of revenue by geographical markets is disclosed in note 6.

## 5. REVENUE (Continued)

### (ii) Performance obligations for contracts with customers

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

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

Customers can only return or request refund if the goods delivered do not meet required quality standards. As at 31 December 2021 and 2020, all outstanding sales contracts are expected to be fulfilled within 12 months after the end of the reporting period.

### (iii) Transaction price allocated to the remaining performance obligation for contracts with customers

All sale of electronic components are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

## 6. SEGMENT INFORMATION

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

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

1. Authorised distribution

2. Independent distribution

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

## 6. SEGMENT INFORMATION (Continued)

### Segment revenues and results

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

**For the year ended 31 December 2021**

| | Authorised distribution HK$'000 | Independent distribution HK$'000 (Note) | Segment total HK$'000 | Elimination HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| SEGMENT REVENUE | | | | | |
| Revenue from external customers | 7,528,102 | 2,861,210 | 10,389,312 | – | 10,389,312 |
| Inter-segment sales* | 37,229 | 11,263 | 48,492 | (48,492) | – |
| | 7,565,331 | 2,872,473 | 10,437,804 | (48,492) | 10,389,312 |
| Segment profit | 143,486 | 260,826 | 404,312 | – | 404,312 |
| * Inter-segment sales are charged at cost | | | | | |
| Less: Unallocated expense | | | | | (8,726) |
| Fair value change on financial assets at FVTPL | | | | | (188) |
| Gain on bargain purchase from business combination | | | | | 1,340 |
| Share of result of an associate | | | | | (4,837) |
| Profit for the year | | | | | 391,901 |

## 6. SEGMENT INFORMATION (Continued)

### Segment revenues and results (Continued)

**For the year ended 31 December 2020**

| | Authorised distribution HK$'000 | Independent distribution HK$'000 (Note) | Segment total HK$'000 | Elimination HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| SEGMENT REVENUE | | | | | |
| Revenue from external customers | 4,934,253 | 606,756 | 5,541,009 | – | 5,541,009 |
| Inter-segment sales* | 119,093 | 113,581 | 232,674 | (232,674) | – |
| | 5,053,346 | 720,337 | 5,773,683 | (232,674) | 5,541,009 |
| Segment profit | 65,637 | 22,379 | 88,016 | – | 88,016 |

* Inter-segment sales are charged at cost

| | |
|---|---|
| Less: Unallocated expenses | (7,288) |
| Fair value change on financial assets at FVTPL | 4,623 |
| Profit for the year | 85,351 |

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of unallocated expenses, gain on bargain purchase from business combination, share of result of an associate and fair value change on financial assets at FVTPL. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

## 6. SEGMENT INFORMATION (Continued)

### Geographical information

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

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

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

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Hong Kong | **8,336,444** | 5,211,342 |
| The PRC | **1,807,406** | 329,667 |
| Singapore | **240,101** | – |
| Others | **5,361** | – |
| | **10,389,312** | 5,541,009 |

Information about the Group's non-current assets is presented based on the geographical location of the assets as follows:

**Non-current assets**

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Hong Kong | **23,479** | 19,106 |
| The PRC | **61,694** | 27,285 |
| Singapore | **2,555** | – |
| Others | **214** | 615 |
| | **87,942** | 47,006 |

Note: Non-current assets excluded those relating to financial assets at FVTPL, deposits, prepayments and other receivables and deferred tax asset.

## 6. SEGMENT INFORMATION (Continued)

### Information about major customers

Revenue from customers in respect of sales of goods of the year contributing over 10% of the total revenue of the Group is as follows:

| | **2021**<br>**HK$'000** | 2020<br>HK$'000 |
|---|---|---|
| Customer 1 | **1,142,950** | 951,153 |
| Customer 2 | **1,086,726** | 1,037,119 |

There are no other revenue from transaction with a single external customer amounted to 10% or more of the total revenue of the Group during the years ended 31 December 2021 and 2020.

## 7. OTHER INCOME

| | **2021**<br>**HK$'000** | 2020<br>HK$'000 |
|---|---|---|
| Bank interest income | **115** | 612 |
| Technical support services income | **7,213** | 4,055 |
| Interest income from loans to third parties | **1,194** | 1,661 |
| Government grant (note) | **1,324** | 2,877 |
| Covid-19-related rent concessions (note 17) | **–** | 367 |
| Written off of other payables | **–** | 438 |
| Others | **1,528** | 1,298 |
| | **11,374** | 11,308 |

Note: During the year ended 31 December 2020, the Group received government grants of HK$1,678,000 (2021: nil) in respect of the Employment Support Scheme from the Government of Hong Kong Special Administrative Region for subsidising the salary costs incurred from June to August 2020 and September to November 2020, respectively. The remaining represents subsidies received from the relevant PRC government for improvement of working capital and insensitive subsidies received in relation to activities carried out by the Group.

## 8. OTHER GAINS OR LOSSES, NET

| | **2021**<br>**HK$'000** | 2020<br>HK$'000 |
|---|---|---|
| Net foreign exchange gain (loss) | **815** | (530) |
| Fair value (loss) gain on financial assets at FVTPL | **(188)** | 4,623 |
| Gain on bargain purchase from business combination (note 43) | **1,340** | – |
| Gain (loss) on disposal of property, plant and equipment | **249** | (19) |
| Gain on early termination of lease | **13** | 53 |
| | **2,229** | 4,127 |

## 9. FINANCE COSTS

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| Interest on: | | |
| — bank and other borrowings | **52,552** | 17,253 |
| — lease liabilities | **1,217** | 918 |
| | **53,769** | 18,171 |

## 10. IMPAIRMENT LOSSES RECOGNISED UNDER EXPECTED CREDIT LOSS MODEL, NET

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| Impairment loss recognised, net in respect of: | | |
| Trade receivables | **18,911** | 11,582 |

Details of impairment assessment are set out in note 36b.

## 11. INCOME TAX EXPENSES

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| Current tax: | | |
| Hong Kong Profits Tax | **68,511** | 15,264 |
| PRC Enterprise Income Tax ("**PRC EIT**") | **8,763** | 3,642 |
| Singapore Corporate Tax ("**CIT**") | **6,148** | – |
| | **83,422** | 18,906 |
| Deferred tax (note 33) | **(3,702)** | (2,306) |
| | **79,720** | 16,600 |

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

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

## 11. INCOME TAX EXPENSES (Continued)

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

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

Withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. At 31 December 2021, the aggregate amount of distributable earnings for the Group's PRC subsidiaries in respect of which the Group has not provided for dividend withholding tax amounted to HK$41,943,000 (2020: HK$49,951,000). No liability has been recognised in respect of these amounts because the Group is in a position in control of the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

The tax charge for the year can be reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit before tax | **471,621** | 101,951 |
| Tax charge at Hong Kong Profits Tax Rate of 16.5% (note) | **77,817** | 16,822 |
| Tax effect of expenses not deductible for tax purpose | **2,213** | 215 |
| Tax effect of income not taxable for tax purpose | **(1,113)** | (1,632) |
| Tax effect of tax losses not recognised | **3,019** | 1,793 |
| Utilisation of tax losses previously not recognised | **(2,007)** | (142) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **1,316** | 62 |
| Income tax at concessionary rate | **(914)** | (518) |
| Others | **(611)** | – |
| Tax charge for the year | **79,720** | 16,600 |

Note: Hong Kong Profits Tax Rate is used as it is the domestic tax in the jurisdiction where the operation of the Group is substantially based.

## 12. PROFIT FOR THE YEAR

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Profit for the year has been arrived at after charging: | | |
| Directors' emoluments (note 13) | **9,591** | 6,912 |
| Staff costs | | |
| Salaries and other allowances | **111,122** | 73,133 |
| Discretionary bonus | **148,776** | 28,598 |
| Retirement benefit scheme contributions | **19,752** | 6,542 |
| Total staff costs | **289,241** | 115,185 |
| Allowance for inventories recognised (reversed) (included in cost of sales) | **12,360** | (1,493) |
| Amortisation of intangible asset (included in selling and distribution expenses) | **2,392** | 2,392 |
| Auditor's remuneration | **2,100** | 2,050 |
| Cost of inventories recognised as an expense | **9,386,999** | 5,232,042 |
| Depreciation of property, plant and equipment | **2,207** | 1,610 |
| Depreciation of right-of-use assets | **12,689** | 8,973 |

## 13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

### Directors

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and the Hong Kong Companies Ordinance, is as follows:

| | Fees HK$'000 | Salaries and other allowance HK$'000 | Discretionary bonus HK$'000 (note a) | Retirement benefit scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Year ended 31 December 2021** | | | | | |
| Executive directors: | | | | | |
| Mr. Tian (note b) | – | 1,154 | 698 | 18 | 1,870 |
| Mr. Wong Tsz Leung | – | 775 | 665 | 18 | 1,458 |
| Mr. Liu Hongbing | – | 835 | 671 | 18 | 1,524 |
| Mr. Yan Qing (note c) | – | 652 | 1,885 | 80 | 2,617 |
| Mr. Mak Hon Kai, Stanly (note c) | – | 55 | 1,165 | 2 | 1,222 |
| Independent non-executive directors: | | | | | |
| Mr. Zheng Gang | 300 | – | – | – | 300 |
| Mr. Tang Ming Je | 300 | – | – | – | 300 |
| Mr. Wong Hok Leung (note d) | 279 | – | – | – | 279 |
| Ms. Xu Wei (note d) | 21 | – | – | – | 21 |
| | 900 | 3,471 | 5,084 | 136 | 9,591 |

## 13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

### Directors (Continued)

| | Fees HK$'000 | Salaries and other allowance HK$'000 | Discretionary bonus HK$'000 (note a) | Retirement benefit scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Year ended 31 December 2020** | | | | | |
| Executive directors: | | | | | |
| Mr. Tian (note b) | – | 1,080 | 490 | 18 | 1,588 |
| Mr. Wong Tsz Leung | – | 720 | 460 | 18 | 1,198 |
| Mr. Liu Hongbing | – | 780 | 465 | 18 | 1,263 |
| Mr. Yan Qing (note c) | – | 651 | 1,259 | 53 | 1,963 |
| Independent non-executive directors: | | | | | |
| Mr. Zheng Gang | 300 | – | – | – | 300 |
| Mr. Tang Ming Je | 300 | – | – | – | 300 |
| Mr. Wong Hok Leung (note d) | 300 | – | – | – | 300 |
| | 900 | 3,231 | 2,674 | 107 | 6,912 |

Notes:

(a) The discretionary bonus is determined by reference to the duties and responsibilities of the relevant individual within the Group and the Group's performance.

(b) Mr. Tian is also the chief executive of the Company and his emoluments disclosed above included those services rendered by him as the chief executive.

(c) Mr. Yan Qing resigned and Mr. Mak Hon Kai, Stanly ("**Mr. Mak**") is appointed as executive director of the Company on 6 December 2021. The total emoluments for Mr. Mak for the year ended 31 December 2021 is HK$1,963,000, and the total emolument for Mr. Mak as disclosed in the above table is related to emolument after his appointment as an executive director of the Company. The total emoluments for Mr. Yan Qing for the year ended 31 December 2021 is HK$2,661,000, and the total emolument for Mr. Yang Qing as disclosed in the above table is related to emolument before his resignation as an executive director of the Company.

(d) Mr. Wong Hok Leung resigned and Ms. Xu Wei was appointed as independent non-executive director on 6 December 2021.

The executive directors' emoluments shown above were mainly for their services as directors and the chief executive in connection with the management of the affairs of the Group.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

There was no arrangement under which a director or chief executive waived or agreed to waive any remuneration during the year.

## 13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

### Employees

The five highest paid employees of the Group during the year included one (2020: four) directors, details of their emoluments are set out above. Details of the emoluments for the year of the remaining four (2020: one) highest paid employees who are neither a director nor chief executive of the Company are as follows:

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and other allowances | **1,151** | 543 |
| Discretionary bonus | **10,497** | 1,159 |
| Retirement benefit scheme contributions | **225** | 53 |
| | **11,873** | 1,755 |

The number of the highest paid employees who are not directors of the Company whose emoluments were fell within the following bands is as follows:

| | **2021** | 2020 |
|---|---|---|
| HK$1,500,001 to HK$2,000,000 | **–** | 1 |
| HK$2,000,001 to HK$2,500,000 | **1** | – |
| HK$2,500,001 to HK$3,000,000 | **1** | – |
| HK$3,000,001 to HK$3,500,000 | **2** | – |

During the years ended 31 December 2021 and 2020, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees) as an inducement to joint or upon joining the Group or as compensation for loss of office.

## 14. DIVIDENDS

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Dividends for ordinary shareholders of the Company recognised as distributions during the year | | |
| 2021 — Interim — HK4 cents (2020: 2020 interim dividend HK2 cents) per share | **19,599** | 10,059 |
| 2020 — Final — HK4 cents (2020: 2019 final dividend HK2 cents) per share | **19,547** | 9,882 |
| | **39,146** | 19,941 |

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2021 of HK8 cents (2020: final dividend in respect of the year ended 31 December 2020 of HK4 cents) per ordinary share, in an aggregate amount of approximately HK$39,094,000 (2020: HK$19,547,000), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

## 15. EARNINGS PER SHARE

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

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| **Earnings** | | |
| Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share | **214,061** | 71,002 |

| | 2021 | 2020 |
|---|---|---|
| **Number of ordinary shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **488,524,783** | 492,292,156 |

For the year ended 31 December 2021 and 2020, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share has taken into account of 250,000 (31 December 2020: 250,000) ordinary shares purchased by the Trustee from the market pursuant to the share award scheme of the Company for those unvested awarded shares and ungranted shares.

No diluted earnings per share is presented for both years as there was no potential ordinary shares in issue for both years.

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements HK$'000 | Furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **COST** | | | | |
| At 1 January 2020 | 1,328 | 8,109 | 5,429 | 14,866 |
| Additions | – | 1,078 | – | 1,078 |
| Disposals | – | (287) | (127) | (414) |
| Exchange adjustments | 17 | 419 | 145 | 581 |
| At 31 December 2020 | **1,345** | **9,319** | **5,447** | **16,111** |
| Additions | **70** | **4,595** | **1,615** | **6,280** |
| Disposals | **–** | **(114)** | **(506)** | **(620)** |
| Exchange adjustments | **4** | **200** | **65** | **269** |
| At 31 December 2021 | **1,419** | **14,000** | **6,621** | **22,040** |
| **DEPRECIATION** | | | | |
| At 1 January 2020 | 1,118 | 4,827 | 4,300 | 10,245 |
| Provided for the year | 83 | 1,174 | 353 | 1,610 |
| Eliminated on disposals | – | (282) | (113) | (395) |
| Exchange adjustments | 6 | 285 | 62 | 353 |
| At 31 December 2020 | **1,207** | **6,004** | **4,602** | **11,813** |
| Provided for the year | **157** | **1,565** | **485** | **2,207** |
| Eliminated on disposals | **–** | **(105)** | **(431)** | **(536)** |
| Exchange adjustments | **3** | **123** | **22** | **148** |
| At 31 December 2021 | **1,367** | **7,587** | **4,678** | **13,632** |
| **CARRYING VALUES** | | | | |
| At 31 December 2021 | **52** | **6,413** | **1,943** | **8,408** |
| At 31 December 2020 | 138 | 3,315 | 845 | 4,298 |

The property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Leasehold improvements | Over the lease term |
| Furniture and fixtures | 3–5 years |
| Motor vehicles | 5 years |

## 17. RIGHT-OF-USE ASSETS

| | Buildings HK$'000 |
|---|---|
| At 1 January 2020 | 21,320 |
| Additions to right-of-use assets | 14,029 |
| Adjustments on lease modifications | (6) |
| Decrease in early termination of lease | (1,704) |
| Depreciation charge | (8,973) |
| Exchange adjustments | 1,531 |
| At 31 December 2020 | **26,197** |
| Additions to right-of-use assets | **6,197** |
| Adjustments on lease modifications | **5,840** |
| Acquired on acquisition of a subsidiary | **923** |
| Decrease in early termination of lease | **(279)** |
| Depreciation charge | **(12,689)** |
| Exchange adjustments | **500** |
| At 31 December 2021 | **26,689** |

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| Expense relating to short-term leases | **–** | (951) |
| Total cash outflow for leases | **(13,548)** | (10,108) |

For both years, the Group leases various offices and warehouse premises for its operations. Lease contracts are entered into for fixed term of 1 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for office premises and staff quarters. As at 31 December 2021 and 2020, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in above.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

During the year ended 31 December 2020, lessor of office premises provided rent concessions to the Group through rent conduction of one month rental. These rent concessions occurred as a direct consequence of Covid-19 pandemic and met of all of the conditions in HKFRS 16.46B, and the Group applied the practical expedient not to assess whether the changes constitute lease modifications. During the year ended 31 December 2020, the effects on changes in lease payments due to forgiveness or waiver by the lessors for the relevant leases of HK$367,000 (2021: Nil) were recognised as negative variable lease payments included in "other income".

## 18. GOODWILL

| | HK$'000 |
|---|---|
| **COST** | |
| At 1 January 2020 ,31 December 2020 and 2021 | 9,735 |

For the purpose of impairment testing, goodwill has been allocated to a group of cash-generating units ("**CGU**"), comprising Quiksol Group. The recoverable amount of Quiksol Group has been determined based on value in use calculation which uses cash flow projections based on financial budgets approved by management covering a 5-year period (2020: 5-year), and discount rate of 15.36% (2020: 15.36%). Cash flows beyond the 5-year period (2020: 5-year) are extrapolated using a steady 2% growth rate (2020: 2%). The cash flows projections, growth rates and discount rate have been reassessed as at 31 December 2021 taking into consideration higher degree of estimation uncertainties in the current year due to how the Covid-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions of the Group's electronic components business. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin and such estimation is based on Quiksol Group's past performance and management's expectations for the market development. Based on the result of the assessment, management of the Group determined that the recoverable amount of the CGU is higher than the carrying amount. As at 31 December 2021, the directors of the Company determined that there is no impairment of goodwill.

Management believes that any reasonably possible changes in any of these assumptions would not cause the carrying amount of Quiksol Group to exceed its recoverable amount.

## 19. INTANGIBLE ASSET

| | **Customer relationship**<br>HK$'000 |
|---|---|
| **COST** | |
| At 1 January 2020 , 31 December 2020 and 2021 | 11,959 |
| **AMORTISATION** | |
| At 1 January 2020 | 2,791 |
| Charge for the year | 2,392 |
| At 31 December 2020 | **5,183** |
| Charge for the year | **2,392** |
| At 31 December 2021 | **7,575** |
| **CARRYING VALUE** | |
| At 31 December 2021 | **4,384** |
| At 31 December 2020 | 6,776 |

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

| | |
|---|---|
| Customer relationship | 20% |

## 20. CLUB DEBENTURES

| | 2021<br>HK$'000 |
|---|---|
| **COST** | |
| Balance at end of the year | **5,433** |

The amount represents investments in club debentures in Hong Kong and the PRC, which have no limit of their term. The investment in club debentures are tested for impairment whenever there is an indication that they may be impaired.

As at 31 December, 2021, the directors of the Company conducted impairment review on the investment in club debentures. The recoverable amounts of investment in club debentures have been determined based on the market price of similar club debentures. Based on the assessment, the directors of the Company expect the carrying amount of the investments in club debentures to be recoverable and there is no impairment of the investments in club debentures.

## 21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| **Financial assets mandatorily measured at FVTPL:** | | |
| Life insurance policies (note i) | **99,788** | 79,143 |
| Unlisted unit trust funds (note ii) | **47,463** | 51,004 |
| Unlisted limited partnerships (note iii) | **3,674** | – |
| Unlisted equity securities (note iv) | **1,224** | – |
| | **152,149** | 130,147 |

Notes:

(i) As at 31 December 2021, the Group has a total of seven (2020: six) life insurance policies with three (2020: two) insurance companies to insure certain directors of the Company. Under these policies, the Group is the beneficiary and policy holder and the total insured sum is US$34,000,000 (equivalent to approximately HK$265,200,000) (2020: US$29,000,000 (equivalent to approximately HK$226,200,000)) in aggregate. The Group is required to pay a single premium totalling US$12,033,000 (equivalent to approximately HK$93,857,000) (2020: US$9,533,000 (equivalent to approximately HK$74,357,000)) at inception. The Group can, at any time, withdraw cash based on the account value of the policy ("**Account Value**") at the date of withdrawal, which is determined by the gross premium paid plus accumulated guaranteed interest earned and minus any charges made in accordance with the terms and conditions of the policy. If withdrawal is made between the 1st to 15th policy years for the first, third, fourth, fifth and sixth policies and 1st to 18th policy year for the second policy, there is a specified amount of surrender charge deducted from the Account Value. The insurance company will pay the Group a guaranteed interest for the first year and a variable return per annum afterwards (with minimum guaranteed interest rate ranged from 2% to 3% per annum) during the effective period of the policies.

(ii) Unlisted unit trust funds invest primarily in Asian bonds, United States treasury bonds, United States mortgage-backed securities and other debt securities.

(iii) The amount represent investments in 2 unlisted limited partnerships established in the PRC.

(iv) The amount represent investments in unlisted equity securities issued by a private entity established in the PRC.

## 22. INVESTMENT IN AN ASSOCIATE

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Cost of investment in an associate | 37,495 | – |
| Share of result of an associate | (4,837) | – |
| Exchange adjustments | 635 | – |
| | 33,293 | – |

Details of the Group's associate at the end of the reporting period are as follows:

| Name | Place of incorporation and place of operation | Issued and paid up capital | Proportion of ownership interest and voting rights interest held by the Group | | Principal activities |
|---|---|---|---|---|---|
| | | | 2021 | 2020 | |
| 上海宙鎵光電有限公司Galasemi (Shanghai) Co., Ltd.* ("**GSCL**") (note) | The PRC | Registered capital of US$10,450,000 | 46% | – | Trading of electronic components |

* English name for identification only.

Note: On 1 February 2021, the Group entered into a cooperation agreement with GCS Holdings, Inc. ("**GCS**") and Wisdom Fortune Corporation Limited ("**WFCL**"), which are independent third parties, to jointly establish a company named GSCL, in Shanghai, the PRC with a registered capital of US$6,250,000 (equivalent to HK$48,750,000).

Pursuant to the agreement, the Group agreed to inject US$2,875,000 (equivalent to HK$22,425,000) investment cost to GSCL, representing 46% of the entire registered capital of GSCL. The remaining 48% and 6% of the entire registered capital are held by GCS and WFCL, respectively. On 28 July 2021, the board of directors of GSCL has passed a resolution to increase its registered capital from US$6,250,000 to US$10,450,000 (equivalent to HK$81,510,000). According to the resolution, the Group injected additional investment cost of US$1,932,000 (equivalent to HK$15,070,000), which is in proportion to the Group's ownership in GSCL.

Upon the establishment, the Group exercises significant influence over GSCL and the financial results and financial positions of GSCL are incorporated in the Group's consolidated financial statements using the equity method of accounting.

## 22. INVESTMENT IN AN ASSOCIATE (Continued)

### Summarised financial information of associate

Summarised financial information in respect of the Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

| | 2021<br>HK$'000 |
|---|---|
| Current assets | 51,406 |
| Non-current assets | 22,038 |
| Current liabilities | 1,068 |
| Non-current liabilities | – |
| Revenue | 96 |
| Loss and total comprehensive expense for the year | (10,515) |

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

| | 2021<br>HK$'000 |
|---|---|
| Net assets of GSCL | 72,376 |
| Proportion of the Group's ownership interest in GSCL | 46% |
| Carrying amount of the Group's interest in GSCL | 33,293 |

## 23. INVENTORIES

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Electronic components held for resale | 623,752 | 423,332 |
| Less: Allowance for inventories | (17,726) | (7,047) |
| | 606,026 | 416,285 |

## 23. INVENTORIES (Continued)

The movements in the allowance of inventories are as follows:

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| At beginning of year | **7,047** | 8,661 |
| Allowance recognised (reversed) in profit or loss, net | **12,360** | (1,493) |
| Written off | **(1,681)** | (121) |
| At end of year | **17,726** | 7,047 |

## 24. TRADE RECEIVABLES

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Trade receivables | **2,038,139** | 1,136,690 |
| Less: allowance for credit losses | **(53,514)** | (34,394) |
| | **1,984,625** | 1,102,296 |

As at 1 January 2020, trade receivables from contracts with customers amounted to HK$792,032,000.

As at 31 December 2021, total bills received amounting to HK$105,178,000 (31 December 2020: HK$4,756,000) with a maturity period ranging from 30 to 180 days (2020: 30 to 180 days) are held by the Group for future settlement of trade receivables. Included in total bills are bills received by the Group amounting HK$105,178,000 (2020: HK$3,185,000) were transferred to banks by discounting on a full resource basis. As the Group has not transferred the significant risks and rewards relating to those bills. It continues to recognise trade receivables full carrying amounts at the end of the reporting period and recognise the cash received on the transfer as secured borrowings. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

The Group allows credit period of 0 days to 120 days (2020: 0 to 120 days) to its customers. The following is an aged analysis of the Group's trade receivables (net of allowance for credit losses), at the end of the reporting period, based on the invoice dates which approximated the respective revenue recognition dates:

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| 0–60 days | **1,412,829** | 871,138 |
| 61–120 days | **479,411** | 170,033 |
| Over 120 days | **92,385** | 61,125 |
| | **1,984,625** | 1,102,296 |

## 24. TRADE RECEIVABLES (Continued)

As at 31 December 2021, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$369,712,000 (2020: HK$146,824,000) which are past due as at the reporting date. Out of the past due balances, HK$88,506,000 (2020: HK$60,608,000) has been past due 90 days or above, for which the Group's do not consider the balances in default as there has not been a significant change in the credit quality and amounts are still considered recoverable based on historical experience.

As at 31 December 2021, other than bills received amounting to HK$105,178,000 (2020: HK$4,756,000), the Group does not hold any collateral or other credit enhancements over these balances nor does it has a legal right of offset against any amounts owed by the Group to the counterparty.

Details of impairment assessment of trade receivables are set out in note 36b.

## 25. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | **2021**<br>**HK$'000** | 2020<br>HK$'000 |
|---|---|---|
| Deposits | **52,807** | 28,792 |
| Prepayments | **7,897** | 11,082 |
| Other receivables (Note) | **6,817** | 34,075 |
| Value-added tax recoverable | **19,976** | 3,552 |
| | **87,497** | 77,501 |
| Analysed as: | | |
| Non-current | **2,543** | 3,634 |
| Current | **84,954** | 73,867 |
| | **87,497** | 77,501 |

Note: Other receivables as at 31 December 2020 mainly included a loan granted to a third party amounting to HK$31,200,000. The loan is unsecured, carry interest at 6.5% per annum and repayable in June 2021. The loan has been settled by the third party in full during the year ended 31 December 2021.

Rental deposits paid included in deposits amounting to HK$3,111,000 and HK$2,910,000 as at 31 December 2021 and 31 December 2020, respectively, were not adjusted upon initial application of HKFRS 16 as the directors of the Company considered the impact is not material.

## 26. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The pledged bank deposits/bank balances carry interest at market rates as follows:

| | **2021** | 2020 |
|---|---|---|
| Range of interest rate per annum: | | |
| Pledged bank deposits | **0.01%–5.00%** | 0.01%–3.00% |
| Bank balances | **0.001%–0.3%** | 0.001%–0.3% |

## 26. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH (Continued)

The carrying amounts of the Group's pledged bank deposits and bank balances and cash denominated in currencies other than functional currencies of the relevant group entities at each of the reporting date are as follows:

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| HK$ | **201** | 3,633 |
| Renminbi ("**RMB**") | **–** | 6,366 |

## 27. TRADE PAYABLES

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| Trade payables | **536,103** | 590,732 |

The credit period for trade payables ranging from 0 to 60 days (2020: 0 to 60 days).

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

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| 0–30 days | **448,331** | 492,322 |
| 31–60 days | **56,621** | 71,715 |
| 61–90 days | **27,712** | 25,906 |
| Over 90 days | **3,439** | 789 |
| | **536,103** | 590,732 |

As at 31 December 2021, included in the trade payables is HK$58,471,000 (2020: HK$44,811,000), in which the Group issued bills to relevant creditors for settlement and remained outstanding at the end of the reporting period.

## 28. OTHER PAYABLES AND ACCRUED CHARGES

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| Accrued purchase | **127,383** | 36,741 |
| Accrued staff costs | **117,018** | 27,570 |
| Accrued expenses | **14,879** | 15,818 |
| Other payables | **13,665** | 10,261 |
| | **272,945** | 90,390 |

## 29. LEASE LIABILITIES

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| **Lease liabilities payable:** | | |
| Within one year | **13,705** | 9,704 |
| Within a period of more than one year but not more than two years | **10,791** | 7,742 |
| Within a period of more than two years but not more than five years | **3,649** | 10,098 |
| | **28,145** | 27,544 |
| Less: Amount due for settlement with 12 months shown under current liabilities | **(13,705)** | (9,704) |
| Amount due for settlement after 12 months shown under non-current liabilities | **14,440** | 17,840 |

The weighted average incremental borrowing rates applied to lease liabilities range at 4.32% (2020: 4.43%).

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | HK$<br>HK$'000 | RMB<br>HK$'000 | TWD<br>HK$'000 |
|---|---|---|---|
| As at 31 December 2021 | **5,670** | **415** | **48** |
| As at 31 December 2020 | 2,139 | – | – |

## 30. CONTRACT LIABILITIES

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Sale of electronic components | **33,895** | 51,665 |

The Group receives certain amount of the contract value from customers when they place their purchase order. This give rise to contract liabilities at the start of a contract until the Group transferred the control of goods to the customers.

As at 1 January 2020, contract liabilities amounted to HK$18,112,000.

During the year ended 31 December 2021, revenue amounting to HK$51,665,000 (2020: HK$18,112,000) was recognised in the current year which relates to carried-forward contract liabilities.

## 31. AMOUNT DUE TO A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

Consideration payable for acquisition of a subsidiary of US$559,000 (equivalent to HK$4,363,000) are included in amount due to a non-controlling shareholder of a subsidiary. The amount is unsecured, non-interest bearing and repayable within 1 year.

## 32. BANK AND OTHER BORROWINGS

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Import and export loans | **747,803** | 139,964 |
| Other bank borrowings (Note) | **890,329** | 587,101 |
| | **1,638,132** | 727,065 |
| Carrying amounts of the above borrowings are repayable* | | |
| — within one year | **1,628,565** | 727,065 |
| — within a period of more than one year but not exceeding two years | **5,858** | – |
| — within a period of more than two years but not exceeding five years | **3,709** | – |
| | **1,638,132** | 727,065 |
| Carrying amounts of borrowings that contain a repayable on demand clause (shown under current liabilities) but repayable: | | |
| — within one year | **1,625,127** | 727,065 |

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Analysed as: | | |
| Secured | **1,631,917** | 720,294 |
| Unsecured | **6,215** | 6,771 |
| | **1,638,132** | 727,065 |

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

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

## 32. BANK AND OTHER BORROWINGS (Continued)

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

| | 2021 | 2020 |
|---|---|---|
| Effective interest rate: | | |
| Bank borrowings and import and export loans | | |
| — variable rates | **1.53%–10.62%** | 1.39%–4.56% |
| — fixed rates | **2.5%–4.75%** | N/A |

The variable rates bank borrowings are subject to interest at London Interbank Offered Rate ("**LIBOR**") plus a spread, Loan Prime Rate ("**LPR**") plus a spread, Hong Kong Interbank Offered Rate ("**HIBOR**") plus a spread and US Prime Rate plus a spread (2020: LIBOR plus a spread and LPR plus a spread).

Note: At 31 December 2021, the Group factored trade receivables to banks with recourse in an aggregated amount of HK$854,257,000 (31 December 2020: HK$580,328,000) and accordingly the cash received on the transfer was recognised as borrowings and included in bank borrowings. The Group also discounted bills arising from future settlement of trade receivables with recourse in aggregated amount of HK$105,178,000 (2020: HK$3,185,000) for short-term financing. At 31 December 2021, the associated borrowings amounted to approximately HK$115,430,000 (2020: HK$19,775,000). The related cash flows of these borrowings are presented as financing cash flows in the consolidated statement of cash flows.

## 33. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Deferred tax asset | **(9,011)** | (5,704) |
| Deferred tax liability | **724** | 1,119 |
| | **(8,287)** | (4,585) |

The followings are the major deferred tax liability and asset recognised by the Group and movements thereon during the current and prior years:

| | ECL provision of trade and other receivables<br>HK$'000 | Intangible asset identified from business combination<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|
| At 1 January 2020 | (3,792) | 1,513 | (2,279) |
| Credit to profit or loss | (1,912) | (394) | (2,306) |
| At 31 December 2020 | **(5,704)** | **1,119** | **(4,585)** |
| Credit to profit or loss | **(3,307)** | **(395)** | **(3,702)** |
| At 31 December 2021 | **(9,011)** | **724** | **(8,287)** |

## 33. DEFERRED TAXATION (Continued)

At the end of the reporting period, the Group has unused tax losses of approximately HK$43,860,000 (2020: HK$39,545,000), available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Unrecognised tax losses of approximately HK$21,277,000 (2020: HK$27,242,000) will expire from 2022 to 2026 (2020: 2021 to 2025) and the remaining tax losses may be carried forward indefinitely.

## 34. SHARE CAPITAL

| | Number of shares | Amount |
|---|---|---|
| | | US$'000 |
| Ordinary shares of US$0.00001 each | | |
| **Authorised:** | | |
| At 1 January 2020, 31 December 2020 and 2021 | 5,000,000,000 | 50 |
| **Issued and fully paid** | | |
| At 1 January 2020 | 504,105,030 | 5 |
| Share repurchased and cancelled | (11,150,000) | –* |
| At 31 December 2020 | 492,955,030 | 5 |
| Share repurchased and cancelled | (4,274,000) | –** |
| At 31 December 2021 | 488,681,030 | 5 |

| | **2021** | 2020 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Shown in the financial statements as | **38** | 38 |

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

** Representing US$43, equivalent to HK$335.

## 34. SHARE CAPITAL (Continued)

Note: During the year ended 31 December 2021, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

| Month of repurchase | Number of shares of US$0.00001 each | Price per share Highest | Price per share Lowest | Aggregate consideration |
|---|---|---|---|---|
| | | HK$ | HK$ | HK$'000 |
| January 2021 | 1,960,000 | 1.26 | 1.20 | 2,430 |

During the year ended 31 December 2020, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

| Month of repurchase | Number of shares of US$0.00001 each | Price per share Highest | Price per share Lowest | Aggregate consideration |
|---|---|---|---|---|
| | | HK$ | HK$ | HK$'000 |
| January 2020 | 250,000 | 1.51 | 1.49 | 378 |
| July 2020 | 200,000 | 1.30 | 1.24 | 258 |
| August 2020 | 300,000 | 1.38 | 1.31 | 403 |
| September 2020 | 400,000 | 1.38 | 1.35 | 546 |
| November 2020 | 600,000 | 1.32 | 1.26 | 777 |
| December 2020 | 814,000 | 1.33 | 1.30 | 1,068 |
| | 2,564,000 | | | 3,430 |

The Company purchased 250,000 shares in January 2020 for an aggregate consideration of HK$378,000 and during the year ended 31 December 2020, a total of 11,150,000 shares of the Company repurchased were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The Company also purchased 2,314,000 shares of its own shares from 17 July 2020 to 31 December 2020 for an aggregate consideration of HK$3,052,000. As the repurchased shares have not been cancelled during the year ended 31 December 2020, they were recognised as treasury share reserve as at 31 December 2020.

The Company purchased 1,960,000 shares in January 2021 for an aggregate consideration of HK$2,430,000 and during the year ended 31 December 2021, a total of 4,274,000 shares of the Company repurchased were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium payable in repurchase was charged against the share premium. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve.

## 35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders and maintaining an adequate capital structure. The Group's overall strategy remained unchanged from prior year.

The capital structure of the Group consists of debts, which include bank borrowings, amount due to a non-controlling shareholder of a subsidiary, net of bank balances and cash and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group regularly reviews the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through the payment of dividends and new shares issues and share-by-backs as well as the issue of new debts and redemption of existing debts.

## 36. FINANCIAL INSTRUMENTS

### 36a. Categories of financial instruments

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Amortised cost | **2,712,718** | 1,556,520 |
| Financial assets at FVTPL | **152,149** | 130,147 |
| **Financial liabilities** | | |
| Amortised cost | **2,188,509** | 1,324,303 |
| **Lease liabilities** | **28,145** | 27,544 |

### 36b. Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, trade receivables, deposits and other receivables, pledged bank deposits, bank balances and cash, trade payables, other payables, amount due to a non-controlling shareholder of a subsidiary, bank and other borrowings and lease liabilities. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk**

***Currency risk***

The group entities have foreign currency denominated monetary assets and monetary liabilities which expose the Group to foreign currency risk. The directors of the Company believe the Group does not have significant foreign exchange exposures and will consider the use of foreign exchange forward contracts to reduce the currency exposures in case the foreign exchange exposures become significant.

## 36. FINANCIAL INSTRUMENTS (Continued)

### 36b. Financial risk management objectives and policies (Continued)

**Market risk** (Continued)

***Currency risk*** (Continued)

The carrying amounts of the foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

*The Group*

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2021 HK$'000** | 2020 HK$'000 | **2021 HK$'000** | 2020 HK$'000 |
| HK$ | **149,451** | 5,965 | **2,139** | 2,139 |
| RMB | **5,929** | 6,469 | **–** | – |

*Inter-company balances*

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2021 HK$'000** | 2020 HK$'000 | **2021 HK$'000** | 2020 HK$'000 |
| RMB | **109,688** | 48,345 | **110,980** | 11,634 |

***Sensitivity analysis***

For the exposure to the fluctuation in US$ against HK$, as HK$ is pegged to US$ and the net exposure of TWD is immaterial, the directors of the Company are of opinion that the Group's exposure to the fluctuation in HK$ and TWD are insignificant and no sensitivity analysis is presented.

The following table details the Group's sensitivity to a 5% (2020: 5%) increase and decrease in US$ against RMB. 5% (2020: 5%) is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items including the bank balances and variable-rate pledged bank deposits and inter-company balances and adjusts their translation at the end of the reporting period for a 5% (2020: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where US$ weakens 5% (2020: 5%) against RMB. For a 5% (2020: 5%) strengthening of US$ against the relevant currency, there would be an equal and opposite impact on the profit.

## 36. FINANCIAL INSTRUMENTS (Continued)

### 36b. Financial risk management objectives and policies (Continued)

**Market risk** (Continued)

***Sensitivity analysis*** (Continued)

**The Group**

| | **2021**<br>**HK$'000** | 2020<br>HK$'000 |
|---|---|---|
| Profit for the year | **248** | 270 |

**Inter-company balances**

| | **2021**<br>**HK$'000** | 2020<br>HK$'000 |
|---|---|---|
| Profit for the year | **(53)** | 1,532 |

The directors of the Company considered the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

***Interest rate risk***

The Group is exposed to fair value interest rate risk in relation to its fixed-rate investments in listed bonds and other borrowings.

The Group is also exposed to cash flow interest rate risk in relation to life insurance policies, bank balances, variable-rate pledged bank deposits, unlisted unit trust funds and bank borrowings.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates ("**IBORs**") with alternative nearly risk-free rates. Details of the impacts on the Group's risk management strategy arising from the interest rate benchmark reform and the progress towards implementation of alternative benchmark interest rates are set out under "interest rate benchmark reform" in this note.

The management has considered the Group's exposure to cash flow interest rate risk in relation to variable-rate pledged bank deposits and bank balances to be limited because the current market interest rates on general deposits are relatively low and stable.

The Group's exposure to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate is mainly concentrated on the fluctuation of HIBOR, LIBOR and LPR arising from the Group's bank borrowings. The Group currently does not have interest rate risk hedging policy. However, the directors of the Company closely monitor the exposure to future cash flow interest rate risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

## 36. FINANCIAL INSTRUMENTS (Continued)

### 36b. Financial risk management objectives and policies (Continued)

**Market risk** (Continued)

***Sensitivity analysis***

The sensitivity analyses below have been determined based on the exposure to interest rates for investments of life insurance policies, unlisted unit trust funds and bank borrowings for the year ended 31 December 2021 and 2020. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2020: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents directors' assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points (2020: 50 basis points) higher and other variables were held constant, profit of the year would be affected as follows. For a 50 basis points (2020: 50 basis points) lower, there would be an equal and opposite impact on the profit.

| | **2021**<br>**HK$'000** | 2020<br>HK$'000 |
|---|---|---|
| Decrease in profit for the year | **(6,103)** | (2,386) |

The directors of the Company considered the sensitivity analysis is unrepresentative of the interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

***Other price risk***

The Group is exposed to price risk through its investments in life insurance policies, unlisted unit trust funds, unlisted limited partnerships and unlisted equity securities. The directors of the Company manage this exposure by maintaining a portfolio of investments with different risks. The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

***Sensitivity analysis***

The sensitivity analyses below have been determined based on the exposure to price risks at the reporting date. Sensitivity analyses for investments in life insurance policies with fair value measurement categorised within Level 3 were disclosed in note 36c.

If the prices of the respective investments in unlisted unit trust funds had been 5% (2020: 5%) higher/lower, profit for the year ended 31 December 2021 would increase/decrease by HK$2,373,000 (2020: HK$2,550,000) as a result of the changes in fair value of investments in unlisted unit trust funds.

No sensitivity analysis is presented for the investments in unlisted limited partnerships and unlisted equity securities as the management considers that the Group's exposure to other price risk from investments in unlisted limited partnerships and unlisted equity securities is insignificant.

In the opinion of directors of the Company, the sensitivity analysis is not representative of the Group's price risk as it only reflects the impact of price changes to investments in listed bonds and unlisted unit trust funds at the end of the year but not the exposure during the year.

## 36. FINANCIAL INSTRUMENTS (Continued)

### 36b. Financial risk management objectives and policies (Continued)

**Credit risk and impairment assessment**

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 statements of financial position.

***Trade receivables arising from contracts with customers***

Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

In addition, the Group performs impairment assessment under ECL model on trade balances individually or based on provision matrix. Except for debtors with significant outstanding balances and credit-impaired, which are assessed for impairment individually, the remaining trade receivables are grouped under a provision matrix based on shared credit-risk characteristics by reference to repayment histories for recurring customers and current past due exposure for the new customers. Net impairment loss of HK$18,911,000 (2020: net impairment loss of HK$11,582,000) is recognised during the year. Details of the quantitative disclosures are set out below in this note.

The Group has concentration of credit risk as 51% (2020: 49%) of the total receivables was due from the Group's top five outstanding balances. The major customers of the Group are mainly leading brand-name consumer electronic product manufacturing companies in the PRC and electronic product trading companies in Hong Kong. In order to minimise the credit risk of trade receivables, the management of the Group delegated a team responsible for determination of credit limits and credit approvals.

***Deposits and other receivables***

For deposits and other receivables, the directors of the Company make periodic individual assessment on the recoverability of deposits and other receivables based on quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. The Group performs impairment assessment under ECL model on outstanding balances individually. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The following table shows the movements in 12m ECL that has been recognised for deposits and other receivables:

| | **12m ECL**<br>HK$'000 |
|---|---|
| As at 1 January 2020 and 31 December 2020 | 173 |
| Impairment loss reversed due to financial instruments recognised | (173) |
| As at 31 December 2021 | – |

## 36. FINANCIAL INSTRUMENTS (Continued)

### 36b. Financial risk management objectives and policies (Continued)

**Credit risk and impairment assessment** (Continued)

***Pledged bank deposits/bank balances***

The credit risks on bank balances and pledged bank deposits are limited because the counterparties are reputable banks and financial institutions with high credit ratings assigned by international credit-rating agencies in the PRC and Hong Kong.

The Group assessed 12m ECL for bank balances and pledged bank deposits by reference to information relating to average loss rate of respective credit rating grades published by external credit rating agencies.

Based on the average loss rates, the ECL on bank balances and pledged bank deposits is considered to be insignificant.

The Group's internal credit risk grading assessment comprises the following categories:

| Internal credit rating | Description | Accounts receivable | Other financial assets |
|---|---|---|---|
| Low risk | The counterparty has a low risk of default and does not have any past-due amounts | Lifetime ECL — not credit-impaired | 12m ECL |
| Watch list | Debtor frequently repays after due dates but usually settle in full | Lifetime ECL — not credit-impaired | 12m ECL |
| Doubtful | There have been significant increases in credit risk since initial recognition through information developed internally | Lifetime ECL — not credit-impaired | Lifetime ECL — not credit-impaired |
| Loss | There is evidence indicating the asset is credit-impaired | Lifetime ECL — credit-impaired | 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 | Amount is written off |

## 36. FINANCIAL INSTRUMENTS (Continued)

### 36b. Financial risk management objectives and policies (Continued)

**Credit risk and impairment assessment** (Continued)

The table below details the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

| | Notes | Internal/ external credit rating | 12m or lifetime ECL | 2021 Gross carrying amount | | 2020 Gross carrying amount | |
|---|---|---|---|---|---|---|---|
| | | | | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Financial assets at amortised cost** | | | | | | | |
| Trade receivables | 24 | (Note 1) | Lifetime ECL (provision matrix) | 656,950 | | 324,793 | |
| | | (Note 1) | Lifetime ECL (not credit-impaired) | 1,377,289 | | 807,997 | |
| | | (Note 1) | Lifetime ECL (credit-impaired) | 3,900 | 2,038,139 | 3,900 | 1,136,690 |
| Deposits and other receivables | 25 | (Note 2) | 12m ECL | | 16,332 | | 62,867 |
| Pledged bank deposits | 26 | Aa3 to B2 | 12m ECL | | 420,830 | | 178,191 |
| Bank balances | 26 | Aa3 to B2 | 12m ECL | | 290,931 | | 238,557 |
| | | | | | 2,766,232 | | 1,616,305 |

Note:

**Provision matrix - Debtors' ageing**

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relations to its operation. The following table provides information about the exposure to credit risk for trade receivables which assessed based on provision matrix within lifetime ECL (not credit-impaired). Debtors with significant outstanding balances or credit-impaired with gross carrying amounts of HK$1,377,289,000 and HK$3,900,000 respectively as at 31 December 2021 (31 December 2020: HK$807,997,000 and HK$3,900,000) were assessed individually.

## 36. FINANCIAL INSTRUMENTS (Continued)

### 36b. Financial risk management objectives and policies (Continued)

**Credit risk and impairment assessment** (Continued)

*Gross carrying amount*

| Internal credit rating | 2021 Average loss rate % | 2021 Trade receivables HK$'000 | 2021 Credit loss allowance HK$'000 | 2020 Average loss rate % | 2020 Trade receivables HK$'000 | 2020 Credit loss HK$'000 |
|---|---|---|---|---|---|---|
| Current | **1.83** | **450,684** | **8,248** | 0.62 | 266,039 | 1,639 |
| 1–30 days | **1.17** | **166,550** | **1,941** | 0.67 | 26,530 | 179 |
| 31–60 days | **3.02** | **23,568** | **712** | 1.04 | 9,697 | 101 |
| 61–90 days | **1.90** | **6,288** | **119** | 0.71 | 9,789 | 69 |
| More than 90 days | **2.48** | **9,860** | **245** | 0.89 | 12,738 | 125 |
| | | **656,950** | **11,265** | | 324,793 | 2,113 |

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated. Due to greater financial uncertainty triggered by the Covid-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could led to increased credit default rates.

During the year ended 31 December 2021, the Group provided HK$9,152,000 (2020: HK$744,000) net impairment allowance for trade receivables based on provision matrix. Net impairment allowance of HK$9,759,000 (2020: HK$10,838,000) were made on debtors with significant balances and credit-impaired debtors respectively.

## 36. FINANCIAL INSTRUMENTS (Continued)

### 36b. Financial risk management objectives and policies (Continued)

**Credit risk and impairment assessment** (Continued)

*Gross carrying amount* (Continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

| | Lifetime ECL (not-credit impaired) HK$'000 | Lifetime ECL (credit–impaired) HK$'000 | Total HK$'000 |
|---|---|---|---|
| **As at 1 January 2020** | 18,912 | 3,900 | 22,812 |
| Net impairment losses provided | 11,582 | – | 11,582 |
| **As at 31 December 2020** | 30,494 | 3,900 | 34,394 |
| Net impairment losses provided | 18,911 | – | 18,911 |
| Exchange adjustments | 209 | – | 209 |
| **As at 31 December 2021** | 49,614 | 3,900 | 53,514 |

## 36. FINANCIAL INSTRUMENTS (Continued)

### 36b. Financial risk management objectives and policies (Continued)

**Liquidity risk**

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents as well as undrawn banking facilities deemed adequate by the directors of the Company to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The directors of the Company monitors the utilisation of bank borrowing and ensure compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2021, the Group has available unutilised short-term bank (excluding stand by letter of credit) loan facilities of HK$1,427,691,000 (2020: HK$449,615,000).

The following table details the Group's remaining contractual maturity for its financial liabilities which 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. The table includes both interest and principal cash flows. To the extent that interest flows are variable rates, the undiscounted amount is derived from weighted average interest rate at the end of the reporting period.

| | Weighted average effective interest rate<br>% | Repayable on demand or less than 3 months<br>HK$'000 | 3 months to 1 year<br>HK$'000 | 1 year to 2 years<br>HK$'000 | 2 years to 5 years<br>HK$'000 | Total undiscounted cash flows<br>HK$'000 | Carrying amount<br>HK$'000 |
|---|---|---|---|---|---|---|---|
| **At 31 December 2021** | | | | | | | |
| Trade payables | – | 536,103 | – | – | – | 536,103 | 536,103 |
| Other payables | – | 9,911 | – | – | – | 9,911 | 9,911 |
| Bank and other borrowings | 2.42 | 1,626,007 | 2,641 | 6,116 | 4,090 | 1,638,854 | 1,638,132 |
| Amount due to a non-controlling shareholder of a subsidiary | – | 4,363 | – | – | – | 4,363 | 4,363 |
| | – | 2,176,384 | 2,641 | 6,116 | 4,090 | 2,189,231 | 2,188,509 |
| Lease liabilities | 4.32 | 3,790 | 10,837 | 11,032 | 3,667 | 29,327 | 28,145 |

## 36. FINANCIAL INSTRUMENTS (Continued)

### 36b. Financial risk management objectives and policies (Continued)

**Liquidity risk** (Continued)

| | Weighted average effective interest rate % | Repayable on demand or less than 3 months HK$'000 | 3 months to 1 year HK$'000 | 1 year to 2 years HK$'000 | 2 years to 5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|---|---|
| **At 31 December 2020** | | | | | | | |
| Trade payables | – | 590,732 | – | – | – | 590,732 | 590,732 |
| Other payables | – | 6,506 | – | – | – | 6,506 | 6,506 |
| Bank and other borrowings | | | | | | | |
| — variable rates | 1.43 | 727,065 | – | – | – | 727,065 | 727,065 |
| | | 1,324,303 | – | – | – | 1,324,303 | 1,324,303 |
| Lease liabilities | 3.42 | 3,312 | 8,715 | 8,760 | 10,398 | 31,185 | 27,544 |

Bank borrowings with a repayment on demand clause is included in the "repayable on demand or less than 3 months" time band in the above maturity analysis. At 31 December 2021, the aggregate carrying amount of these bank borrowings amounted to approximately HK$1,625,127,000 (2020: HK$727,065,000). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the bank will exercise their discretionary right to demand immediate repayment. The directors of the Company believe that such bank borrowings of the Group will be repaid after the end of reporting period in accordance with the scheduled repayment dates set out in the bank borrowing agreements.

For the purpose of managing liquidity risk, the directors of the Company reviews the expected cash flows information of the Group's bank borrowings based on the scheduled repayment dates set out in the bank borrowing agreements as set out in the table below:

| | **Weighted average effective interest rate** % | **Less than 3 months** HK$'000 | **3 months to 1 year** HK$'000 | **Total undiscounted cash flows** HK$'000 | **Carrying amount** HK$'000 |
|---|---|---|---|---|---|
| **Bank borrowings** | | | | | |
| At 31 December 2021 | **2.42** | **1,634,959** | **29,496** | **1,664,455** | **1,625,127** |
| At 31 December 2020 | 1.43 | 729,657 | – | 729,657 | 727,065 |

## 36. FINANCIAL INSTRUMENTS (Continued)

### 36c. Fair value measurements of financial instruments

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group performed discounted cash flow to derive the present value of its investments. The management of the Group reports the findings to the directors of the Company every half year to explain the cause of fluctuations in the fair value of the assets and liabilities.

The fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are based on quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used):

| Financial assets | Fair value as at | | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|---|
| | **31.12.2021** | 31.12.2020 | | |
| Financial assets at FVTPL (note 21) | **Unit trust funds HK$47,463,000** | Unit trust funds HK$51,004,000 | Level 2 | Based on the net asset values of the funds, determined with reference to the observable (quoted) prices of underlying investment portfolio and adjustments of related expenses |
| | **Unlisted limited partnerships HK$3,674,000** | Nil | Level 2 | The fair value of unlisted limited partnerships are determined with reference to the recent transaction price of the investments. |
| | **Unlisted equity securities HK$1,224,000** | Nil | Level 2 | The fair value of unlisted equity securities are determined with reference to the recent transaction price of the investments. |
| | **Life insurance policies HK$99,788,000** | Life insurance policies HK$79,143,000 | Level 3 | Based on account value of the policies which represent the premium paid to the policies adjusted by net yield with reference to the expected return rate (note) |

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

There were no transfers between Level 1, 2 and 3 for the year.

## 36. FINANCIAL INSTRUMENTS (Continued)

### 36c. Fair value measurements of financial instruments (Continued)

**Reconciliation of Level 3 fair value measurements of financial assets**

| | **Life insurance policies** HK$'000 |
|---|---|
| At 1 January 2020 | 77,128 |
| Total gains in profit or loss | 2,015 |
| At 31 December 2020 | 79,143 |
| Additions | 19,500 |
| Total gains in profit or loss | 1,145 |
| At 31 December 2021 | 99,788 |

## 37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | **Amount due to a non-controlling shareholder of a subsidiary** HK$'000 | **Dividend payable** HK$'000 | **Bank and other borrowings** HK$'000 | **Lease liabilities** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|---|
| As at 1 January 2020 | 255 | – | 434,815 | 21,931 | 457,001 |
| Financing cash flows | (255) | (19,941) | 291,614 | (9,157) | 262,261 |
| Non-cash changes: | | | | | |
| New leases entered/lease modified | – | – | – | 12,266 | 12,266 |
| Dividend declared | – | 19,941 | – | – | 19,941 |
| Interest expenses | – | – | 17,253 | 918 | 18,171 |
| Non-cash settlement of discounted bills | – | – | (16,789) | – | (16,789) |
| Exchange adjustments | – | – | 172 | 1,586 | 1,758 |
| As at 31 December 2020 | – | – | 727,065 | 27,544 | 754,609 |
| Financing cash flows | – | (39,146) | 835,763 | (13,548) | 783,069 |
| Non-cash changes: | | | | | |
| New leases entered/lease modified | – | – | – | 11,745 | 11,745 |
| Acquired on acquisition of a subsidiary | 4,363 | – | 32,917 | 647 | 37,927 |
| Dividend declared | – | 39,146 | – | – | 39,146 |
| Interest expenses | – | – | 52,552 | 1,217 | 53,769 |
| Non-cash settlement of discounted bills | – | – | (10,252) | – | (10,252) |
| Exchange adjustments | – | – | 87 | 540 | 627 |
| As at 31 December 2021 | 4,363 | – | 1,638,132 | 28,145 | 1,670,640 |

## 37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (Continued)

During the year, the Group entered into new lease agreements for the use of office premises for 1 to 3 years. On the lease commencement, the Group recognised HK$12,037,000 right-of-use assets and HK$12,037,000 lease liabilities (2020: HK$14,029,000 right-of-use assets and HK$14,029,000 lease liabilities).

## 38. SHARE-BASED PAYMENT TRANSACTIONS

### (a) Share Award Scheme

The Company's share award scheme (the "**Share Award Scheme**") was adopted pursuant to the written resolutions of all shareholders of the Company on 19 September 2016 ("**Date of Adoption**") for the primary purpose of rewarding the directors, senior managers and employees ("**Eligible Persons**") of the Group for their hard work, contribution and loyalty and align their interest with those of shareholders of the Company.

An award granted by the board of directors ("**the Board**") of the Company to the Eligible Persons is a right of the relevant participant to receive the shares of the Company. Each award may be subject to such other conditions as may be imposed by the Board at its absolute discretion, including without limitation, a vesting period. Share award must be taken up within 7 days of the grant upon payment of HK$1 per award. The total number of shares in respect of which shares may be granted under the Share Award Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time. The number of shares award which may be granted to any individual but unvested under the Share Award Scheme shall not exceed 1% of the total number of shares of the Company in issue at any point in time.

Subject to any early termination as may be determined by the Board pursuant to the rules of the Share Award Scheme, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on the Date of Adoption, after which period no further awards will be granted but the provisions of the Share Award Scheme shall remain in full force and effect to the extent necessary to give effect to the vesting of any awards granted prior to the expiration of the Share Award Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Award Scheme. No awards have been granted during both years 2021 and 2020.

### (b) Share Option Scheme

The Company's share option scheme (the "**Share Option Scheme**") was adopted pursuant to a written resolutions of all shareholders of the Company passed on 19 September 2016 for the primary purpose of providing incentives and awards to an employee (whether full time or part-time) or a director of a member of the Group or associated companies of the Company for their contribution to the Group and to align their interests with that of the Company ("**ESOS Eligible Person(s)**") so as to encourage them to work towards enhancing the value of the Company.

The Board may, at its absolute discretion, offer to grant an option (the "**Options**") to subscribe for such number of shares in the Company at a price determined by the Board, but shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares of the Company on the date of grant of the option.

## 38. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

### (b) Share Option Scheme (Continued)

The Share Option Scheme shall be valid and effective for a period of ten years commencing on 7 October 2016. Options granted must be taken up not later than 30 days after the date of grant. A consideration of HK$1 is payable on acceptance of the offer of grant of an option. The total number of shares in respect of which shares may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company as at 7 October 2016, without prior approval from the shareholders of the Company. No options shall be granted to any participant under the Share Option Scheme in excess of 1% of the total number of shares of the Company in issue at such date, without prior approval from the shareholders of the Company. At any time, the maximum number of shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the Share Option Scheme and any other schemes of the Company to ESOS Eligible Persons must not exceed 30% of the total number of shares of the Company from time to time.

The exercisable period of an option, which shall not exceed 10 years from 7 October 2016, is determined by the Board at their discretion.

No options have been granted since the adoption of Share Option Scheme.

## 39. RETIREMENT BENEFIT PLANS

### Hong Kong

The Group operates a scheme under Mandatory Provident Fund Schemes ("**MPF Scheme**") for its qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of a specified amount or 5% of the relevant payroll costs monthly to the MPF Scheme, which contribution is matched by employees.

### The PRC

The employees of the Group's subsidiaries in the PRC are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the payroll costs of their employees, to the retirement benefit scheme and have no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions.

### Singapore

The Group is required to make contributions to state pension scheme, the Central Provident Fund, based on certain percentages of the monthly salaries of the employees of the Company's subsidiaries operating in Singapore.

### Taiwan

The Company participates in an employee's pension fund for all its employees in Taiwan. Starting from 1 July 2005, employees may choose a scheme where the rate of contribution by an employer should not be less than 6% of the employees' monthly salaries and the employees may also voluntarily contribute up to 6% of the monthly salaries to the provision fund account under the Labour Pension Act of Taiwan.

The scheme is a defined contribution scheme and is established under trust with the assets of the funds held separately from those of the Group by independent trustees.

During the year ended 31 December 2021, total amounts contributed by the Group to the schemes in Hong Kong, the PRC, Singapore and Taiwan charged to profit or loss, which represent contributions payable to the schemes by the Group at rates specified in the rules of the schemes are approximately HK$19,888,000 (2020: HK$6,649,000).

## 40. PLEDGE OF ASSETS

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

| | **2021** **HK$'000** | 2020 HK$'000 |
|---|---|---|
| Financial assets at FVTPL | **147,251** | 130,147 |
| Pledged bank deposits | **420,830** | 178,191 |
| | **568,081** | 308,338 |

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

## 41. TRANSFER OF ASSETS

The following were the Group's trade receivables as at 31 December 2021 and 2020 that were transferred to banks by discounting those trade receivables and bills received on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing amounting to HK$959,435,000 (2020: HK$583,513,000) (note 32).

**As at 31 December 2021**

| | **Trade receivables discounted to banks with full recourse** HK$'000 | **Bill received discounted to banks with full recourse** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| Carrying amount of transferred assets | 854,257 | 105,178 | 959,435 |
| Carrying amount of associated liabilities | (854,257) | (105,178) | (959,435) |
| | – | – | – |

As at 31 December 2020

| | **Trade receivables discounted to banks with full recourse** HK$'000 | **Bill received discounted to banks with full recourse** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| Carrying amount of transferred assets | 580,328 | 3,185 | 583,513 |
| Carrying amount of associated liabilities | (580,328) | (3,185) | (583,513) |
| | – | – | – |

## 42. RELATED PARTIES DISCLOSURES

### (i) Transactions

The Group had the following transactions with related parties during the year:

| Name of related parties | Notes | Nature of transactions | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|---|---|
| 芯智股份有限公司 (Smart-Core Technology Co., Ltd "**SMC Taiwan**")* | (i) | Sales of goods | **372** | 101 |
| | | Purchase of goods | **(1,228)** | (1,408) |
| Quiksol International Components Pte Ltd ("**Quiksol International**") | (ii) | Sales of goods | **88** | 228 |
| | | Purchase of goods | **–** | (13) |

Notes:

(i) Mr. Tian, one of the directors and the ultimate controlling party of the Company, is a shareholder of SMC Taiwan.

(ii) A non-controlling shareholder of Quiksol HK, a subsidiary of the Company, is the controlling shareholder of Quiksol International. The Group acquired Quiksol International in June 2021. For details, please refer to note 43.

* English name for identification only.

### (ii) Compensation of key management personnel

The remuneration of directors of the Company and other members of key management was as follows:

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| Short-term employee benefits | **11,079** | 9,628 |
| Post-employment benefits | **175** | 179 |
| | **11,254** | 9,807 |

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

## 43. ACQUISITION OF A SUBSIDIARY

On 1 June 2021, the Group acquired 100% interest in Quiksol International from the controlling shareholder of Quiksol International, who is also a non-controlling shareholder of a subsidiary of the Company, for cash consideration of US$1,559,000 (equivalent to HK$12,163,000). Quiksol International is principally engaged in the trading of electronics components and was acquired with the objective of expanding Group's electronic components trading operations. The acquisition has been accounted for as acquisition of business using the acquisition method.

Acquisition-related costs amounting to HK$458,000 have been excluded from the consideration transferred and have been recognised directly as an expense in the year within the "administrative expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

### Assets and liabilities recognised at the date of acquisition

| | HK$'000 |
|---|---|
| Right-of-use assets | 923 |
| Inventories | 7,528 |
| Trade receivables | 33,661 |
| Other receivables | 2,168 |
| Bank balances and cash | 7,848 |
| Trade payables | (4,004) |
| Other payables | (1,040) |
| Lease liabilities | (647) |
| Bank borrowings | (32,917) |
| Tax liabilities | (17) |
| | 13,503 |

The receivables acquired (which principally comprised trade receivables) with a fair value of HK$35,205,000 at the date of acquisition had gross contractual amounts of HK$35,205,000. All contractual cash flows were expected to be collected based on the best estimate at acquisition date.

## 43. ACQUISITION OF A SUBSIDIARY (Continued)

### Bargain purchase arose in the acquisition of business

| | HK$'000 |
|---|---|
| Consideration paid | 7,800 |
| Consideration payable (note 31) | 4,363 |
| Less: recognised amounts of net assets acquired | (13,503) |
| | (1,340) |

Bargain purchase gain amounting to HK$1,340,000 on acquisition of Quiksol International is recognised in profit or loss within the "other gains or losses, net" line item in the consolidated statement of profit or loss and other comprehensive income.

### Net cash inflows arising on acquisition of Quiksol International

| | HK$'000 |
|---|---|
| Consideration paid in cash | 7,800 |
| Less: bank balances and cash acquired | (7,848) |
| | (48) |

### Impact of acquisition on the results of the Group

Included in the profit for the year is HK$28,254,000 attributable to the additional business generated by Quiksol International. Revenue for the year includes HK$261,054,000 generated from Quiksol International.

Had the acquisition of Quiksol International been completed on 1 January 2021, revenue for the year of the Group would have been HK$10,442,193,000, and the profit for the year would have been HK$371,799,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2021, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Quiksol International been acquired at the beginning of the year, the directors of the Company calculated depreciation of property, plant and equipment based on the recognised amounts of property, plant and equipment at the date of the acquisition.

## 44. PARTICULAR OF PRINCIPAL SUBSIDIARIES

### 44a. General information of subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2021 and 2020 are as follows:

| Name of subsidiary | Place of incorporation/ establishment and operations | Issued and fully paid share capital/ registered capital | Equity interest and voting power indirectly attributable to the Group 2021 | 2020 | Principal activities |
|---|---|---|---|---|---|
| Smart-Core International Company Limited | Hong Kong | Ordinary shares HK$10,000,000 | **100%** | 100% | Trading of electronic components |
| Smart-Core Cloud Limited | Hong Kong | Ordinary shares HK$1,000,000 | **100%** | 100% | Trading of electronic components |
| SMC Technology SZ (note a) | The PRC | Registered capital RMB51,384,369 | **100%** | 100% | Trading of electronic components |
| 深圳市芯智雲信息技術有限公司 (note a) | The PRC | Registered capital RMB8,500,000 | **100%** | 100% | Trading of electronic components |
| 芯聯(廈門)科技有限公司 (note b) | The PRC | Registered capital RMB1,000,000 | **75%** | 75% | Provision of technical value-added services |
| Quiksol HK | Hong Kong | Ordinary shares HK$7,800,000 | **25%** | 25% | Trading of electronic components |
| 蘇州酷科電子有限公司 (notes a and c) | The PRC | Registered capital RMB1,000,000 | **25%** | 25% | Trading of electronic components |
| Quiksol International (note d) | Singapore | Ordinary shares SGD200,000 | **25%** | – | Trading of electronic components |
| UDStore Solution Limited | Hong Kong/Taiwan | Ordinary shares US$1,000,000 | **75%** | 75% | Trading of electronic components |
| Smart-Core Kabushiki Kaisha | Japan | Registered capital JPY8,000,000 | **100%** | 100% | Trading of electronic components |

Notes:

(a) The companies are registered in the form of wholly owned foreign enterprises.

(b) The company is sino-foreign equity joint ventures with limited liability.

(c) No share capital injected to the company as at 31 December 2020 and 2021.

(d) The company is acquired in 2021.

(e) The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the reporting period.

## 44. PARTICULAR OF PRINCIPAL SUBSIDIARIES (Continued)

### 44b. Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of a non-wholly owned subsidiary of the Group that has material non-controlling interests:

| Name of subsidiary | Place of incorporation/ principal place of business | Proportion of ownership interests and held by non-controlling interests | | Profit (loss) allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | **2021** | 2020 | **2021 HK$'000** | 2020 HK$'000 | **2021 HK$'000** | 2020 HK$'000 |
| Quiksol Group | Hong Kong/ Hong Kong and the PRC/ Singapore | **75%** | 75% | **179,330** | 15,646 | **236,709** | 62,992 |
| Individually immaterial subsidiaries with non–controlling interests | | | | **(1,490)** | (1,297) | **179** | 1,673 |
| | | | | **177,840** | 14,349 | **236,888** | 64,665 |

Summarised financial information in respect of Quiksol Group is set out below. The summarised financial information below represents amounts before intragroup eliminations and fair value adjustments arising from the acquisition:

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| Current assets | **580,624** | 162,890 |
| Non-current assets | **10,343** | 1,956 |
| Current liabilities | **267,265** | 85,957 |
| Non-current liabilities | **11,855** | 560 |
| Equity attributable to owners of the Company | **77,962** | 19,582 |
| Non-controlling interests | **233,885** | 58,747 |

## 44. PARTICULAR OF PRINCIPAL SUBSIDIARIES (Continued)

### 44b. Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Revenue | **2,592,531** | 563,499 |
| Expenses | **2,351,510** | (540,085) |
| Profit for the year | **241,021** | 23,414 |
| Profit attributable to owners of the Company | **60,256** | 5,854 |
| Profit attributable to non-controlling interests | **180,765** | 17,560 |
| Profit for the year | **241,021** | 23,414 |
| Other comprehensive income (expense) attributable to owners of the Company | **23** | (4) |
| Other comprehensive income (expense) attributable to non-controlling interests | **70** | (12) |
| Other comprehensive income (expense) for the year | **93** | (16) |
| Total comprehensive income attributable to owners of the Company | **60,279** | 5,850 |
| Total comprehensive income attributable to non-controlling interests | **180,835** | 17,548 |
| Total comprehensive income for the year | **241,114** | 23,398 |
| Net cash from operating activities | **79,690** | 9,734 |
| Net cash used in investing activities | **(3,332)** | (234) |
| Net cash from (used in) financing activities | **26,460** | (998) |
| Effect of foreign exchange rate changes | **152** | 53 |
| Net cash inflow | **102,970** | 8,555 |

## 45. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2021 of HK8 cents per ordinary share, in an aggregate amount of approximately HK$39,094,000, has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

## 46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is set out below:

| | **2021**<br>**HK$'000** | 2020<br>HK$'000 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Investments in subsidiaries | **160,013** | 169,068 |
| Amount due from a subsidiary | **–** | 69,089 |
| | **160,013** | 238,157 |
| **CURRENT ASSETS** | | |
| Amounts due from subsidiaries | **224,738** | 2,106 |
| Other receivables | **654** | 96 |
| Bank balances | **262** | 260 |
| | **225,654** | 2,462 |
| **CURRENT LIABILITIES** | | |
| Other payables and accrued charges | **1,881** | 1,553 |
| Amounts due to subsidiaries | **198,761** | 9,059 |
| | **200,642** | 10,612 |
| **NET CURRENT ASSETS (LIABILITIES)** | **25,012** | (8,150) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES AND NET ASSETS** | **185,025** | 230,007 |
| **CAPITAL AND RESERVES** | | |
| Share capital (note 34) | **38** | 38 |
| Reserves | **184,987** | 229,969 |
| | **185,025** | 230,007 |

## 46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Details of movement in reserves of the Company are as below:

| | Share premium | Treasury share reserve | Capital redemption reserve | Accumulated losses | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2020 | 291,841 | (15,735) | – | (20,624) | 255,482 |
| Loss and total comprehensive expenses for the year | – | – | – | (2,143) | (2,143) |
| Shares repurchased and cancelled | (15,731) | 15,354 | 1 | (1) | (377) |
| Shares repurchased but not yet cancelled | – | (3,052) | – | – | (3,052) |
| Dividend recognised as distribution | (19,941) | – | – | – | (19,941) |
| At 31 December 2020 | 256,169 | (3,433) | 1 | (22,768) | 229,969 |
| Loss and total comprehensive expenses for the year | – | – | – | (3,406) | (3,406) |
| Shares repurchased and cancelled | (5,482) | 3,052 | – | – | (2,430) |
| Dividend recognised as distribution | (39,146) | – | – | – | (39,146) |
| At 31 December 2021 | 211,541 | (381) | 1 | (26,174) | 184,987 |

SMART-CORE HOLDINGS LIMITED
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