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

(Incorporated in the Cayman Islands with limited liability)
Stock Code：2166

ANNUAL REPORT
# 2022

# CONTENTS

# 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. MAK Hon Kai Stanly

### Independent Non-executive Directors

Mr. TANG Ming Je
Mr. ZHENG Gang
Ms. XU Wei

## BOARD COMMITTEES

### Audit Committee

Mr. TANG Ming Je
Mr. ZHENG Gang
Ms. XU Wei *(Chairman)*

### Remuneration Committee

Mr. ZHENG Gang *(Chairman)*
Mr. TANG Ming Je
Mr. TIAN Weidong
Ms. XU Wei

### Nomination Committee

Mr. TIAN Weidong *(Chairman)*
Mr. TANG Ming Je
Ms. XU Wei

## 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

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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
26th Floor, Central Plaza,
18 Harbour Road,
Wanchai,
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

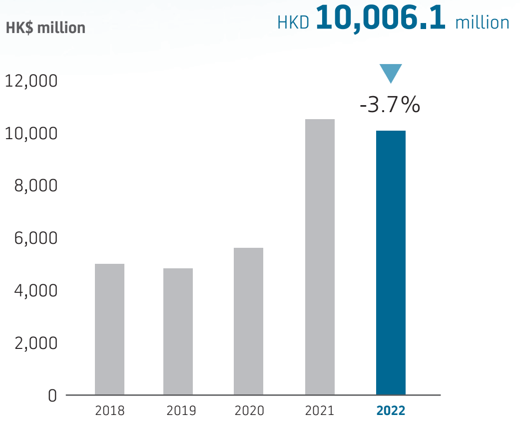
## COMPANY WEBSITE

www.smart-core.com.hk

# FIVE-YEAR FINANCIAL SUMMARY

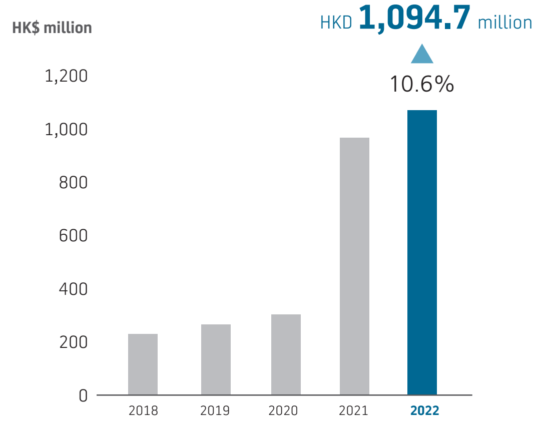
## Revenue

For the year ended 31 December



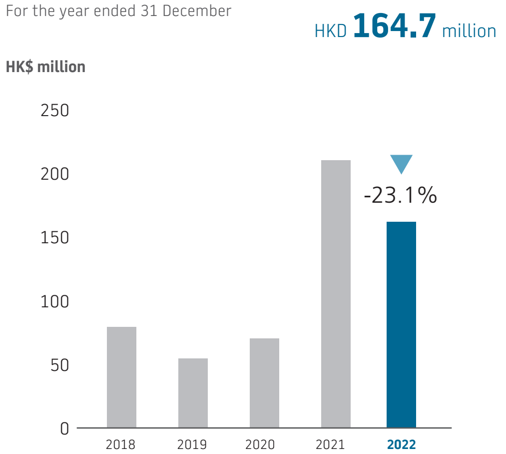

## Gross Profit

For the year ended 31 December



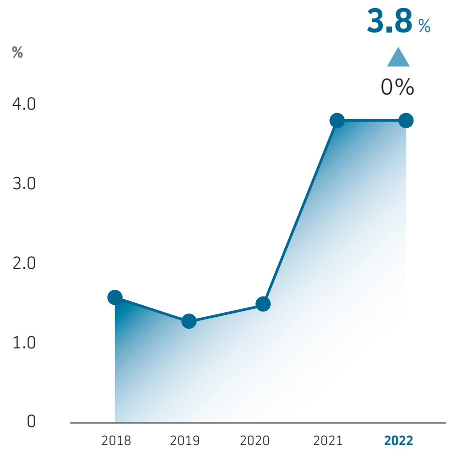

## Profit for the year attributable to Owners of the Company

For the year ended 31 December



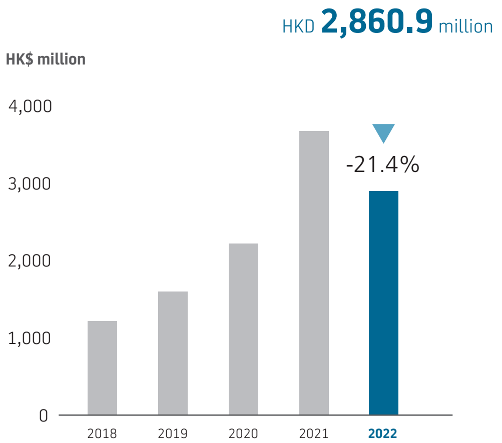

## Net Profit Margin

For the year ended 31 December



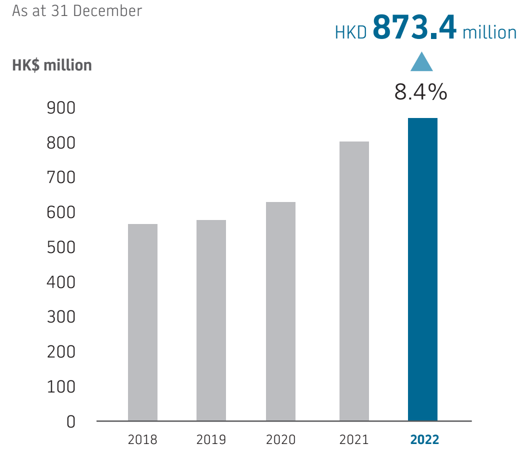

## Total Asset

As at 31 December




## Total equity attributable to Owners of the Company

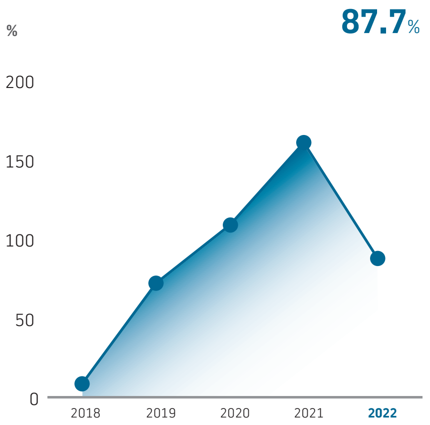
As at 31 December



# FIVE-YEAR FINANCIAL SUMMARY

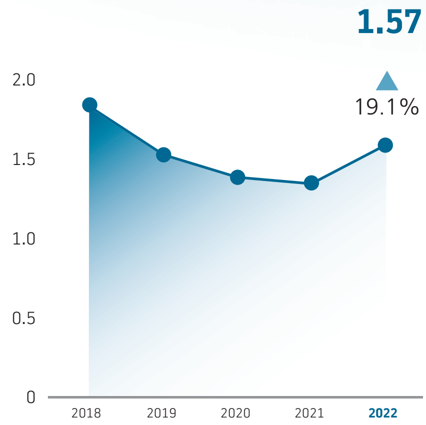
## Gearing Ratio

As at 31 December



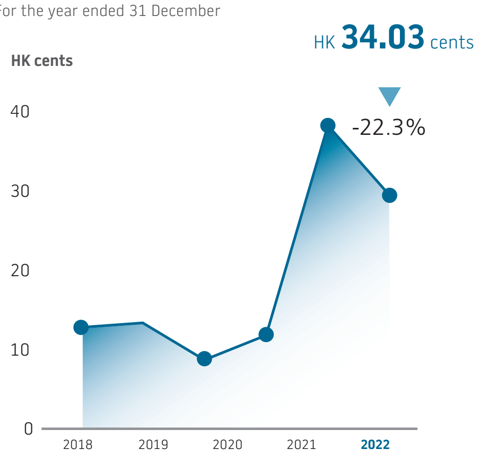

## Current Ratio

As at 31 December



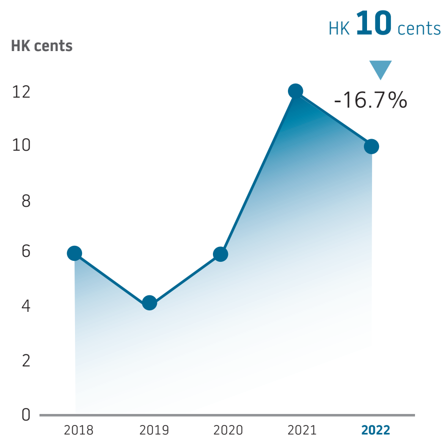

## Earnings per share (“EPS”)-Basic (HK cents)

For the year ended 31 December



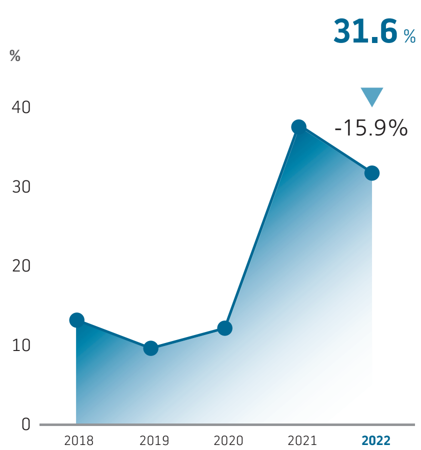

## Dividend per share (HK cents)

For the year ended 31 December



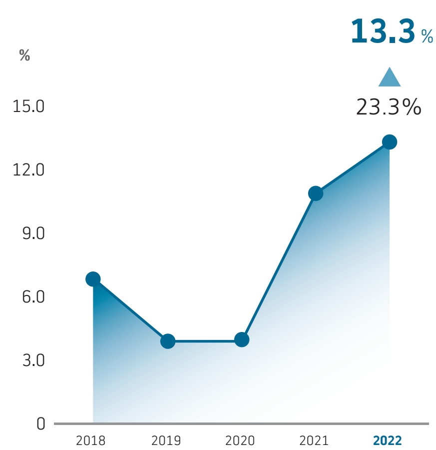

## Return on equity-%

For the year ended 31 December




## Return on assets-%

For the year ended 31 December



# CHAIRMAN'S STATEMENT

## REVIEW OF 2022

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, value-added technology, e-commerce platform, and design and manufacturing of optical communication chips. Our service networks cover the Mainland China and many regions in Asia Pacific, providing customers from the electronics industry in the Asia Pacific region with supply chain services of semiconductor chips and various electronic components, as well as technical solutions for various segments and corresponding technical support. 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 2022, we have provided services for more than 20,000 diversified commercial customers and achieved sales of HK$10,006.1 million.

# CHAIRMAN’S STATEMENT

In 2022, most of the economies in the world have experienced the dual pressures of slowing growth and high inflation. Geopolitical conflicts had a profound impact on the stability of the supply chain and prices of commodities and led to further deterioration of global inflation. Inflation in most countries in North America and Europe has reached a new high in nearly 40 years. Inflation was mainly caused by the excess of money supply. Raising interest rates can increase the international purchasing power of the domestic currency and help to curb the inflation in the country, however, it would also curb the consumption and investment activities by raising the opportunity cost and actual cost thereof. According to the data released by the General Administration of Customs, China’s exports experienced declining month-on-month from July 2022, even decline year-on-year in December. Such multiple adverse factors put the global economy into a new predicament and the semiconductor industry also fell into a periodic downward cycle in 2022.

It is also difficult for the semiconductor industry to remain independent, and it has begun to fall into a periodic downward cycle. The market forecast released by the research agency WSTS in June 2022 is optimistic. It is expected that the market would increase by 16.3% to US$646.0 billion. However, at the end of 2022, this growth data will be reduced to only 4.4% to $580.1 billion. According to the monthly shipment data of semiconductor chips, the market shipment volume reached a stage high of US$51.82 billion in May 2022, and then continued to decline. According to the data of semiconductor chip import released by the General Administration of Customs, the integrated circuits imported by the mainland of China decreased by approximately 5%, while the imported chips dropped significantly by 15%, as compared with 2021, representing the decline of real demand for integrated circuits and significant increase of average unit price. How to survive the current downward cycle had become the major concern of the industry.

The slowdown in the electronics industry has also affected the Group’s distribution business, exerting pressure on its business. The Group’s traditional authorised distribution business, which accounts for the largest share of the Group’s business, recorded a small decline in sales for the year. In particular, the smart display business remained stable, whilst the sales of optoelectronic displays, memory products and optoelectronic products declined at different rates, and the performance of the smart vision and communication products business units improved slightly and the integrated products business unit grew significantly. However, the overall sales performance of the Group’s authorised distribution business decreased slightly throughout the year.

The independent distribution business of the Group has maintained a positive momentum and fast growth rate, with the volume already accounting for approximately one-third of the Group’s total revenue. In 2022, the Group’s independent distribution business have covered certain regions in Asia Pacific, Europe and the United States , and its key business indicators such as sales performance and gross profit have shown healthy growth.

The value-added technology business of the Group and the e-commerce platform of SMC Cloud are still under development, and not yet profitable by 2022. However, both business units also carried out business adjustment and active exploration in 2022, and made certain progress, identifying their respective business models and development directions, and are expected to achieve breakthroughs in the coming year. The semiconductor company invested by the Group is responsible for the Group’s business in design, manufacturing, packaging and testing of semiconductor chip. In 2022, all its activities are progressing well. The business expansion has commenced as planned.

In 2022, the Group made progress in internal management, which enabled the Group to develop its business in a clearer and more orderly manner. The business of the domestic offices and overseas business networks has developed on an explicit basis. The business volume contributed by each branch has accounted for about 30% of the total business volume of the Group in 2022. As a result, the Group’s business structure has achieved more balanced development from both a business-type and regional perspective. In 2022, the newly upgraded ERP system has already started trial operation and will support the Group’s diversified business. Our IT team continues to advance the construction of the “Digital Warehouse (數倉)” and “Cloud Inventory (雲庫存)” information technology projects, which will be operational in 2023 to support the growth of the businesses.

# CHAIRMAN'S STATEMENT

## OUTLOOK FOR 2023:

According to the quarterly report of World Economic Outlook Update issued by the International Monetary Fund (IMF) in January, the IMF expects that the global economic growth rate will bottom out this year, and the growth rate in 2023 may reach 2.9%, 0.2 percentage point higher than the forecast of the previous quarter. Besides, the IMF believes that the global economic growth will rise to 3.1% by 2024.

In response to the change that China relaxed its epidemic control and reopened at the end of 2022, the chairman of Hong Kong Exchanges and Clearing said in an interview at the Davos Forum in January that the reopening of China will be a key driver for global economic growth. According to her, China's domestic consumption will increase, and the manufacturing industry will also recover, all of which will be positive factors for global economic growth. In the report released in February, Goldman Sachs Group believes that the average growth rate of China's GDP in the four quarters of 2023 will reach 6.5%, and the accelerated recovery of China's economy will boost global economic growth.

As for the electronics and semiconductor industry, due to the high degree of correlation between global economic growth and the development of the semiconductor industry, the slowdown of global economic growth in 2023 will bring great pressure on the growth of the semiconductor industry. According to the forecast data of WSTS, the global market size of semiconductor will decline by 4.1% year-on-year in 2023, and the market growth of key semiconductor regions in the world, including the United States, Europe, Japan and the Pacific Rim, will decline. Nevertheless, we should not be too pessimistic about the future development of the industry. Semiconductor chips are not only the core of the electronic industry, but also the cornerstone of the information society. It has also developed into a pillar industry for global economic growth. Therefore, as the global economy recovers in 2021, the semiconductor industry will regain its growth momentum. In recent years, in addition to China's efforts to develop the semiconductor chips industry, the United States, the European Union, Japan, South Korea and India have all invested heavily in developing their own semiconductor chips industry chain. Major economies have greatly increased their attention to the semiconductor industry. In the future, the industry will have the opportunity to obtain more policy and financial support. The growth rate of industry development will be greater than the growth rate of the overall economy, and will present a development pattern of multi-polarized competition, and semiconductor distributors, as the bridge between technology and market and the link between industries of various countries, will have the opportunity to play a more important role in the future industrial development. In this regard, our business development outlook for the Group in 2023 is as follows:

### Capitalize on Market Trends and Capture Incremental Domestic Demand Opportunities

The global economic growth continues to decline, leading to a fall in export volume in 2022. After the optimization of domestic preventive measures at the end of 2022, the negative impact of the epidemic on economic development has subsided, and the recovery of economic development has become the consensus of the market. The monetary data released by the central bank in January exceeded expectations, thus the monetary easing policy will continue and provide a foundation for economic development, and the domestic demand market is expected to gradually stabilize and recover. According to the latest data of the domestic consumer electronics market, sales of cell phones, home appliances and small household appliances during the Spring Festival in January 2023, according to online and offline sales data, showed a substantial growth in this sector, pointing to a recovery of the sector. The business feedback after the Spring Festival revealed that the shipments of some categories of chips returned to normal level, and solution providers processed new projects. Notwithstanding the good signs, industry insiders remain cautious about the market recovery outlook for 2023.

As China is the world's largest consumer market for semiconductors, and its market demand is recovering, and the Group's distribution business is also trying to expand its domestic product line, with the support of independent distribution, value-added technology and e-commerce, the business scale is likely to continue to grow this year.

# CHAIRMAN'S STATEMENT

## Adapting to the new global situation and playing a role in connecting as a "bridge"

China takes up the largest share of the electronics manufacturing industry in the world, which can be seen from the import data from the customs. In 2022, the import amount of IC chips published by the General Administration of Customs amounted to US$415.6 billion, and after deducting the those of US$180.3 billion consumed in China, at least the rest of semiconductor chips of approximately US$235.3 billion were processed and manufactured into electronics products in China and then sold worldwide. As the competition in the global semiconductor industry chain and the relocation of the electronics manufacturing industry, some labor-intensive low-end electronics manufacturing industries will move to developing countries and emerging markets where labor costs are cheaper. As a distributor of electronics manufacturing industry, we shall grasp this trend and plan ahead.

Semiconductor chips, one of the most globalized industries and the core industry that affects the development of science and technology, are inevitably affected by various global events. In recent years, the game and competition among countries in semiconductor field has been increasingly intensified. Countries all has been developing their own semiconductor supply chain system and setting up some technical and industrial barriers. However, we should also understand that economic globalization is still the mainstream consensus and long-term development trend of all countries, so although the semiconductor industry has accumulated competition, there are also opportunities for cooperation. The chip self-sufficiency rate of China now is still relatively low, and it still needs to import a large number of chips for product manufacturing annually, as such, distributors, as the bridge connecting the original chip manufacturers to the electronics manufacturing industry, will have more room and value in the future global industry chain system.

The Group has been investing in the overseas business recently. At present, the Group's overseas business has already covered major countries in Asia-Pacific region, Europe and the United States, having achieved results. Therefore, in 2023, we will continue to propel the development and growth of overseas business in accordance with the characteristics of businesses with authorised and independent distribution.

## Weathering Through Market Downturn by Capturing Industry Opportunities

According to statistics, consumer electronics consume approximately 70% of the world's semiconductor chips, constituting the base of the semiconductor market. 2022 saw a decline in demand in the global consumer electronics market, represented by PCs, cell phones and home appliances, resulting in high chip inventory levels upstream and downstream, and the semiconductor industry entered a phase down cycle. The industry generally believes that this correction cycle will last until around mid-2023, and then the market will gradually begin to recover.

Despite unfavorable macro environment, some emerging sub-sectors show admirable vitality. For example, new energy vehicles usher in numerous new growth opportunities in electrification and intelligence. In terms of power devices, TrendForce forecasts that the compound annual growth rate of SiC and GaN power devices will reach 35% and 61% respectively from 2022 to 2026. Moreover, with the upgrade of automotive electronic architecture and control system, the penetration rate for 32-bit MCU replacing 8-bit and 16-bit products is expected to exceed 60% in 2023. In addition, driven by emerging technologies and applications such as ChatGPT, artificial intelligence (AI), and meta-universe, there will be higher requirements for computing power and storage, which will give rise to some new development opportunities in the industry. Therefore, grasping the trend and pace of industry development, following the hot spots in the market and exploring the business opportunities will be the focus of our work in 2023.

# CHAIRMAN'S STATEMENT

## Exploring Countercyclical Development by Leveraging Capital Markets

The regular expansion and contraction of economic activities along the general trend of economic development is what we often call "business cycle". When the market is in a downward cycle of recession, enterprises will be under more pressure on receivables, debts, inventories and performance. Some financially weak enterprises usually slid into losses and lack confidence in the future development. In particular, when the cycle reaches to the trough with no hope of recovery, defaults on corporate debts are becoming more frequent and bankruptcies are on the rise. Some business owners and investors will choose to exit by disposal of businesses. However, as for an enterprise in sound operations, it is enable to acquire quality assets and businesses with less cost by leveraging its own recognition and confidence in the industry. In this way, it also can introduce excellent talents and teams and carry out targeted expansion and marketing development.

However, usually in the downward cycle of the industry, even well-run enterprises cannot support their business expansion plans due to limited financial strength, and then they need investments from the capital market to obtain funds for mergers and acquisitions or business expansion through low-cost financing means. In this way, when the business cycle returns to the upward path, the enterprise will have a chance to achieve leapfrog growth in business scale and strength.

## Summary:

Looking forward to 2023, we are confident and well-prepared to cope with various challenges, while also striving to achieve the established annual business target 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 2022, a series of problems including the COVID-19 pandemic, trade protectionism and geopolitics, negatively affected personal consumption and corporate investment around the globe, and economic recovery was fraught with difficulties. In January 2023, according to the World Economic Situation and Prospects 2023 released by the United Nations, the global economic growth rate in 2022 has been reduced from 3.3% as predicted in the previous period to 3%, which is far lower than the 5.7% growth rate in 2021.

Inflation in 2022 was universal in the world. The world average consumer price index increased by 8.8%, significantly higher than the 4.7% in 2021, reaching the highest global inflation level since the 21st century. Raising interest rate is a common response tool of all countries, which is to reduce inflation by curbing consumption and investment, which will inevitably lead to further weakening of market demand. The Fed announced on 1 February 2023 that it would raise interest rates by 25 basis points, raising the target range of the federal funds rate to between 4.50% and 4.75%. The rise of indirect financing costs throughout 2022 also affected the profitability of enterprises to a large extent.

Affected by the slowdown in global consumption demand, the consumer electronics industry is the first to bear the brunt. According to the statistics of Canalys, Gartner and other research institutions, the global smartphone shipments in 2022 were less than 1.2 billion, representing a year-on-year decrease of 12%. The shipments of tablets were 162.1 million, also representing a year-on-year decrease of 12%. PC shipments totaled 286.2 million, representing a year-on-year decrease of 16.2%. The shipments of TV sets were 202 million, representing a year-on-year decrease of 3.9% and the lowest level in the past decade, and the consumer electronic market went into a depression in 2022.

According to the Semiconductor Industry Association (SIA), of the more than US$500 billion in semiconductor chips produced annually worldwide, approximately 31.5% is used in the production of PC products, 30.7% is used in the production of communication products and 12.3% is used in the production of consumer electronics such as home appliances, making a total of 74.5%. Global inflation has brought a significant overall decline in demand for consumer electronics, constraining semiconductor chip shipments in 2022. The latest statistics released by the SIA in February showed that global semiconductor sales in 2022 increased by only 3.2% year-on-year to US$573.5 billion, well below previous industry expectations.

In view of the quarterly decline in market demand in 2022, Smart-Core Holdings has prudently considered the prevailing conditions and leveraged its strengths as an all-round distributor to overcome the difficulties arising from the decline in market demand. The Group's authorised distribution business has steadily served its existing customer base while vigorously exploring new product lines with growth prospects. In addition, the Group's independent distribution business is keeping pace with the trends of changing supply and demand in the industry and continues to benefit from its advantages in information channels and management levels. Our value-added technology business, in the form of turnkey solutions and BOM list deliveries, has accumulated a considerable number of design-wins; and the e-commerce platform has been upgraded to improve overall operational efficiency. The Group achieved accumulated sales of HK$10,006.1 million in 2022, representing a slight decrease of 3.7% year-on-year, and gross profit of 1,094.7 million, representing an increase of 10.6% year-on-year.

For the specific business segments, in terms of authorised distribution business, the smart display business unit remained stable, the optoelectronic display and memory products business unit experienced a significant decline in performance, the smart vision and communication products business unit showed a modest increase in performance and the integrated product business unit achieved significant growth but with a relatively small share of sales. Independent distribution business maintained a higher growth and the independent business accounted for one-third of the Group's total revenue. Our technology value-added business and e-commerce business unit are still under expansion and have not yet achieved profitability, and our invested optical communication device and semi-conductor business unit has already reached break even after starting high volume shipments in 2022. Overall, the Group's business segmentation and overall operating conditions have improved with more balanced business development. A review of the Group's business in each of its major breakdown segments is set out below.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Smart Displays

The smart display business, accounted for nearly 30% of the Group's total revenue, is one of important pillars of the Group's authorized distribution business. According to the report issued by TrendForce, even with the World Cup held in the second half of 2022, the global TV shipments decreased by 2.7% year-on-year to only 109 million units in the second half due to the declining demand, and the shipments for the year decreased by 3.9% year-on-year to 202 million units, hitting the lowest level in the past ten years. As many TV brand owners had high inventories in the first half of 2022 due to lower-than-expected sales volume, they therefore shrinked their production plans for the second half, resulting in a lack of willingness to take delivery of chips during that period. But in certain sub-sectors of the industry, there are some incremental opportunities. According to the report issued by AVC (奧維雲網), in the first ten months of 2022, the shipments of home smart projectors quickly reached 5.94 million units, representing a significant increase of 51% year-on-year, and the sales of laser projectors reached 0.29 million units, representing a significant increase of 214% year-on-year, both of which are the key business areas we focus on. In summary, this business unit achieved aggregate sales of HK$2,899.5 million in 2022, representing a modest increase of 4.4% year-on-year.

## Optoelectronic Displays

Unlike smart display business unit, the optoelectronic display business mainly focuses on the sales of related chips for the fields such as display, notebook screen driver, touch screen, TDDI chips for mobile phone, commercial display and power supply. According to statistics from several market research firms, the sales of smartphones and tablets declined by about 12%, the PC market plummeted by 16.2%, and the laptop market even significantly declined by 22.8% in 2022 due to the sluggish demand for electronic products worldwide in 2022. The sluggish market has greatly affected the chip shipments of Tcon, Driver, Power, Scaler and CMOS image sensor within this business unit. Therefore, the performance of this business unit experienced a significant decline in 2022, with an aggregate sales of HK$1,080.0 million, representing a significant decrease of 41.9% year-on-year.

## Smart Vision

According to data released by research firm RUNTO, camera devices became the largest category in China due to its share of nearly 50% in China's annual security market of RMB700 billion. Cameras can be subdivided into city-level, industry-level and consumer-level according to different application scenarios. In which, the shipments of consumer products for home security and household care were about 18.7 million units in 2022, with a market share of nearly 80%. In 2022, the industry was significantly affected by factors such as the pandemic, rising price of raw materials and supply chain instability, resulting in a decline of market prosperity compared to 2021. But even so, this business unit actively explored new product lines, application scenarios and customer segments, and made certain achievements with an aggregate sales of HK$1,428.1 million for the year, representing a modest increase of 6.2% year-on-year.

## Communication Products

This business unit mainly sells MCP memory chips, radio frequency PA chips and other electronic components for cellular IoT modules. In August 2022, the number of mobile IoT connections in China exceeded that of mobile phone users for the first time, officially becoming the first country among the world's major economies to achieve "IoT connections exceed the number of users (物超人)". According to the statistics from the Ministry of Industry and Information Technology, as of late September 2022, mobile IoT connections in China have accumulated to 1.75 billion, representing an increase of 350 million compared to the beginning of 2022 and accounting for more than 70% of the total number of global mobile IoT connections. Meanwhile, it is also the leading market for cellular IoT chips and modules around the world. In terms of application, NB-IoT has currently realised tens-of-millions-level applications in four aspects including water meters, gas meters, smoke senses and tracking, and also million-level applications in seven aspects including white goods, parking lots, agriculture and others. Benefiting from the rapid growth of the market in recent years, this business unit achieved cumulative sales of HK$683.3 million in 2022, a slight year-on-year increase of 1.6%.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Memory Products

Since the second half of 2021, the market demand for PCs, laptops, tablets, smartphones and other products showed continuous weakness, and such electronic products absorb more than half of the production capacity of memory chips. Therefore, the decrease in the shipment of such electronic products directly resulted in a serious oversupply of memory chips, thereby the downward trend for the price and shipment of memory chips. As of the end of 2022, the price of memory chips has been halved from the peak. The performance of several leading companies of memory chips has fallen sharply. The poor environment of memory product market also directly affected the sales performance of this business unit, which achieved cumulative sales of HK$301.6 million in 2022, representing a significant year-on-year decrease of 41.3%.

### Integrated Products

The integrated product segment includes AIoT product group, MCU product group, CE product group and software product group. Among them, the AIoT product group mainly focuses on WLAN, LPWAN, Bluetooth Low Energy (BLE), 2.4G and other wireless interconnection markets, the MCU product group focuses on expanding various smart hardware applications, the CE product group focuses on the consumer electronics market, and the software product group is based on the SaaS cloud services of Baidu Cloud and Tencent Cloud as well as software products to expand various intelligent application markets. Benefiting from the rapid growth of the IoT, smart hardware and software service market in recent years, the business expansion of this business unit has also achieved remarkable results with WLAN and BLE IoT business experienced rapid growth and consumer market business maintained stable growth. This business unit achieved cumulative sales of HK$267.0 million in 2022, representing a significant year-on-year increase of 76.4%.

### Optoelectronic Products

This business unit mainly promotes and sells core optical devices such as PD, APD, TO modules applied in 5G wireless optical communication modules and data center optical interconnect modules, as well as AOC (active optical cable) solutions and various interface conversion chips. Due to the severe inflation and recession expectations facing the global economy in 2022, 5G construction has slowed down, and the sales of optical modules for wireless access have continued to decline, which has restricted the sales of optical devices and modules in this business unit, while new technology solutions and chips are still being promoted, requiring breakthroughs in applications, thus have not yet been able to form performance output during 2022. As a result, this business unit record cumulative sales of HK$93.7 million in 2022, representing a year-on-year decrease of 18.8%.

### Independent Distribution

In 2022, the Group's independent distribution business continued to perform relatively well. Although affected by lower demand for in-stock chips during the year due to a decline in demand in the domestic market, sales in the domestic market remained stable throughout the year by the expansion of business scale and the improvement of business efficiency. The business unit made breakthroughs in overseas markets such as Asia Pacific, Europe and the United States, which achieved incremental results. Benefiting from the rapid growth in overseas markets, the overall results of the independent distribution business unit continued to grow significantly. In particular, independent distribution business achieved cumulative sales of HK$3,114.7 million in 2022, representing a significant year-on-year increase of 8.9%.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OUTLOOK FOR 2023

In the World Economic Situation and Prospects 2023 released by the United Nations in January, it concluded that the economy slowdown will spread to developing countries in 2023 as the adverse effect of recession looms over the global economy. With the rising inflation rate, increasing debt vulnerability and global economy downturn, many countries will expose to the risk of recession in 2023. The United Nations has lowered the global economic growth from 3% in 2022 to 1.9% in 2023. In the past few months, in addition to the United Nations, a number of international organizations, financial institutions and multinational banks have also conducted an outlook forecast for the global economy in 2023. In their opinion, the global economic growth rate ranging from 1.4% to 2.8%, with an average of 2.1%. Meanwhile, in the United Nations' report, China's economic growth for 2023 is given a positive comment, which it is expected to accelerate in 2023 with an estimated growth rate of 4.8% due to the optimisation of pandemic prevention policies and the adoption of favorable economic measures in China. Hence, China's economy will have a high expectation in 2023. Furthermore, we believe that China's economic growth is expected to recover with the gradual implementation of a series of macroeconomic policies. Meanwhile, the increasing domestic demand will became an essential factor for facilitating the economic recovery in China.

As the semiconductor chip industry was highly correlated with the global economic growth and the extent of impact of the global economy on the industry tends to be magnified, coupled with the supply changes brought by the production expansion in the semiconductor industry, various industry research institutions are not optimistic about the growth rate of the global semiconductor market in 2023. We have collected six-month forecasts from seven industry research institutions on the growth rate of the global semiconductor industry in 2023. According to these forecasts, the average is -6.9%, and even after deducting the extremely pessimistic data, the average is around -4.6%. Industry insiders generally believe that the global semiconductor market will hit a trough in the first half of 2023, with a recovery expected in the second half and a chance to resume growth in 2024. IDC analysts believe that the global semiconductor industry will grow at a compounded rate of 5% over the next 5-7 years in the long term, with growth rates for automotive and industrial semiconductors outperforming the industry average.

As a leading all-round distributor of electronic components in China, the Group has aggressively invested in business diversification and overseas markets over the years, which has significantly enhanced our business resilience to risks. Certain fostered new business lines have started to grow rapidly and generate revenue. Looking forward to 2023, the Group will encounter more challenges in operating amidst the severe global economic environment. Specifically, for each business line of the Group, the outlook is as follows:

### Smart Displays

Display panels are the core component of television products and account for a high proportion of the cost of the TV in complete set. Therefore, the expected changes in panel shipment data can usually be viewed as a leading indicator of the smart display business. According to TrendForce, global TV panel shipments are expected to decline slightly by 2.8% year-over-year in 2023. The easing of TV panel supply is conducive to keeping panel prices low, which can reduce the cost pressure on OEMs and help them boost sales. TrendForce expects global TV shipments to decline further by 1.4% to 199 million units in 2023.

According to the investigation of TrendForce, in the first quarter of 2023, due to the off-season effects, global TV shipments significantly decreased by 24.3%, representing a nearly ten-year low. The shipments of Chinese brands were also expected to decline by 30.6% for the first quarter. Sigmaintell, another research institution, considered that North America and Southeast Asia markets were likely to record a year-on-year increase in 2023 with the support of economic growth, while other regions were unlikely to recover as affected by the weak economy. In conclusion, we are cautious about the performance of this business segment in 2023.

### Optoelectronic Displays

According to a report by market research firm Gartner, the end-user spending on devices, such as PCs, tablets, and smartphones, is predicted to reduce by 5.1% in 2023 as a result of inflation and interest rate increases. This estimated decline will continue the 4.4% decline in global device shipments to 1.7 billion units in 2023, albeit at a slower rate than the 11.9% decline in 2022. Mobile phone shipments are anticipated to decline by 4%, while PC shipments, with the largest decline of all devices, are anticipated to shrink by 6.8% in 2023. The industry's high inventory levels in 2022 are anticipated to revert to normal in the second half of 2023. Also, according to research firm IDC, 2023 will see the lowest level of PC and notebook shipments in recent years, with the notebook market likely to start growing again in the second half of 2023.

For the China market, IDC predicts that the PC market shipping volume for the entire year of 2023 will be the same as that of 2022, with the PC procurement demand of major companies expanding by 3.7% year-on-year in the second half of the year for the China market as a result of the progressive policy adjustments and economic recovery. In 2024, the market is anticipated to rebound alongside an improvement in the global economy.

The shipments of chips on display and notebook panel modules involved in this business unit are greatly affected by the market demand for PCs and notebooks. Due to the uncertainty in the market, the business segment will need to continue to develop new product lines and customer services in 2023, as well as capitalise on opportunities in popular product areas such as gaming notebook displays, to achieve its performance targets.

### Smart Vision

The product line of this business unit covers the whole chain of smart vision from collection to transmission, storage, display and control (採 — 傳 — 存 — 顯 — 控). In particular, "collection" refers to collecting video and images, while "transmission" refers to the wire or wireless transmission of signals as required, "storage" refers to our own NVR storage solutions and chip products, "display" refers to our various dot-matrix displays and smart display chips that may be applied in various scenarios, and "control" means our different motor driver chips which can realize the zooming and holder rotation of the camera. According to RUNTO's forecast, the market size of consumer cameras in China will reach 51.2 million units in 2023, a year-on-year increase of 8.5%, representing a promising market potential.

The chips and technical solutions of this business unit can be widely used in such fields as security, smart home, automotive electronics and so on. In field of security, according to the statistics and forecast data issued by Frost & Sullivan, the market sizes of global security video surveillance equipment, global IPC SoC chips and the NVR SoC chips will increase by 6.8%, 12.8% and 7.8% year-on-year to USD25 billion, USD740 million and USD97 million in 2023, respectively. In field of smart home, China has become the largest market of smart home consumption, accounting for 50–60% of the global market. The building intercom and control solution in this business unit have promising market potential. In terms of dashboard cameras, China produced and consumed the most vehicles dashboard cameras with market shares of nearly 42% and 30%, respectively. The prospect of the market is promising.

To sum up, the market of this business unit is relatively stable and active with a rather clear growing trend in the next few years. Moreover, the improving fundamental economy and policy supports in domestic market will also contribute to its development in 2023. Thus, this business unit is expected to maintain its satisfactory growing trend in 2023.

### Communication products

According to the global cellular IoT module market forecast report released by Counterpoint, a market research agency, the annual global cellular IoT module shipments will exceed 1.2 billion by 2030, with an average compound annual growth rate of 12%, and will be mainly used in smart meters, industrial, routers, automotive and POS.

Currently, a large number of cellular IoT module shipments in the market are mainly based on NB-IoT, 4G Cat.1 and 4G Cat.4, and the aggregate market share is expected to account for more than 60% of total shipments. In the future, the medium and ultra-high speed cellular IoT application scenarios will be gradually switched to 5G NR. The current Red Cap research project based on 3GPP R17 can better solve the problems of energy consumption and cost performance in medium and high-speed application scenarios. The 5G Red Cap is expected to be commercially available in 2023, and the module is mainly used in video surveillance, industrial sensing, wearable devices and smart grid.

This business unit mainly provides small-capacity MCP memory chips and 4G/5G radio frequency PA for cellular IoT module manufacturers, of which 5G radio frequency PA have already formed scale sales in 2022 and is expected to bring new incremental results in 2023. At the same time, this business unit is actively promoting the market application of various types of IoT modules. Looking ahead to 2023, this business unit is expected to maintain a relatively rapid growth and achieve its scheduled full-year business goals.

### Memory Products

Memory chip DRAM and Nand flash memory are mainly used in devices such as PCs, tablets, smartphones and smart televisions, as the demand for these devices will continue to decline in 2023, which will inevitably lead to a subsequent decline in chip shipments. Some mainstream suppliers will balance the market demand by cutting production capacity. According to WSTS forecast, the global memory chip market size will also decline by 17% in 2023.

Although the overall situation of the memory chip market is not optimistic, but the recent price decline has been eased. According to the research of TrendForce, the price of Nand flash memory will fall to between 10–15% in the first quarter of 2023, and the industry generally believes that there is still a possibility that prices of memory chips will test a low in the second quarter of this year. However, with the recovery of the global economy, the demand of the downstream consumer electronics market will gradually recover, and the industry is expected to step into the upward channel of volume and price by 2024 at the latest. From the current situation, there are many uncertainties in the supply and demand situation of the memory chip market in 2023, which will bring difficulties to achieve the full-year business goals. Therefore, in 2023, we need to actively look for new growth areas in the industry, such as AI applications and data centers, while preparing our product lines, teams and customer base for the growth dividends that will come from the industry's recovery.

### Optoelectronic Products

This business unit mainly promotes and sells core optical devices such as PD, APD, TO modules applied in 5G wireless optical communication modules and data center optical interconnect modules, as well as AOC (active optical cable) solutions and various interface conversion chips. With expected enhancement of economic recovery embraced by China in 2023, infrastructure with focus on 5G and AI is expected to accelerate.

With a massive hit of ChatGPT causing multiple software downtimes in 2023, Microsoft, Google and Baidu have announced plans to integrate AI models into their search services, further broadening market application. However, the training and application of AI have increased considerable demand for computing power of data centers. A recent survey report released by DataCenterHawk indicates the average vacancy rate of data centers in primary markets of North America is 4.4%, the lowest level ever recorded. Under such expected increase, optical modules, the most flexible module as for demand in cloud computing, are also likely to see a rise in demand or may embrace market demand more than expected. At present, the mainstream application rate of optical modules will increase from 10–40Gbs to 100–400Gbps, while the most advanced products have already upgraded to 800Gbps. Given the high requirement for computing power from ChatGPT, the high-end products of 800Gbps may even emerge as the largest source of orders in incremental market.

This business unit has promoted solutions to industry customers in 2022, including the solutions of 400G/800G silicon optical integration module for data centers, the solutions of next generation of 50G PON for FTTX and the solutions of coherent sink optical module. Of which, the silicon optical integration solutions include 100G DR1, 400G DR4 and 800G DR8 silicon optical integration solutions, which are mainly applied in next generation of data centers. However, 50G PON solutions will replace the current 10G PON products to become the mainstream of the next generation. With the new requirement for computing power of data centers from AI applications, this business unit is expected to see a new profit point in 2023. We will closely monitor developments in this industry and actively capture new business opportunities to achieve growth in 2023.

### Integrated Products

The Internet of Things (IoT) is a system of connected devices, digital machines and users, with unique identifiers and network transportability and dispensing with human-human or human-machine interaction. Over the past few years, its value and potential have been gradually recognized, as such the market scale of IoT is expected to boom in the next few years. According to forecast data from Markets and Markets Research, the global IoT market will reach US$650.5 billion in 2026, with an average compound annual growth rate of 16.7% from 2021 to 2026.

MCU processor chip, as the core component of various electronic products, has a wide range of market demand. According to forecast data from ICInsight, the global MCU market will reach US$24.3 billion by 2023. In the domestic market, IHS statistics show that China's MCU market will reach RMB42 billion in 2023, up 7.7% year on year.

In summary, this business unit gathers numerous new business directions and new product lines that are being developed by the Group. The business still maintained a fast growth rate in the downward cycle of the industry in 2022. We expect that with the recovery of market demand in 2023, this business unit is expected to maintain a good growth trend, achieving growth against trend.

### Independent Distribution

The business model of independent distribution is different from the conventional authorized distribution, and mainly includes "reverse supply chain" and "spot trade". Reverse supply chain assists downstream end manufacturers to address excess inventory and obsolete materials, while spot trade is to meet manufacturers' sudden incremental spot demand, the price of which is usually higher. In the semiconductor industry, the manufacturing cycle from wafer to product is relatively long and is slow to ramp up production capacity, as a result, there is a high demand for planning. When downstream suppliers along the industry chain confronted with a sudden increase in demand, it is easy to lead to fluctuations in the mismatch between supply and demand in the upstream, and then independent distribution business may obtain new trading opportunities.

Since the hot spots in the electronics industry are uneven and everchanging, the response speed of the supply chain can not match in a timely manner, there were still many hot segments of electronic components whose demand could not be met despite that the general demand of the electronics manufacturing industry declined and inventories were high in 2022. Supply chain imbalance will occur frequently in the future as the recovery of domestic demand for electronic products and the relocation of some low-end electronics manufacturing to emerging economies. Independent distribution, as an important business form of semiconductor supply chain, can better meet such incremental demand. In addition, opportunities in overseas markets are also important areas to focus on in 2023. In domestic market, we have accumulated a huge spot inventory of chips that the overseas markets lack in past years. In the past 2022, the Group has invested a lot of resources to develop overseas business for its independent distribution business, and actively expanded and improved the global business network to lay a solid foundation for business growth in 2023. We see 2023 as both a challenge and an opportunity for independent distribution.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Summary

The decline in growth rate of global economy in 2023 becomes a consensus all over the industry, whilst there are still unknown crises and changes in 2023. However, we believe that the semiconductor industry has become a major engine to global economic development, as well as a core industry among major economies around the globe. We stand firm in support of the development of such industry in the future, despite that it might encounter some cyclical fluctuations in a short term. Therefore, each downturn of the semiconductor industry will breed new opportunities, and we should be ready to grasp the opportunities for development to successfully get through the downward cycle.

The Group has built up an "all-round" distribution business system leveraging on its years of development and comprehensive layout in authorized distribution, independent distribution, value-added technology, e-commerce platform, semiconductor design, manufacturing and testing, as well as continued construction of domestic and overseas business networks. This system has ensured the steady growth of the Group's business in past years.

Moving forward, the Group will continue to consolidate and expand its authorized distribution business, and develop the scale of independent distribution business in conjunction with overseas market expansion and business data platform construction. We will deliver more valuable productization solutions so as to realize value output of value-added technology. Besides, we will also promote the construction and effective operation of the Group's e-commerce platform by advancing the digital transformation to enhance operational efficiency. In terms of the semiconductor industry, we will increase our investment therein to improve the positioning of chip companies among the industry.

In the future, we will continue to strengthen the expansion of authorized distribution business, step up our efforts to develop global independent distribution business, and promote the development of the Group's technology value-added business and e-commerce platform business. In terms of semiconductor industry, the development of optical communication devices and the deployment of business will be intensified. Leveraging on the digital business foundation of the Group, we will strive to achieve diversified business development. In 2023, on the basis of sound operation and active innovation, we will enhance the quality and profitability of the Group's business, bringing better returns and long-term value to the Shareholders.

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2022, the Group's revenue amounted to HK$10,006.1 million (2021: HK$10,389.3 million), representing a decrease of HK$383.2 million (or 3.7%) as compared with the revenue for the year ended 31 December 2021.

The decrease in revenue was mainly caused by the decrease in the sales from our optoelectronic displays and memory products of approximately HK$992.0 million.

### Gross profit

Our gross profit for the year ended 31 December 2022 increased by HK$104.7 million to HK$1,094.7 million as compared with the prior year (2021: HK$990.0 million). Our gross profit margin increased by 1.4 percentage points to 10.9% for the year ended 31 December 2022 (2021: 9.5%). 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 2022, research and development expenses amounted to HK$39.6 million, decreased by 1.5% as compared with the year ended 31 December 2021 (2021: HK$40.2 million).

### Administrative and selling and distribution expenses

Administrative and selling and distribution expenses aggregated to HK$525.2 million for the year ended 31 December 2022 (2021: HK$414.2 million), which accounted for 5.2% of the revenue for the year ended 31 December 2022 as compared with 4.0% over the corresponding year in 2021. The net increase of HK$111.0 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 2022 amounted to HK$79.2 million, an increase of HK$25.4 million as compared with that in 2021 (2021: HK$53.8 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 interest rates of bank borrowings during the year.

### Share of result of an associate

The Group had recorded a profit on share of result of an associate for the year ended 31 December 2022 of approximately HK$0.03 million (2021: loss of HK$4.8 million). The profit was mainly due to the amount of sharing of result of an associate, namely Galasemi (Shanghai) Co. Ltd. (GSCL). The profit on share of result of an associate is mainly due to the improvement in company operation.

### Profit for the year

For the year ended 31 December 2022, the Group's profits amounted to HK$379.7 million, representing a decrease of HK$12.2 million as compared to HK$391.9 million in 2021, representing a decrease of 3.1%. The net profit margin for the year ended 31 December 2022 was 3.8%, which remained the same as to the year ended 31 December 2021. The decrease in the profit for the year was mainly contributed by the increase in administrative and selling and distribution expenses and net foreign exchange loss offsetting by impairment losses reversed under expected credit loss model for the year.

### 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 2022 amounted to HK$164.7 million, representing a decrease of 23.1% as compared with the year ended 31 December 2021 (2021: HK$214.1 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 2022, the Group had utilised HK$7.8 million of the net proceeds from the Listing. The Group has utilised approximately HK$179.5 million of the net proceeds as at 31 December 2022 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$26.3 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 2022 (in HK$ million) | Utilised as at 31 December 2022 (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 | (7.8) | (14.9) | 26.3 | Expected to be fully utilised on or before 31 December 2023 |
| 4. For research and development | 20.6 | 0.0 | (20.6) | 0.0 | – |
| 5. Funding potential acquisition of, or investment in business or companies in the e-commerce industry or electronics industry | 61.7 | 0.0 | (61.7) | 0.0 | – |
| 6. General working capital | 20.5 | 0.0 | (20.5) | 0.0 | – |
| | 205.8 | (7.8) | (179.5) | 26.3 | |

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.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements. As at 31 December 2022, the Group maintained aggregate restricted and unrestricted bank balances and cash of HK$951.7 million (31 December 2021: HK$711.8 million).

As at 31 December 2022, the outstanding bank borrowings of the Group were HK$1,030.2 million (31 December 2021: HK$1,638.1 million). The Group's gearing ratio, which is calculated by the interest-bearing borrowings divided by total equity, decreased from 159.8% as at 31 December 2021 to 87.7% as at 31 December 2022 as a result of the decrease in bank borrowings.

As at 31 December 2022, the total and unutilised amount of the Group's banking facilities (excluding standby letter of credit) were HK$3,097.9 million and HK$2,067.6 million (31 December 2021: HK$2,917.6 million and HK$1,427.7 million) respectively.

As at 31 December 2022, the Group had current assets of HK$2,581.8 million (31 December 2021: HK$3,387.4 million) and current liabilities of HK$1,646.0 million (31 December 2021: HK$2,571.4 million). The current ratio was 1.57 times as at 31 December 2022 (31 December 2021: 1.32 times). The decrease in current assets is primarily due to the decrease in inventories and trade receivables as compared with 31 December 2021.

The Group's debtors' turnover period was 58 days for the year ended 31 December 2022 as compared to 54 days for the year ended 31 December 2021. The overall debtors' turnover period was within the credit period. The increase in debtors' turnover period was due to the delay in payments from certain of our small and medium enterprises customers which more affected by the change in the economic environment.

The creditors' turnover period was 18 days for the year ended 31 December 2022 as compared with 22 days for the year ended 31 December 2021. The creditors' turnover period improved which was due to the timely repayment of the amounts due to our suppliers during the current period.

The inventories' turnover period was 18 days for the year ended 31 December 2022 as compared with 20 days for the year ended 31 December 2021. 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 loss of approximately HK$41.0 million for the year ended 31 December 2022 (31 December 2021: net foreign exchange gain of HK$0.8 million). As 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 2022, the financial assets at fair value through profit or loss (the "**FVTPL**") amounted to HK$153.0 million (31 December 2021: HK$147.3 million), trade receivable factored amounted to HK$338.8 million (31 December 2021: HK$854.3 million) and bank deposits amounted to HK$457.3 million (31 December 2021: HK$420.8 million) had been charged as security for the bank borrowings and financing arrangement of the Group.

### Capital commitment and contingent liabilities

The Group had no material capital commitment and contingent liabilities during the years ended 31 December 2022 and 2021.

# MANAGEMENT DISCUSSION AND ANALYSIS

### 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 2022 and 2021.

### Material acquisition and disposal of subsidiaries and associated companies

The Group has no material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 December 2022.

### Employees

As at 31 December 2022, the Group had 579 employees (31 December 2021: 570 employees), with a majority based in Shenzhen, Suzhou and Hong Kong. Total employee cost for the year ended 31 December 2022, excluding the remuneration of the Directors were approximately HK$331.2 million (31 December 2021: HK$279.7 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.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2022.

## EVENTS AFTER THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

Up to the date of this annual report, the Group has no significant subsequent event after 31 December 2022 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 56, 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 various subsidiaries of the Company. 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 59, 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 various subsidiaries of the Company. 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 56, 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 various subsidiaries of the Company.

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. Mak Hon Kai Stanly,** aged 61, 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 55, 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 was an 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. He was also a non-executive director of New Provenance Everlasting Holdings Limited, a company listed on the Stock Exchange (stock code: 2326) from May 2018 to November 2019. 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 69, 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**, aged 52, 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. She had been the executive director and financial controller of PT International Development Corporation Limited, a company listed on the Stock Exchange (stock code: 372) from June 2017 to August 2022. 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.

## SENIOR MANAGEMENT

**Mr. Yau Chak Man**, aged 43, 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 2022.

## 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 10 and in the Management Discussion and Analysis on pages 11 to 22 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 2022, 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 3 to 17 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 5 to 17 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 2022 and the Group's financial position at that date are set out in the Group's consolidated financial statements on pages 84 to 86.

Subsequent to the end of the Reporting Period, a final dividend of HK6 cents per share (2021: HK8 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 (2021: HK4 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 any body 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 2022. 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 87 and note 46 to the consolidated financial statements of this annual report respectively.

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2022, the Company had distributable reserves amounted to HK$368.9 million (2021: HK$185.0 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$60,000 (2021: HK$83,000).

## BANK AND OTHER BORROWINGS

Particulars of the bank and other borrowings of the Group at 31 December 2022 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 64.2% of the Group's total purchases, while the purchases from the Group's largest supplier was approximately 37.0% of the Group's total purchases.

During the year, the aggregate amount of sales to the Group's five largest customers was approximately 38.6% of the Group's total revenue, while the sales to the Group's largest customer was approximately 13.0% 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 2022 and up to the date of this Directors' report were:

### Executive Directors

Mr. Tian Weidong
Mr. Wong Tsz Leung
Mr. Liu Hongbing
Mr. Mak Hon Kai Stanly

### Independent non-executive Directors

Mr. Tang Ming Je
Mr. Zheng Gang
Ms. Xu Wei

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. Tian Weidong , Mr. Tang Ming Je and Mr. Zheng Gang 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 2022, 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 contract 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 2022, 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(4) |
|---|---|---|---|---|
| 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% |
| Mr. Mak Hon Kai, Stanly(3) | Beneficial owner | Ordinary | 1,000,000 (L) | 0.20% |

Notes:

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

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

(3) Mr. Mak is interested in 3,000,000 Shares granted by the Company to him under the Share Award Scheme, of which 1,000,000 Shares has been vested.

(4) Based on 488,681,030 Shares in issue as at 31 December 2022.

(L) represents long positions.

Save as disclosed above, as at 31 December 2022, 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 2022.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed under the section headed "Non-Competition Undertaking" on page 28 of this report, during the year ended 31 December 2022, 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.

## 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 2022

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 2022 are set out in note 44 to the consolidated financial statements.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2022, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries.

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

As at 31 December 2022, 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 2022.

(L) Represents long position.

Saved as disclosed above, as at 31 December 2022, 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.

# DIRECTORS' REPORT

## 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 2022 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 (the "**2021 Loan 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).

On 28 April 2022, Smart-Core International, Smart-Core Technology Investment Limited and Quiksol HK had entered into a supplemental agreement (the "**2022 Agreement**"), pursuant to which, among others, the parties have agreed (i) the maturity date of the facility being a US$ revolving loan facility in an aggregate amount of US$3,500,000 is further extended to 30 April 2023 with interest rate of 8% per annum for the period from 1 May 2022 to 30 April 2023 (both days inclusive); and (ii) Smart-Core International shall be released while Smart-Core Technology Investment Limited shall assume all the rights and obligations as lender in relation to the 2021 Loan Agreement.

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 (which was subsequently assumed by Smart-Core Technology Investment Limited) to Quiksol HK under the Loan Agreement (the "**Loan**"), the amended facility made available by Smart-Core International to Quiksol HK as set out in the Supplemental Agreement (the "**Amended Facility**") and the subsequent facility made by Smart-Core Technology Investment Limited to Quiksol HK as set out in the 2022 Agreement 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, 28 April 2021 and 28 April 2022.

# DIRECTORS' REPORT

During the year ended 31 December 2022, the Group had the following continuing connected transactions with the following companies:

| Name of the company | Nature of transaction | Year ended 31 December 2022 HK$'000 | Year ended 31 December 2021 HK$'000 |
|---|---|---|---|
| SMC Taiwan (Note a) | Sales of goods | – | 372 |
| SMC Taiwan (Note a) | Purchase of goods | – | (1,228) |
| Quiksol International Components Pte Ltd (Note b) | Sales of goods | – | 88 |

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 2022, no new shares had been subscribed by the Trustee and a total of 15,600,000 shares of the Company were acquired by the Trustee pursuant to the rules and trust deed of the Share Award Scheme and a total of 3,000,000 share awards were granted to the employees by the Company pursuant to the Share Award Scheme and none of them have been cancelled or lapsed during the year. The Group recognised a total of HK$2.6 million of share-based payment expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022 (2021: 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 2022.

Details of movement of shares awarded under the Share Award Scheme during the year ended 31 December 2022 were as follows:

| | | Number of share awards | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Grantee | Date of grant | Unvested as at 1 January 2022 | Granted during the period | Vested during the period | Cancelled during the period | Lapsed during the period | Unvested as at 31 December 2022 | Closing price of the awarded share immediately before the grant date | Weighted average closing price of the awarded shares immediately before the vesting date |
| **Directors** | | | | | | | | | |
| Mak Hon Kai Stanly | 1 April 2022[(1)] | – | 3,000,000[(2)] | 1,000,000 | – | – | 2,000,000 | HK$1.35 | HK$1.76 |

Notes:

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

(2) Please refer to Note 38 to the Financial Statements for the fair value of awarded shares at the date of grant and the accounting standard and policy adopted.

## Share Option Scheme

The number of options available for grant under the Share Option Scheme at the beginning and the end of the year is 50,000,000 and 50,000,000 respectively.

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.

As at the date of this annual report, the remaining life of the Share Option Scheme is approximately 3 years and 7 months.

**(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 Option 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

The number of awarded shares available for grant under Share Award Scheme at the beginning and the end of the year is 40,420,000 and 37,420,000 respectively.

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.

As at the date of this annual report, the remaining life of the Share Award Scheme is approximately 3 years and 6 months.

**(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 2022.

# DIRECTORS' REPORT

## 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 2022.

## 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 2022 and up to the date of this 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 2022 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, 24 March 2023

# 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 sixth 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 2022 financial year (1 January to 31 December 2022). 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 corporate 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. The ESG working group 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 ESG working group 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, the ESG working group 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 of the Group. 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 Global Reporting Initiative (GRI) Sustainability Reporting Standards. Materiality assessment during the year is based on the survey on stakeholders and the materiality map provided by well-known external agencies.

| Identification | Prioritisation | Validation and Review |
|---|---|---|
| 34 potential material issues were identified with reference to the GRI Sustainability Reporting Standards and other guidelines | According to the survey, the priority of material issues is decided based on the two dimensions of "the importance of economic, environmental and social impacts" and "the impact on stakeholders' assessment and decision making" | The management of the Group reviews and confirms the material issues and reviews the scope for improvement in the future |

Based on the assessment results, the Group identified 11 major material issues. After review by the Board, the results are shown as follows.

| Aspects | Material Issues |
|---|---|
| Environmental | Energy Management<br>Raw Materials Procurement |
| Employment and Labour Practices | Remuneration and Benefits<br>Health and Safety<br>Human Capital Development<br>Prevention of Child and Forced Labour |
| Operating Practices | Operating Compliance<br>Supply Chain and Environmental Risk Management<br>Anti-Corruption<br>Data Security<br>Product Design and Lifecycle Management |

## 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 target best practices in the industry to promote its sustainable development.

| Achievement and membership | Companies with awards | Issuing authority |
|---|---|---|
| 2022 "Top 10 Best Chinese Brand Distributors" | Shenzhen Smart-Core Technology Co., Ltd. | Electronics Supply and Manufacturing-China |
| International Potential Star Distributors | Quiksol International HK Pte Limited | Electronics Supply and Manufacturing-China |
| National High-tech Enterprise | Shenzhen Smart-Core Technology Co., Ltd. | Shenzhen Science and Technology Innovation Committee; Shenzhen Finance Bureau; Shenzhen Tax Service, State Taxation Administration |
| National High-tech Enterprise | Corelink (Xiamen) Technology Co., Ltd | Xiamen Municipal Bureau of Science and Technology; Xiamen Finance Bureau; Xiamen Tax Service, State Taxation Administration |
| 2021 Shenzhen "Specialised, Refined, Differentiated and Innovative" small and medium-sized enterprises | Shenzhen Smart-Core Technology Co., Ltd. | Industry and Information Technology Bureau of Shenzhen Municipality |
| ISO 9001-2015 Quality System Certification | Shenzhen IC-Cloud Information Technology Co., Ltd. | ACM-CCAS Limited |
| ISO 9001-2015 Quality System Certification | Shenzhen Smart-Core Cloud Information Technology Co., Ltd | ACM-CCAS Limited |
| HDMI® adopter | Smart-Core International Company Limited | HDMI® Licensing Administrator Inc. |
| Nanshan District "Green Channel" Enterprise | Shenzhen Smart-Core Technology Co., Ltd. | People's Government of Nanshan District, Shenzhen |
| HDCP Reseller | Smart-Core International Company Limited | Digital Content Protection LLC |
| Member Palace of Shenzhen High-tech Industry Association | Shenzhen Smart-Core Technology Co., Ltd. | Shenzhen High-tech Industry Association |
| Member Palace of China Information Industry Trade Association | Smart-Core Holdings Limited | China Information Industry Trade Association |

*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.

| Environmental Targets | Actions Taken and Progress Made |
| --- | --- |
| **Control greenhouse gas emissions** | • Conduct maintenance for the Company's motorcade<br>• Encourage employees to use public transportation |
| **Increase the recycling rate of waste paper** | • Educate employees to develop good habits in waste separation<br>• Encourage employees to use waste paper to jot notes and reuse waste paper |
| **Increase the use of LED lights** | • Continue to prioritise LED lights where practicable<br>• Purchase and install a total of 165 LED lights in 2022 |
| **Reduce per capita water consumption reasonably** | • Strengthen the publicity of water conservation internally and raise the awareness of water conservation among employees |

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 air and 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 epidemic prevention and control during the year, the daily cleaning frequency has been enhanced, resulting in an increase in water consumption. 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 |
|---|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 | **(%)** |
| Electricity (kWh) | **455,607.00** | 507,041.52 | **786.89** | 932.06 | –10.14% |
| Gasoline (litres) | **12,402.10** | 12,438.30 | **21.42** | 22.86 | –0.29% |
| Water ($m^3$) | **2,609.00** | 2,298.02 | **4.51** | 4.22 | +13.53% |
| Paper (tonnes) | **3.08** | 5.11 | **0.005** | 0.009 | –39.73% |

*Total resource consumption during the reporting period*

### Greenhouse Gas and Air Emissions

The Group is not an energy-intensive enterprise and thus greenhouse gas and air emissions are relatively low. Direct carbon emissions (Scope 1) are mainly generated from the consumption of motor fuels, indirect carbon emissions (Scope 2) are generated from purchased electricity, and other indirect carbon emissions (Scope 3) are generated from business air travel by employees, electricity used for processing fresh water and sewage by government departments, and paper waste disposed at landfills. During the reporting period, the total greenhouse gas emissions recorded were 287.86 $tCO_2e$. 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 (%) | |
|---|---|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 |
| **Scope 1** | | | | | | |
| Direct emissions | **30.47** | 33.09 | **0.05** | 0.06 | **10.58** | 9.57 |
| **Scope 2** | | | | | | |
| Indirect emissions | **224.31** | 309.35 | **0.39** | 0.57 | **77.92** | 89.49 |
| **Scope 3** | | | | | | |
| Other indirect emissions | **33.08** | 3.26 | **0.06** | 0.006 | **11.49** | 0.94 |
| **Total** | **287.86** | 345.69 | **0.50** | 0.64 | **100.00** | 100.00 |

*Total greenhouse gas emissions during the reporting period*

Air pollutants generated from combustion of motor fuels include nitrogen oxides ($NO_X$), sulphur oxides ($SO_X$) and particulate matter (PM). During the reporting period, the Group emitted a total of 8.20 kg of nitrogen oxides ($NO_X$), 0.18 kg of sulphur oxides ($SO_X$) and 0.65 kg of particulate matter.

| **Air Emissions** | **Emissions (kg)** | | **Emission per employee (kg/employee)** | | **Year-on-year** |
|---|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 | **(%)** |
| Nitrogen oxides ($NO_x$) | **8.20** | 5.56 | **0.01** | 0.01 | +47.39% |
| Sulphur oxides ($SO_x$) | **0.18** | 0.18 | **0.0003** | 0.0003 | +1.46% |
| Particulate matter | **0.65** | 0.41 | **0.0011** | 0.0008 | +57.78% |

*Total air emissions during the reporting period*

### Waste Management

Waste generated during the Group's operations is mainly general waste, wood products and kitchen waste. In order to reduce the impact on the environment, the Group implements various waste reduction measures, including encouraging a paperless office, encouraging employees to bring meals instead of ordering takeaway, and reusing packaging and wooden pallets used for transportation. During the reporting period, the Group generated a total of approximately 254 tonnes of non-hazardous waste.

| **Waste[2]** | **Generation** | | **Generation per employee (tonnes/employee)** | | **Year-on-year** |
|---|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 | **(%)** |
| Non-hazardous waste (tonnes) | **254** | 255 | **0.439** | 0.468 | 0% |

*Total waste produced during the reporting period*

[2] Non-hazardous waste includes general waste, wood products and kitchen waste. Due to changes in statistical methods, the data for 2021 has been restated.

### 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 and strengthen printing management
- Remind employees to turn off idle electrical appliances and equipment, and inspect 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 of 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
- 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 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" |

*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><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 |

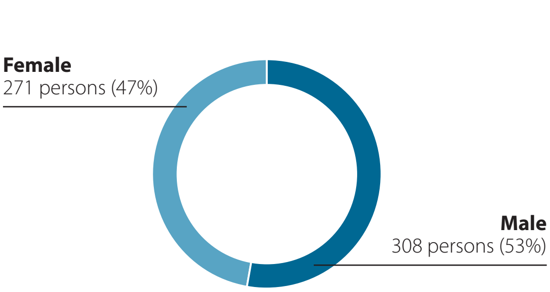
*Description of the Group's potential climate change-related risks*

## TALENT MANAGEMENT

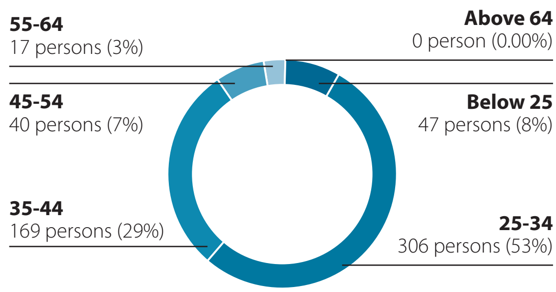
The Group insists on the "people-oriented" principle and attaches great importance to talent development and management, so as to achieve the goal of stable, efficient, and long-term development of the Group itself and of its employees.

As of 31 December 2022, the Group had 579 employees, of which 134 were employees of Quiksol HK, with a total male-to-female ratio of approximately 53:47. Among them, the highest number is in age group 25-34 years old (52.85%) and 35-44 years old (29.19%). About 63% of the Group's employees hold a bachelor's degree or above. Among all employees, 47 are middle and senior management, 44 are supervisors, and 488 are general employees, of which 92.75% are based in Mainland China and the rest are based in Hong Kong. There were 214 new employees, with a total male-to-female ratio of approximately 46:54.

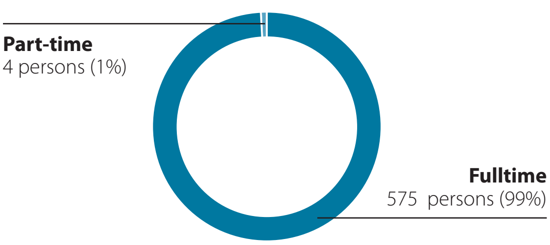
**Employee gender distribution**



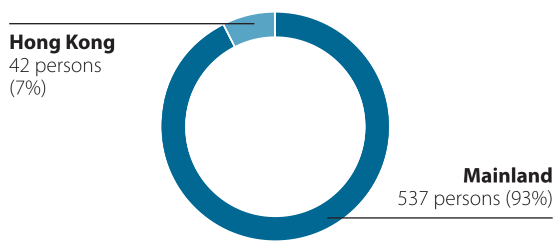

**Employee age distribution**



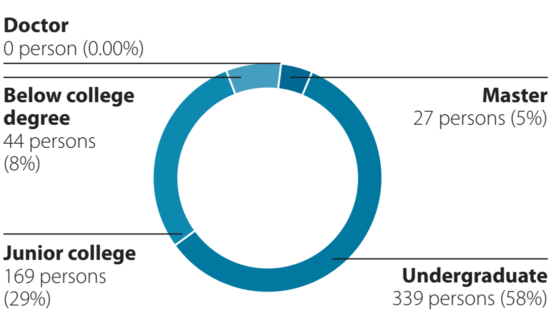

**Employee employment type distribution**



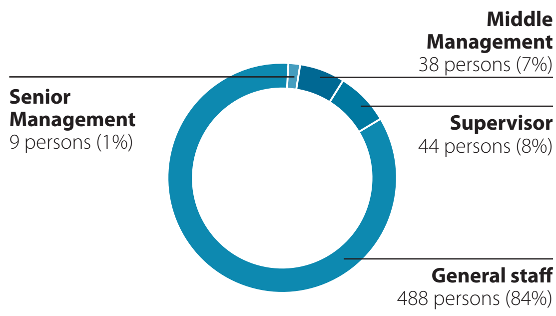

**Employee geographical distribution**




**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 work and behaviour of employees, ensuring that employees are treated fairly when rewards and punishments are applied. 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[3] , and no cases of recruitment-related complaints were recorded.

### 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

3 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 administrative department immediately after receiving an incident report, and the administrative 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 |

*The Group's occupational health and safety measures*

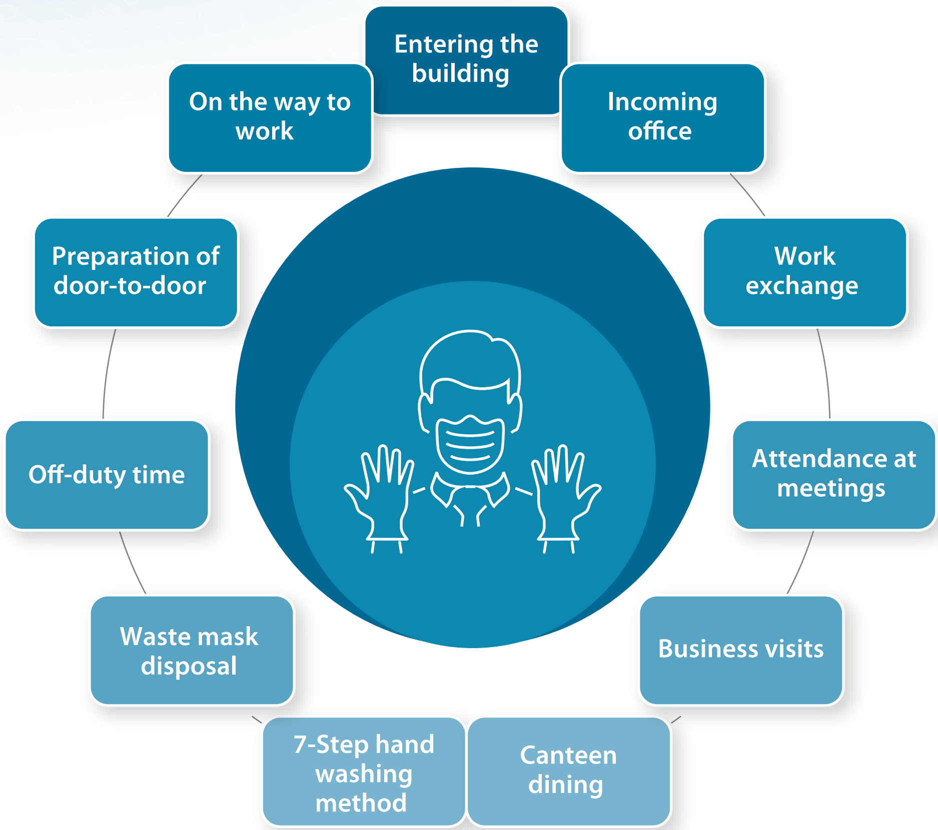
**Safety Training**

Safety training helps to ensure that employees are well-equipped to deal with emergencies. During the reporting period, the Group held 3 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. 155 person-times participated in the training, with a total of 80 training hours. During the reporting period, the Group did not notice any cases of non-compliance with laws and regulations regarding occupational safety and health[4] or relevant complaints. There were no work-related fatalities in the past three years.

**Pandemic Prevention and Control**

In response to the COVID-19 pandemic, the Group has formulated a series of pandemic prevention management measures to safeguard the health of employees and maintain environmental hygiene. The Group formulated a corporate pandemic prevention and control guideline, which covers 11 scenarios such as office entry, business visit, and dining in canteens. The Group guided employees to follow the necessary protection measures to ensure their health and safety.

4 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.

Through training for new employees, 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 for employees, where necessary, to enhance their overall job qualifications and capabilities. During the reporting period, a total of 455 employees of the Group completed training, with a total of 4,847 training hours. During the reporting period, the employee training rate by gender and function is as follows:

**Average training hours**

| | 2022 | 2021 | Year-on-year (%) |
|---|---|---|---|
| **By gender** | | | |
| Male | **9.14** | 8.60 | +6.24% |
| Female | **7.50** | 6.36 | +17.95% |
| **By Function** | | | |
| Senior Management | **6.89** | 6.85 | +0.57% |
| Middle Management | **8.29** | 8.74 | –5.15% |
| Supervisor | **11.80** | 11.46 | +2.93% |
| General staff | **8.10** | 7.23 | +11.98% |
| **Total** | **8.37** | 7.69 | +8.86% |

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

**Percentage of employees trained**

| | 2022 | 2021 | Year-on-year (%) |
|---|---|---|---|
| **By gender** | | | |
| Male | **81%** | 80% | +1.06% |
| Female | **76%** | 72% | +5.58% |
| **By Function** | | | |
| Senior Management | **100%** | 83% | +20.48% |
| Middle Management | **95%** | 92% | +2.97% |
| Supervisor | **93%** | 93% | +0.20% |
| General staff | **76%** | 75% | +0.82% |
| **Total** | **79%** | 77% | +2.06% |

*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, employees get 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. If child labour or forced labour is reported, we will terminate employment immediately, conduct an investigation to identify loopholes in the system and implement remedial measures to prevent a recurrence. 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[5] in this context.

## 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 continues 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 1,163 suppliers, including 436 in Hong Kong, 564 in Mainland China and 163 in other regions. 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.. 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 order fill 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 an 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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5 Please refer to the section headed "Laws and Regulations" for Labour standards related laws and regulations.

| | |
|---|---|
| **Customer Service Department** | • Clarify after sales and maintenance processes and sign after sales agreements with customers<br>• Receipt of after sales information and feedback to the maintenance department |
| **Quality Department** | • Arrange testing and delivery of maintenance products<br>• Conduct review of the appearance and function of after sales products |
| **Maintenance Department** | • Check after sales product information<br>• Carry out maintenance, record the causes of the defects, and communicate with relevant departments and suppliers |
| **Technology Department** | • Responsible for assisting maintenance engineers in analysing defective products and providing technical support to them |

*Product after-sales and maintenance process*

If it is necessary to recover the goods, the Group deals with the goods according to the chip-maker's judgment and the signed agency agreement, and provides assistance to the customer and the chip-maker. During the reporting period, the Group received a total of 4 complaints related to product quality, all of which have been followed up and resolved satisfactorily.

For product compliance. 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.

For intellectual property rights. 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 338 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[6] related to personal data privacy, and is not aware of any violation of privacy matters related to products and services in the reporting year.

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6 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: using their positions to engage in the operation, share subscription, part-time activities of suppliers and customers (including relatives and their spouses) without permission; soliciting various types of advantages from customers and suppliers; 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; failure to report and submit the advantages to the Group; and 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. During the reporting period, we provided anti-corruption awareness to our new recruits, so that they could understand the Group's commitment to integrity and related policies and sign a statement of commitment to provide integrity.

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[7] that have a significant impact on the Group relating to bribery, extortion, fraud and money laundering and was not involved in any corruption cases.

## 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$68,495 in social welfare agencies to support community investment and actively participated in public welfare activities, such as donating stationery and sporting goods to the Social Welfare Center in Longgang District, Shenzhen. 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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7 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<br>• Air Pollution Prevention and Control Law of the PRC<br>• Water Pollution Prevention and Control Law of the PRC | 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

| | | 2022 | 2021 |
|---|---|---|---|
| Environment | **Resource Consumption** | | |
| | **Electricity (MWh)** | **456** | 507 |
| | Intensity (MWh/employee) | **0.79** | 0.93 |
| | **Gasoline (Litre)** | **12,402.10** | 12,438.30 |
| | Intensity (Litre /employee) | **21.42** | 22.86 |
| | **Water ($m^3$)** | **2,609.00** | 2,298.02 |
| | Intensity ($m^3$ /employee) | **4.51** | 4.22 |
| | **Packaging materials (paper) (tonnes)[8]** | **20.27** | 22.20 |
| | Intensity (tonnes /employee) | **0.04** | 0.04 |
| | **Emissions** | | |
| | **Greenhouse Gas [9]** | | |
| | **Scope 1: Direct carbon emissions ($tCO_2e$)** | **30.47** | 33.09 |
| | Emission per capita ($tCO_2e$/employee) | **0.05** | 0.06 |
| | Emission Percentage (%) | **10.58%** | 9.57% |
| | **Scope 2: Indirect carbon emissions ($tCO_2e$)** | **224.31** | 309.35 |
| | Emission per capita ($tCO_2e$/employee) | **0.39** | 0.57 |
| | Emission Percentage (%) | **77.92%** | 89.49% |
| | **Scope 3: Other indirect carbon emissions ($tCO_2e$)[10]** | **33.08** | 3.26 |
| | Emission per capita ($tCO_2e$/employee) | **0.06** | 0.006 |
| | Emission Percentage (%) | **11.49%** | 0.94% |
| | **Total ($tCO_2e$)** | **287.86** | 345.69 |
| | **Exhaust gas** | | |
| | **Nitrogen oxides ($NO_x$) (kg)** | **8.20** | 5.56 |
| | Emission per capita(kg /employee) | **0.01** | 0.01 |
| | **Sulphur oxides ($SO_x$) (kg)** | **0.18** | 0.18 |
| | Emission per capita(kg/employee) | **0.0003** | 0.0003 |
| | **Particulate matter (kg)** | **0.65** | 0.41 |
| | Emission per capita(kg/employee) | **0.0011** | 0.0008 |
| | **Waste** | | |
| | **Hazardous waste (tonnes)[11]** | **0.05** | 0.00 |
| | Per capita generation (tonnes/employee) | **0.00** | 0.00 |
| | **Non hazardous waste (tonnes)[12]** | **254** | 255 |
| | Per capita generation (tonnes/employee) | **0.439** | 0.468 |

8 Packaging materials include plastic, paper and paper products. Due to changes in statistical methods, the annual data for 2021 has been restated.

9 Computation method of carbon emission adopts

— the "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong" formulated by Environmental Protection Department and Electrical and Mechanical Services Department

— 2019 Supplementary Template for Carbon Emission Reporting issued by the Ministry of Ecology and Environment of the PRC

10 Scope 3 Greenhouse Gas: Other indirect greenhouse gas emissions from companies include those from business air travel by employees, electricity used for processing fresh water and sewage by government departments,and paper waste disposed at landfills. Carbon emissions from employee's business air travels were calculated in accordance with the International Civil Aviation Organisation (ICAO) Carbon Emission Calculator; carbon emissions from electricity used for processing fresh water and sewage by government departments are calculated in accordance with "Research on Energy Consumption of China's Urban Water Supply System" issued by Tsinghua University and "Statistical analysis and quantitative identification of the law of energy consumption in urban sewage treatment plants in China" published by Tsinghua University and National Urban Water and Drainage Engineering Technology Research Center; carbon emissions from paper waste disposed at landfills are calculated in accordance with the Appendix II "Reporting Guidance on Environmental KPIs" published by the Hong Kong Stock Exchange. The data in Scope 3 for 2021 only include greenhouse gases from paper waste disposed at landfills. But greenhouse gases from business air travel by employees, and electricity used for processing fresh water and sewage by government departments were included for the year. As a result, the data show an increase as compared with 2021.

11 Hazardous waste includes ink cartridges disposed of at the office.

12 Non hazardous waste includes general waste, wood products and kitchen waste. Due to changes in statistical methods, the annual data for 2021 has been restated.

| | | 2022 | 2021 |
|---|---|---|---|
| Staff Distribution | **Total number of employees** | **579** | 544 |
| | **By gender** | | |
| | Male | **308 (53.20%)** | 322 (59.19%) |
| | Female | **271 (46.80%)** | 222 (40.81%) |
| | **By age** | | |
| | <25 | **47 (8.12%)** | 55 (10.11%) |
| | 25–34 | **306 (52.85%)** | 264 (48.53%) |
| | 35–44 | **169 (29.19%)** | 167 (30.70%) |
| | 45–54 | **40 (6.91%)** | 42 (7.72%) |
| | 55–64 | **17 (2.94%)** | 16 (2.94%) |
| | >64 | **0 (0%)** | 0 (0%) |
| | **By region** | | |
| | Hong Kong | **42 (7.25%)** | 40 (7.35%) |
| | Mainland China | **537 (92.75%)** | 504 (92.65%) |
| | **By employment category** | | |
| | Full Time | **575 (99.31%)** | 542 (99.63%) |
| | Part Time | **4 (0.69%)** | 2 (0.37%) |
| | **By education level** | | |
| | Doctor | **0 (0%)** | 0 (0%) |
| | Master | **27 (4.66%)** | 21 (3.86%) |
| | Undergraduate | **339 (58.55%)** | 316 (58.09%) |
| | Non tertiary qualification | **169 (29.19%)** | 144 (26.47%) |
| | Non tertiary qualification and below | **44 (7.60%)** | 63 (11.58%) |
| | **By function** | | |
| | Senior management | **9 (1.55%)** | 6 (1.10%) |
| | Middle management | **38 (6.56%)** | 36 (6.62%) |
| | Supervisor | **44 (7.60%)** | 46 (8.46%) |
| | General staff | **488 (84.28%)** | 456 (83.82%) |

| | | 2022 | 2021 |
|---|---|---|---|
| | **Employee Turnover Rate** | **27.63%** | 33.64% |
| | **By gender** | | |
| | Male | **31.49%** | 35.71% |
| | Female | **23.25%** | 30.63% |
| | **By age** | | |
| | <25 | **46.81%** | 49.09% |
| | 25–34 | **32.35%** | 38.26% |
| | 35–44 | **20.71%** | 28.74% |
| | 45–54 | **7.50%** | 16.67% |
| | 55–64 | **5.88%** | 0.00% |
| | >64 | **0%** | 0% |
| | **By region** | | |
| | Hong Kong | **26.19%** | 32.50% |
| | Mainland China | **27.75%** | 33.73% |
| **Staff Distribution** | | | |
| | **New Hire Rate** | **36.96%** | 47.06% |
| | **By gender** | | |
| | Male | **31.82%** | 45.03% |
| | Female | **42.80%** | 50.00% |
| | **By age** | | |
| | <25 | **87.23%** | 94.55% |
| | 25–34 | **43.46%** | 50.38% |
| | 35–44 | **21.30%** | 34.73% |
| | 45–54 | **5.00%** | 21.43% |
| | 55–64 | **11.76%** | 25.00% |
| | >64 | **0.00%** | 0.00% |
| | **By region** | | |
| | Hong Kong | **33.33%** | 70.00% |
| | Mainland China | **37.24%** | 45.24% |

| | | 2022 | 2021 |
|---|---|---|---|
| Development and Training | **Number of employees trained** | **455** | 421 |
| | **By gender** | | |
| | Male | **249** | 259 |
| | Female | **206** | 162 |
| | **By function** | | |
| | Senior management | **9** | 5 |
| | Middle management | **36** | 33 |
| | Supervisor | **41** | 43 |
| | General staff | **369** | 340 |
| | **Total training hours of employees (hours)** | **4,847** | 4,182 |
| Health and Safety | **Occupational Safety and Health Performance** | | |
| | Number of industrial accidents | **1** | 0 |
| | Lost days due to work injury | **98** | 0 |
| | Number of work related fatalities | **0** | 0 |
| | Total number of employees trained in occupational safety | **155** | 130 |
| | Total hours of occupational safety training | **80** | 62 |

## 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** | Direct (Scope 1) and energy Indirect (Scope 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 generated 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 how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them. | Environmental Management; Waste Management |

| KPIs | HKEX ESG Reporting Guide Requirements | | Section/Remarks |
|---|---|---|---|
| **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 |
| **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 |

| KPIs | HKEX ESG Reporting Guide Requirements | | Section/Remarks |
|---|---|---|---|
| **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 |
| **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 |

| KPIs | HKEX ESG Reporting Guide Requirements | | Section/Remarks |
|---|---|---|---|
| **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. | Integrity |

| KPIs | HKEX ESG Reporting Guide Requirements | | Section/Remarks |
|---|---|---|---|
| **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

## CORPORATE CULTURE AND STRATEGY

### Corporate Culture

Smart-Core Holdings (the Group) is a leading all-round distributor of integrated circuit and other electronic components and technology value-added service provider in China. We provide electronic components supply chain services to over 20,000 manufacturers in the electronics industry and currently have 13 branches in China and Asia Pacific. The Board of Directors and the management guide and shape the Group's corporate positioning and culture, and actively build our core values of acting in a lawful, ethical and responsible manner. Our corporate positioning is to create a digital lifestyle that serves global customers and bridges the gap between cutting-edge technology and quality products, which is closely related to our main business of integrated circuits and electronic components distribution. The corporate culture of the Group can be interpreted in three aspects of services, innovation and people. "Service - To The Best": We strive to display our customers' ideals and pursuits as programed and designed to create tangible benefits for them. "Innovation - Pursuit of Excellence": We regard innovation as the source of prosperity and development impetus of the enterprise. "People-oriented – Growth and Sharing": Talent is the foundation and wealth of the enterprise. Employees grow and share the fruits of development together with the enterprise. The Group's corporate culture is embedded in our business practices and development strategies so that each of our customers, suppliers, partners, investors and employees can benefit from the value we create together, which is in line with the development and interests of our shareholders and other stakeholders. The Board and management are committed to building a high standard of corporate governance and maintaining a culture of sound and good corporate governance so as to safeguard the common interests of our shareholders and other stakeholders.

### Corporate Strategy

In order to achieve the goal of creating long-term value for Shareholders and other stakeholders, the Group focuses on achieving sustainable development in financial and environmental, social and governance terms. The Group implements rigorous management on revenue, earnings, profit and cost, return on capital and investment and other financing activities. The Group has established core competencies in operational excellence, business innovation and service innovation, which provide strong support for the development of integrated circuit and other electronic components distribution and technology value-added businesses. In recent years, the Group has been actively promoting new business expansion and innovation. The Group focuses on maintaining sound liquidity and flexibility to maintain the long-term development of the Group's business as well as the structure balance between capital and debt. The "Chairman's Statement" and "Business Review and Outlook" in this annual report include discussion and analysis on the Group's performance, with a view to creating long-term value of the Group and the basis for achieving the goals of the Group. Meanwhile, with an increasing focus on the environmental, social and governance, the Group is exploring the next steps to support the global transition to low-carbon economy by achieving net zero emissions, good health and well-being, and realizing inclusion and diversity.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board has committed to maintaining high corporate governance standards. The Board believes that good corporate governance, by adopting an effective management accountability system and high standard of business 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 C.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 2022. The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code.

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

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

# CORPORATE GOVERNANCE REPORT

## 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 2022.

## 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 2022 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. MAK Hon Kai Stanly

### Independent non-executive Directors

Mr. TANG Ming Je
Mr. ZHENG Gang
Ms. XU Wei

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 23 to 25 of this report. None of the Directors has any family, financial or business relations with each other.

During the year ended 31 December 2022 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 2022 are set out below:

| Name of Directors | Board Meetings attended | General Meeting attended |
|---|---|---|
| ***Executive Directors*** | | |
| Mr. Tian Weidong | 7/7 | 1/1 |
| Mr. Wong Tsz Leung | 7/7 | 1/1 |
| Mr. Liu Hongbing | 7/7 | 1/1 |
| Mr. Mak Hon Kai Stanly | 7/7 | 1/1 |
| ***Independent non-executive Directors*** | | |
| Mr. Tang Ming Je | 7/7 | 1/1 |
| Mr. Zheng Gang | 7/7 | 1/1 |
| Ms. Xu Wei | 7/7 | 1/1 |

## Chairman and Chief Executive Officer

Pursuant to code provision C.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. During the year ended 31 December 2022, the Board reviewed and discussed the above measurable objectives, including but not limited to skills, knowledge, professional experience and cultural and educational background, and agreed that these measurable objectives were achieved for the diversity of the Board which contributed to the corporate strategy and the business development of the Company.

The Board currently comprises one female Directors and six male Directors. The Board considers that the Company has achieved gender diversity at the Board level and targets to maintain at least the current level of female representation. The Company will ensure that gender diversity is taken into account when recruiting staff members of mid to senior level and ensure that sufficient resources are available for providing appropriate trainings and career development to develop a pipeline of potential successors to the Board and maintain gender diversity.

## DIVERSITY AT WORKFORCE LEVEL

In terms of employment, the Group insists on the principle of fairness and equal treatment regardless of citizenship, nationality, race, gender, religious belief and cultural background, and does not impose any restrictive requirements on gender, ethnicity, nationality and region.

The gender ratio in the workforce of the Group, including senior management, as of 31 December 2022 is set out below:

| | As of 31 December 2022 | |
|---|---|---|
| **Indicator** | **Number of persons** | **Percentage of total number of employees** |
| Male employees | **308** | **53%** |
| Female employees | **271** | **47%** |

The Group encourages gender diversity across its workplace and is committed to increase the proportion of female employees to 50%. To achieve diversity at workforce level, the Group has put in place appropriate recruitment and selection practices such that a diverse range of candidates are considered. The Group has also established talent management and training programs to provide career development guidance and promotion opportunities to develop a broad and diverse pool of skilled and experienced employees.

During the year under review, the Board was not aware of any mitigating factors or circumstances which make achieving gender diversity across the workforce (including senior management) more challenging or less relevant.

### 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.

### 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 A.2.1 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 2022, individual attendance of each member of the Audit Committee is set out below:

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

### 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 2022, individual attendance of each member of the Remuneration Committee is set out below:

| **Remuneration Committee member** | **Attended/Held** |
|---|---|
| Mr. Zheng Gang *(Chairman)* | 1/1 |
| Mr. Tian Weidong | 1/1 |
| Mr. Tang Ming Je | 1/1 |
| Ms. Xu Wei | 1/1 |

### 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 2022, individual attendance of each member of the Nomination Committee is set out below:

| Nomination Committee member | Attended/Held |
|---|---|
| Mr. Tian Weidong *(Chairman)* | 1/1 |
| Mr. Tang Ming Je | 1/1 |
| Ms. Xu Wei | 1/1 |

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended 31 December 2022 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 80 to 83 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 2022, 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** |
|---|---|
| | HK$'000 |
| Audit services | 2,670 |
| Non-audit services: | |
| Review of interim results | 500 |
| Tax advisory | 70 |
| Others | 350 |
| | 3,590 |

## 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 25 of this annual report.

During the year ended 31 December 2022, 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 2022.

## 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.

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 84 to 172, which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022, 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 MATTER

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was 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 this matter.

## 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 as the assessment of expected credit loss ("**ECL**") is highly subjective and requires significant management judgments and assumptions.<br><br>As disclosed in Note 24 to the consolidated financial statements, the Group's carrying amount of trade receivables was approximately HK$1,189,798,000, with allowance for credit loss of approximately HK$23,172,000 as at 31 December 2022.<br><br>The Group's management engaged an independent qualified professional valuer to assist them to determine the ECL of the trade receivables.<br><br>As disclosed in Note 36(b) to the consolidated financial statements, trade receivables with significant balances and credit-impaired are assessed for ECL individually and ECL on remaining trade receivables are assessed by using provision matrix which is 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 under cost or effort. | • 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 aging analysis as at 31 December 2022, 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; and<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. |

## 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 Fung Hin Chiu.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
24 March 2023

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

| | NOTES | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|---|
| **Revenue** | 5 | **10,006,078** | 10,389,312 |
| Cost of sales | | **(8,911,337)** | (9,399,359) |
| Gross profit | | **1,094,741** | 989,953 |
| Other income | 7 | **21,289** | 11,374 |
| Other gains or losses, net | 8 | **(44,142)** | 2,229 |
| Impairment losses reversed (recognised) under expected credit loss model, net | 10 | **30,305** | (18,911) |
| Research and development expenses | | **(39,562)** | (40,172) |
| Administrative expenses | | **(144,732)** | (113,604) |
| Selling and distribution expenses | | **(380,454)** | (300,642) |
| Share of result of an associate | | **32** | (4,837) |
| Finance costs | 9 | **(79,179)** | (53,769) |
| **Profit before tax** | | **458,298** | 471,621 |
| Income tax expenses | 11 | **(78,553)** | (79,720) |
| **Profit for the year** | 12 | **379,745** | 391,901 |
| **Other comprehensive (expense) income** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising on translation of foreign operations | | **(10,824)** | 2,188 |
| Share of other comprehensive (expense) income of an associate | | **(2,022)** | 635 |
| **Total comprehensive income for the year** | | **366,899** | 394,724 |
| **Profit for the year attributable to:** | | | |
| Owners of the Company | | **164,736** | 214,061 |
| Non-controlling interests | | **215,009** | 177,840 |
| | | **379,745** | 391,901 |
| **Total comprehensive income for the year attributable to:** | | | |
| Owners of the Company | | **152,119** | 216,885 |
| Non-controlling interests | | **214,780** | 177,839 |
| | | **366,899** | 394,724 |
| **Earnings per share** | 15 | | |
| Basic (HK cents) | | **34.03** | 43.82 |
| Diluted (HK cents) | | **33.89** | N/A |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

| | NOTES | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 16 | **15,118** | 8,408 |
| Right-of-use assets | 17 | **21,728** | 26,689 |
| Goodwill | 18 | **29,894** | 9,735 |
| Intangible asset | 19 | **9,888** | 4,384 |
| Club debentures | 20 | **5,932** | 5,433 |
| Financial assets at fair value through profit or loss | 21 | **157,547** | 152,149 |
| Investment in an associate | 22 | **30,668** | 33,293 |
| Deposits | 25 | **2,376** | 2,543 |
| Deferred tax asset | 33 | **5,882** | 9,011 |
| | | **279,033** | 251,645 |
| **CURRENT ASSETS** | | | |
| Inventories | 23 | **288,388** | 606,026 |
| Trade and bills receivables | 24 | **1,212,520** | 1,984,625 |
| Amount due from an associate | 31(a) | **118** | – |
| Deposits, prepayments and other receivables | 25 | **129,114** | 84,954 |
| Pledged bank deposits | 26 | **457,286** | 420,830 |
| Cash and cash equivalents | 26 | **494,405** | 290,931 |
| | | **2,581,831** | 3,387,366 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 27 | **350,674** | 536,103 |
| Other payables and accrued charges | 28 | **167,130** | 272,945 |
| Lease liabilities | 29 | **14,100** | 13,705 |
| Contract liabilities | 30 | **33,575** | 33,895 |
| Amounts due to non-controlling shareholders of a subsidiary | 31(b) | **33,053** | 4,363 |
| Tax liabilities | | **21,917** | 81,829 |
| Bank and other borrowings | 32 | **1,025,519** | 1,628,565 |
| | | **1,645,968** | 2,571,405 |
| **NET CURRENT ASSETS** | | **935,863** | 815,961 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,214,896** | 1,067,606 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

| | NOTES | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liability | 33 | **329** | 724 |
| Lease liabilities | 29 | **8,937** | 14,440 |
| Bank and other borrowings | 32 | **4,707** | 9,567 |
| | | **13,973** | 24,731 |
| **NET ASSETS** | | **1,200,923** | 1,042,875 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 34 | **38** | 38 |
| Reserves | | **873,328** | 805,949 |
| Equity attributable to owners of the Company | | **873,366** | 805,987 |
| Non-controlling interests | | **327,557** | 236,888 |
| **TOTAL EQUITY** | | **1,200,923** | 1,042,875 |

The consolidated financial statements on pages 84 to 172 were approved and authorised for issue by the Board of Directors on 24 March 2023 and are signed on its behalf by:

| | |
|---|---|
| **Tian Weidong** | **Wong Tsz Leung** |
| *DIRECTOR* | *DIRECTOR* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

| | 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 | Share award reserve HK$'000 (Note c) | Capital redemption reserve HK$'000 | Retained profits HK$'000 | Sub-total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| **At 1 January 2021** | 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 | – | – | – | – | 2,189 | – | – | – | – | 2,189 | (1) | 2,188 |
| Share of other comprehensive income of income an associate | – | – | – | – | 635 | – | – | – | – | 635 | – | 635 |
| Total comprehensive income 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) |
| Dividend declared 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 |
| Profit for the year | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **164,736** | **164,736** | **215,009** | **379,745** |
| Exchange differences arising on translation of foreign operations | **-** | **-** | **-** | **-** | **(10,595)** | **-** | **-** | **-** | **-** | **(10,595)** | **(229)** | **(10,824)** |
| Share of other comprehensive expense of an associate | **-** | **-** | **-** | **-** | **(2,022)** | **-** | **-** | **-** | **-** | **(2,022)** | **-** | **(2,022)** |
| Total comprehensive (expense) income for the year | **-** | **-** | **-** | **-** | **(12,617)** | **-** | **-** | **-** | **164,736** | **152,119** | **214,780** | **366,899** |
| Transfer to statutory reserves | **-** | **-** | **-** | **3,893** | **-** | **-** | **-** | **-** | **(3,893)** | **-** | **-** | **-** |
| Shares repurchased and not yet cancelled (Note 34) | **-** | **-** | **-** | **-** | **-** | **(28,418)** | **-** | **-** | **-** | **(28,418)** | **-** | **(28,418)** |
| Dividend recognised as distribution (Note 14) | **-** | **(58,143)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(58,143)** | **-** | **(58,143)** |
| Dividend declared to non-controlling interests | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(122,850)** | **(122,850)** |
| Recognised of equity-settled share-based expense (Note 38(a)) | **-** | **-** | **-** | **-** | **-** | **-** | **2,649** | **-** | **-** | **2,649** | **-** | **2,649** |
| Share vested under share award scheme | **-** | **-** | **-** | **-** | **-** | **1,632** | **(1,370)** | **-** | **(262)** | **-** | **-** | **-** |
| Acquisition of equity interest in a subsidiary | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(828)** | **(828)** | **(1,261)** | **(2,089)** |
| **At 31 December 2022** | **38** | **153,398** | **14,051** | **13,812** | **(5,356)** | **(27,167)** | **1,279** | **1** | **723,310** | **873,366** | **327,557** | **1,200,923** |

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 years ended 31 December 2022 and 2021.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit before tax | **458,298** | 471,621 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **3,449** | 2,207 |
| Depreciation of right-of-use assets | **14,729** | 12,689 |
| Finance costs | **79,179** | 53,769 |
| Share of result of an associate | **(32)** | 4,837 |
| Amortisation of an intangible asset | **2,392** | 2,392 |
| Impairment losses (reversed) recognised under expected credit loss model, net | **(30,305)** | 18,911 |
| Allowance for inventories | **62,705** | 12,360 |
| Interest income from loans to third parties | **–** | (1,194) |
| Unrealised exchange loss, net | **(12,245)** | 2,564 |
| Fair value loss on financial assets at fair value through profit or loss | **3,438** | 188 |
| Gain on disposal of property, plant and equipment | **(295)** | (249) |
| Gain on early termination of lease | **(33)** | (13) |
| Gain on bargain purchase from business combination (Note 43(b)) | **–** | (1,340) |
| Bank interest income | **(4,221)** | (115) |
| Operating cash flows before movements in working capital | **577,059** | 578,627 |
| Decrease (increase) in inventories | **266,257** | (194,983) |
| Decrease (increase) in trade and bills receivables | **507,658** | (878,208) |
| Increase in deposits, prepayments and other receivables | **(30,417)** | (39,191) |
| Increase in amount due from an associate | **(118)** | – |
| Decrease in trade payables | **(199,686)** | (58,695) |
| (Decrease) increase in other payables and accrued charges | **(116,033)** | 182,229 |
| Decrease in contract liabilities | **(674)** | (17,570) |
| Cash from (used in) operations | **1,004,046** | (427,791) |
| Income tax paid | **(134,294)** | (13,439) |
| **NET CASH FROM (USED IN) OPERATING ACTIVITIES** | **869,752** | (441,230) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| **INVESTING ACTIVITIES** | | |
| Capital injection to an associate | – | (37,495) |
| Interest income received from loans to third parties | – | 1,213 |
| Interest received | 6,390 | 2,323 |
| Loans to third parties | – | (3,900) |
| Loan repayment from third parties | – | 35,100 |
| Net cash (outflow) inflow on acquisition of subsidiaries (Note 43) | (31,871) | 48 |
| Acquisition of additional equity interest in subsidiaries | (2,089) | – |
| Placement of pledged bank deposits | (467,669) | (485,933) |
| Withdrawal of pledged bank deposits | 431,213 | 243,294 |
| Purchase of financial assets at fair value through profit or loss | – | (24,398) |
| Purchase of a club debenture | (499) | (5,433) |
| Purchase of property, plant and equipment | (10,509) | (6,280) |
| Proceeds from disposal of property, plant and equipment | 332 | 333 |
| **NET CASH USED IN INVESTING ACTIVITIES** | (74,702) | (281,128) |
| **FINANCING ACTIVITIES** | | |
| New bank and other borrowings raised | 10,331,962 | 8,854,567 |
| Repayment of bank and other borrowings | (10,925,920) | (8,081,682) |
| Interest paid | (79,179) | (53,769) |
| Dividend paid | (58,143) | (39,146) |
| Dividend paid to non-controlling interests | (89,797) | (5,616) |
| Repayment to a non-controlling shareholder of a subsidiary | (4,363) | – |
| Repayments of lease liabilities | (15,620) | (12,331) |
| Payment on repurchase of shares | (28,418) | (2,430) |
| Proceeds from bills discounted | 276,698 | 115,430 |
| **NET CASH (USED IN) FROM FINANCING ACTIVITIES** | (592,780) | 775,023 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 202,270 | 52,665 |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | 290,931 | 238,557 |
| Effect of foreign exchange rate changes | 1,204 | (291) |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER,** represented by bank balances and cash | 494,405 | 290,931 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 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 Act, Cap. 22 (Law 3 of 1961, as combined and revised) of the Cayman Islands. 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 addresses of registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

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 Group's annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

| | |
|---|---|
| Amendment to HKFRS 3 | Reference to the Conceptual Framework |
| Amendments to HKFRS 16 | Covid-19-Related Rent Concessions beyond 30 June 2021 |
| Amendment to HKAS 16 | Property, Plant and Equipment — Proceeds before Intended Use |
| Amendment to HKAS 37 | Onerous Contracts – Cost of Fulfilling a Contract |
| Amendment to HKFRSs | Annual Improvements to HKFRSs 2018–2020 |

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)

**Impacts on application of Amendments to HKFRSs *Annual Improvements to HKFRSs 2018–2020***

The Group has applied the amendments for the first time in the current year. The annual improvements make amendments to the following standards:

***HKFRS 9 Financial Instruments***

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the "10 per cent" test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf.

In accordance with the transitional provisions, the Group applies the amendment to financial liabilities that are modified or exchanged as at the date of initial application, 1 January 2022.

***HKFRS 16 Leases***

The amendment to Illustrative Example 13 accompanying HKFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

The application of the amendments in the current year has had no impact on the Group's consolidated financial statements.

### 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 (including the October 2020 and February 2022 Amendments to HKFRS 17) | Insurance Contracts[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2] |
| Amendment to HKFRS 16 | Lease Liability in a Sale and Leaseback[3] |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3] |
| Amendments to HKAS 1 | Non-current Liabilities with Covenants[3] |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies[1] |
| Amendments to HKAS 8 | Definition of Accounting Estimates[1] |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1] |

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1 January 2024.

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.

## 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 (2020)***

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 2022, 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.

## 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 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 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*.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs are 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.

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

### 3.1 Basis of preparation of consolidated financial statements (Continued)

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.

### 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.

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

### 3.2 Significant accounting policies (Continued)

**Basis of consolidation** (Continued)

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.

***Changes in the Group's interests in existing subsidiaries***

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 *Financial Instruments* or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

## 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***

A business is an integrated set of activities and assets which includes an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired processes are considered substantive if they are critical to the ability to continue producing outputs, including an organised workforce with the necessary skills, knowledge, or experience to perform the related processes or they significantly contribute to the ability to continue producing outputs and are considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

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.

For business combinations in which the acquisition date is on or after 1 January 2022, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the Conceptual Framework for Financial Reporting 2018 issued in June 2018 (the "**Conceptual Framework**") except for transactions and events within the scope of HKAS 37 or HK(IFRIC)-Int 21, in which the Group applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognised.

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.

## 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)

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.

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.

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.

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

### 3.2 Significant accounting policies (Continued)

**Investment in an associate** (Continued)

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.

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.

**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.

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

### 3.2 Significant accounting policies (Continued)

**Revenue from contracts with customers** (Continued)

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.

**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***

*Short-term leases and leases of low-value assets*

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. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

*Right-of-use assets*

The cost of right-of-use assets include:

- 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 or a change in the assessment of exercise of a purchase option, 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 assets.

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).

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

### 3.2 Significant accounting policies (Continued)

**Foreign currencies** (Continued)

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.

Exchange differences relating to the retranslation of the Group's net assets in US$, Renminbi ("**RMB**"), and Japanese Yen ("**JPY**") to the Group's presentation currency (i.e. HK$) 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**

All 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".

**Employee benefits**

***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, annual leave and sick leave) 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 less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

## 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 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.

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.

**Cash and cash equivalents**

Cash and cash equivalents presented on the consolidated statement of financial position include:

(a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and

(b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. Such overdrafts are presented as short-term borrowings in the consolidated statement of financial position.

**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.

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

### 3.2 Significant accounting policies (Continued)

**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).

**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.

## 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)

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.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or fair value through other comprehensive income ("**FVTOCI**") 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 and debt instruments subsequently measured at FVTOCI. 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 and bills receivables, deposits and other receivables, pledged bank deposits and bank balances) 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.

## 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)

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 and bills receivables and amount due from an associate.

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.

(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.

## 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 (Continued)

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.

(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:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- 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;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

## 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)

(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, adjusted for 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.

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

Lifetime 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 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.

## 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)

*Derecognition of financial assets*

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

***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 non-controlling shareholders 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 3.2, the directors of the Company are 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 is the critical judgement, 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.

**Control over Quiksol International HK Pte Limited and its subsidiaries**

During the year ended 31 December 2018, the Group acquired altogether 25% ownership interest in Quiksol International HK Pte Limited ("**Quiksol HK**"), which has 2 wholly-owned subsidiaries, namely Quiksol International Components Pte Ltd ("**Quiksol International**") and 蘇州酷科電子有限公司 (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.

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.

### Key sources of estimation uncertainty

The following is the key assumption 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.

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

### Key sources of estimation uncertainty (Continued)

**Impairment assessment of 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 remaining trade receivables by 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 Notes 36(b) and 24, respectively.

## 5. REVENUE

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

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| **Types of goods or service** | | |
| Sale of electronic components | **10,006,078** | 10,389,312 |
| **Timing of revenue recognition** | | |
| A point in time | **10,006,078** | 10,389,312 |
| **Sales channel/product lines** | | |
| *Authorised distribution* | | |
| Optoelectronic displays | **1,080,031** | 1,860,011 |
| Memory products | **301,608** | 513,578 |
| Communication products | **683,334** | 672,731 |
| Smart vision | **1,428,147** | 1,344,174 |
| Smart display | **2,899,524** | 2,776,541 |
| Integrated products | **266,953** | 151,334 |
| Others (Note) | **231,822** | 209,733 |
| | **6,891,419** | 7,528,102 |
| *Independent distribution* | **3,114,659** | 2,861,210 |
| | **10,006,078** | 10,389,312 |

Note: Others mainly comprising the sales of optoelectronic products.

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

## 5. REVENUE (Continued)

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

During the year ended 31 December 2022, the Group has reorganised its sales channel/product lines for authorised distribution in order to cater for the business development of different sales channels as well as better internal performance measurement for the future resources allocation of different products, and accordingly, the majority of television products and smart terminals have been regrouped as smart display and majority of security monitoring and other product lines have been re-grouped as smart vision during the current year. The comparative figures have been restated and represented in order to conform to the disclosure of current year.

### (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.

As at 31 December 2022 and 2021, 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, which involves the distribution of integrated circuit ("**IC**") products that are procured directly from and authorised for sale by a list of internationally well-known IC brands in the industry.

2. Independent distribution, which involves the distribution of IC products that are procured by the Group from other readily available suppliers in the market.

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 2022**

| | 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 | **6,891,419** | **3,114,659** | **10,006,078** | **–** | **10,006,078** |
| Inter-segment sales* | **39,058** | **58,239** | **97,297** | **(97,297)** | **–** |
| | **6,930,477** | **3,172,898** | **10,103,375** | **(97,297)** | **10,006,078** |
| Segment profit | **89,051** | **299,469** | **388,520** | **–** | **388,520** |
| * *Inter-segment sales are charged at cost* | | | | | |
| Less: Unallocated expenses | | | | | **(5,369)** |
| Fair value loss on financial assets at FVTPL | | | | | **(3,438)** |
| Share of result of an associate | | | | | **32** |
| Profit for the year | | | | | **379,745** |

## 6. SEGMENT INFORMATION (Continued)

### Segment revenues and results (Continued)

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 expenses | (8,726) |
| Fair value loss 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 |

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. 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 loss 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, Singapore and Japan.

The following table provides an analysis of the Group's sales by geographical market based on the jurisdictions where the relevant group entities were set up, which are also their place of operations during the 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**

| | **2022 HK$'000** | 2021 HK$'000 |
|---|---|---|
| Hong Kong | **7,323,814** | 8,336,444 |
| The PRC | **1,906,177** | 1,807,406 |
| Singapore | **584,600** | 240,101 |
| Japan | **161,527** | 2,080 |
| Others | **29,960** | 3,281 |
| | **10,006,078** | 10,389,312 |

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

**Non-current assets**

| | **2022 HK$'000** | 2021 HK$'000 |
|---|---|---|
| Hong Kong | **46,785** | 23,479 |
| The PRC | **59,492** | 61,694 |
| Singapore | **3,128** | 2,555 |
| Japan | **1,981** | – |
| Others | **1,842** | 214 |
| | **113,228** | 87,942 |

Note: Non-current assets excluded those relating to financial assets at FVTPL, deposits 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:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Customer 1 | **1,302,755** | 1,086,726 |
| Customer 2 | **1,074,323** | 1,142,950 |

## 7. OTHER INCOME

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Bank interest income | **4,221** | 115 |
| Technical support services income | **11,091** | 7,213 |
| Interest income from loans to third parties | **–** | 1,194 |
| Government grant (Note) | **3,080** | 1,324 |
| Covid-19-related rent concession (Note 17) | **927** | – |
| Others | **1,970** | 1,528 |
| | **21,289** | 11,374 |

Note: During the year ended 31 December 2022, the Group received government grants of HK$435,000 (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 July to August 2022 and October 2022. The remaining represents subsidies received from the relevant PRC government for improvement of working capital and incentive subsidies received in relation to activities carried out by the Group for the years ended 31 December 2022 and 2021.

## 8. OTHER GAINS OR LOSSES, NET

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Foreign exchange (loss) gain, net | **(41,032)** | 815 |
| Fair value loss on financial assets at FVTPL | **(3,438)** | (188) |
| Gain on bargain purchase from business combination (Note 43(b)) | **–** | 1,340 |
| Gain on disposal of property, plant and equipment | **295** | 249 |
| Gain on early termination of lease | **33** | 13 |
| | **(44,142)** | 2,229 |

## 9. FINANCE COSTS

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Interest on: | | |
| — bank and other borrowings | **78,151** | 52,552 |
| — lease liabilities | **1,028** | 1,217 |
| | **79,179** | 53,769 |

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

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Impairment losses reversed (recognised), net in respect of: | | |
| — Trade receivables | **30,695** | (18,911) |
| — Bill receivables | **(390)** | – |
| | **30,305** | (18,911) |

Details of impairment assessment are set out in Note 36(b).

## 11. INCOME TAX EXPENSES

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Current tax: | | |
| Hong Kong Profits Tax | **56,084** | 68,511 |
| PRC Enterprise Income Tax ("**PRC EIT**") | **6,384** | 8,763 |
| Singapore Corporate Tax ("**CIT**") | **13,351** | 6,148 |
| | **75,819** | 83,422 |
| Deferred tax (Note 33) | **2,734** | (3,702) |
| | **78,553** | 79,720 |

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 2022, 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$46,966,000 (2021: HK$41,943,000). No deferred tax liability has been recognised in respect of these amounts because the Group is in a position in control of the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

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:

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| Profit before tax | **458,298** | 471,621 |
| Tax charge at Hong Kong Profits Tax Rate of 16.5% (Note) | **75,619** | 77,817 |
| Tax effect of expenses not deductible for tax purpose | **7,652** | 2,213 |
| Tax effect of income not taxable for tax purpose | **(6,432)** | (1,113) |
| Tax effect of tax losses not recognised | **3,842** | 3,019 |
| Utilisation of tax losses previously not recognised | **(2,193)** | (2,007) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **1,182** | 1,316 |
| Income tax at concessionary rate | **(749)** | (914) |
| Others | **(368)** | (611) |
| Tax charge for the year | **78,553** | 79,720 |

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

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Profit for the year has been arrived at after charging: | | |
| Directors' emoluments (Note 13) | **6,417** | 9,591 |
| Staff costs | | |
| Salaries and other allowances | **178,495** | 111,122 |
| Discretionary bonus | **127,986** | 148,776 |
| Retirement benefit scheme contributions | **24,720** | 19,752 |
| Total staff costs | **337,618** | 289,241 |
| Allowance for inventories recognised (included in cost of sales) | **62,705** | 12,360 |
| Amortisation of an intangible asset (included in selling and distribution expenses) | **2,392** | 2,392 |
| Auditor's remuneration | **3,027** | 2,100 |
| Cost of inventories recognised as an expense | **8,911,337** | 9,399,359 |
| Depreciation of property, plant and equipment | **3,449** | 2,207 |
| Depreciation of right-of-use assets | **14,729** | 12,689 |

## 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<br>HK$'000 | Salaries and other allowance<br>HK$'000 | Discretionary bonus<br>HK$'000<br>(Note a) | Retirement benefit scheme contributions<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|---|
| **Year ended 31 December 2022** | | | | | |
| Executive directors: | | | | | |
| Mr. Tian (Note b) | – | 1,154 | 496 | 18 | 1,668 |
| Mr. Wong Tsz Leung | – | 780 | 465 | 18 | 1,263 |
| Mr. Liu Hongbing | – | 835 | 470 | 18 | 1,323 |
| Mr. Mak Hon Kai, Stanly (Note c) | – | 780 | 465 | 18 | 1,263 |
| Independent non-executive directors: | | | | | |
| Mr. Zheng Gang | 300 | – | – | – | 300 |
| Mr. Tang Ming Je | 300 | – | – | – | 300 |
| Ms. Xu Wei (Note d) | 300 | – | – | – | 300 |
| | 900 | 3,549 | 1,896 | 72 | 6,417 |

## 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 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. Mak Hon Kai, Stanly (Note c) | – | 55 | 1,165 | 2 | 1,222 |
| Mr. Yan Qing (Note c) | – | 652 | 1,885 | 80 | 2,617 |
| 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 |

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 was appointed as executive director on 6 December 2021.

(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 both years.

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

### Employees

The five highest paid employees of the Group during the year included nil (2021: one) director, details of their emoluments are set out above. Details of the emoluments for the year of the remaining five (2021: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Salaries and other allowances | **1,248** | 1,151 |
| Discretionary bonus | **29,082** | 10,497 |
| Retirement benefit scheme contributions | **1,073** | 225 |
| | **31,403** | 11,873 |

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:

| | 2022 | 2021 |
|---|---|---|
| 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 |
| HK$4,000,001 to HK$4,500,000 | **1** | – |
| HK$4,500,001 to HK$5,000,000 | **1** | – |
| HK$5,000,001 to HK$5,500,000 | **1** | – |
| HK$5,500,001 to HK$6,000,000 | **1** | – |
| HK$11,500,001 to HK$12,000,000 | **1** | – |

During the years ended 31 December 2022 and 2021, 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

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| Dividends for ordinary shareholders of the Company recognised as distributions during the year | | |
| 2022 — Interim — HK4 cents (2021: 2021 interim dividend HK4 cents) per share | **19,199** | 19,599 |
| 2021 — Final — HK8 cents (2021: 2020 final dividend HK4 cents) per share | **38,944** | 19,547 |
| | **58,143** | 39,146 |

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2022 of HK6 cents (2021: final dividend in respect of the year ended 31 December 2021 of HK8 cents) per ordinary share, in an aggregate amount of approximately HK$29,321,000 (2021: HK$38,944,000), 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:

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| **Earnings** | | |
| Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share | **164,736** | 214,061 |

| | 2022 | 2021 |
|---|---|---|
| **Number of ordinary shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **484,045,140** | 488,524,783 |
| Effect of dilutive potential ordinary shares | | |
| Restricted share units (the "**RSUs**") | **2,000,000** | – |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **486,045,140** | 488,524,783 |

For the years ended 31 December 2022 and 2021, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share has taken into account of 15,850,000 (2021: 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, adjusted by 1,000,000 (2021: Nil) ordinary shares vested under the share award scheme of the Company.

## 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 2021 | 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** |
| Additions | **162** | **8,823** | **1,524** | **10,509** |
| Acquired on acquisition of subsidiaries (Note 43) | **–** | **112** | **–** | **112** |
| Disposals | **–** | **(27)** | **(512)** | **(539)** |
| Exchange adjustments | **(26)** | **(977)** | **(291)** | **(1,294)** |
| At 31 December 2022 | **1,555** | **21,931** | **7,342** | **30,828** |
| **DEPRECIATION** | | | | |
| At 1 January 2021 | 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** |
| Provided for the year | **63** | **2,089** | **1,297** | **3,449** |
| Eliminated on disposals | **–** | **(16)** | **(486)** | **(502)** |
| Exchange adjustments | **(22)** | **(761)** | **(86)** | **(869)** |
| At 31 December 2022 | **1,408** | **8,899** | **5,403** | **15,710** |
| **CARRYING VALUES** | | | | |
| At 31 December 2022 | **147** | **13,032** | **1,939** | **15,118** |
| At 31 December 2021 | 52 | 6,413 | 1,943 | 8,408 |

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<br>HK$'000 |
|---|---|
| At 1 January 2021 | 26,197 |
| Additions to right-of-use assets | 6,197 |
| Adjustments on lease modifications | 5,840 |
| Acquired on acquisition of a subsidiary (Note 43(b)) | 923 |
| Decrease in early termination of lease | (279) |
| Depreciation charge | (12,689) |
| Exchange adjustments | 500 |
| At 31 December 2021 | **26,689** |
| Additions to right-of-use assets | **11,383** |
| Decrease in early termination of lease | **(294)** |
| Depreciation charge | **(14,729)** |
| Exchange adjustments | **(1,321)** |
| At 31 December 2022 | **21,728** |

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| Expense relating to short-term leases | **(569)** | – |
| Total cash outflow for leases | **(17,217)** | (13,548) |

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 2022 and 2021, 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.

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$11,383,000 right-of-use assets and HK$11,383,000 lease liabilities (2021: HK$6,197,000 right-of-use assets and HK$12,037,000 lease liabilities).

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 2022, lessor of office premises provided rent concessions to the Group through rent deduction 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 2022, the effects on changes in lease payments due to forgiveness or waiver by the lessors for the relevant leases of HK$927,000 (2021: Nil) were recognised as negative variable lease payments included in "other income".

## 18. GOODWILL

| | HK$'000 |
|---|---|
| **COST** | |
| At 1 January 2021 and 31 December 2021 | 9,735 |
| Arising on acquisition of a subsidiary (Note 43(a)) | 20,159 |
| At 31 December 2022 | 29,894 |

Goodwill is allocated to the following Group's cash-generating units ("**CGUs**"):

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| Quiksol Group (Note a) | **9,735** | 9,735 |
| Wisdom Fortune (as defined in Note 43(a)) (Note b) | **20,159** | – |
| | **29,894** | 9,735 |

Notes:

(a) For the purpose of impairment testing, 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 (2021: 5-year), and discount rate of 15.36% (2021: 15.36%). Cash flows beyond the 5-year period (2021: 5-year) are extrapolated using a steady 2% growth rate (2021: 2%). 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 Quiksol Group is higher than its carrying amount. As at 31 December 2022, the directors of the Company determined that there is no impairment on the goodwill allocated to Quiksol Group.

(b) For the purpose of impairment testing, the recoverable amount of Wisdom Fortune 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, and discount rate of 14.73%. Cash flows beyond the 5-year period are extrapolated using a steady 2% growth rate. 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 Wisdom Fortune'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 Wisdom Fortune is higher than its carrying amount. As at 31 December 2022, the directors of the Company determined that there is no impairment on the goodwill allocated to Wisdom Fortune.

The recoverable amounts of both Quiksol Group and Wisdom Fortune is significantly above the respective carrying amounts. Management of the Group believes that any reasonably possible changes in any of these assumptions would not result in impairment.

## 19. INTANGIBLE ASSET

| | **Customer relationship** HK$'000 |
|---|---|
| **COST** | |
| At 1 January 2021 and 31 December 2021 | 11,959 |
| Acquired on acquisition of a subsidiary (Note 43(a)) | 7,896 |
| At 31 December 2022 | 19,855 |
| **AMORTISATION** | |
| At 1 January 2021 | 5,183 |
| Charge for the year | 2,392 |
| At 31 December 2021 | **7,575** |
| Charge for the year | **2,392** |
| At 31 December 2022 | **9,967** |
| **CARRYING VALUE** | |
| At 31 December 2022 | **9,888** |
| At 31 December 2021 | 4,384 |

Intangible asset represents customer-related intangible asset recognised in business combinations and is amortised on a straight-line basis, over the following rate per annum:

| | |
|---|---|
| Customer relationship | 20% |

## 20. CLUB DEBENTURES

| | **2022** | 2021 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **COST** | | |
| Balance at end of the year | **5,932** | 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 2022 and 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 loss of the investments in club debentures during the years ended 31 December 2022 and 2021.

## 21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **2022** | 2021 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Financial assets measured at FVTPL:** | | |
| Life insurance policies (Note i) | **113,721** | 99,788 |
| Unlisted unit trust funds (Note ii) | **39,318** | 47,463 |
| Unlisted limited partnership (Note iii) | **3,380** | 3,674 |
| Unlisted equity securities (Note iv) | **1,128** | 1,224 |
| | **157,547** | 152,149 |

Notes:

(i) As at 31 December 2022, the Group has a total of nine (2021: seven) life insurance policies with three (2021: three) insurance companies to insure certain directors of the Company. Under these policies, the Group is the beneficiary and policy holder. The total insured sum is US$36,500,000 (equivalent to approximately HK$284,700,000) (2021: US$34,000,000 (equivalent to approximately HK$265,200,000)) in aggregate. The Group is required to pay a single premium totalling US$12,033,000 (equivalent to approximately HK$93,857,000) for seven life insurance policies at inception and the remaining two life insurance policies amounting to US$1,463,000 (equivalent to approximately HK$11,410,000) were acquired on acquisition of subsidiaries (Note 43(a)) during the current year. The Group can, at any time, withdraw cash based on the account value of the policies ("**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, seventh, eighth and ninth policy, there is a specified amount of surrender charge deducted from the Account Value. The insurance companies 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 represents investments in 2 (2021: 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

| | **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|
| Cost of investment in an associate | **37,495** | 37,495 |
| Share of result of an associate | **(4,805)** | (4,837) |
| Share of other comprehensive income of an associate | **(2,022)** | 635 |
| | **30,668** | 33,293 |

Details of the Group's associate at the end of the reporting period are as follows:

| **Name** | **Place of incorporation** | **Issued and paid up capital** | **Proportion of ownership interest and voting rights interest held by the Group** | | **Principal activities** |
|---|---|---|---|---|---|
| | | | **2022** | 2021 | |
| 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%** | 46% | Trading of electronic components |

* *English name for identification only.*

Note: The Group has 46% ownership and voting rights in GSCL. By considering that the Group has no sufficiently dominant voting rights to direct the relevant activities of GSCL unilaterally, the directors of the Company conclude that the Group only has significant influence over GSCL and therefore it is classified as an associate of the Group.

## 22. INVESTMENT IN AN ASSOCIATE (Continued)

### Summarised financial information of an associate

Summarised financial information in respect of GSCL is set out below. The summarised financial information below represents amounts shown in GSCL's financial statements prepared in accordance with HKFRSs.

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| Current assets | **52,865** | 51,406 |
| Non-current assets | **42,269** | 22,038 |
| Current liabilities | **12,691** | 1,068 |
| Non-current liabilities | **15,774** | – |
| Revenue | **24,037** | 96 |
| Profit (loss) for the year | **70** | (10,515) |
| Other comprehensive (expense) income for the year | **(5,776)** | 1,380 |
| Total comprehensive expense for the year | **(5,706)** | (9,135) |

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| Net assets of GSCL | **66,669** | 72,376 |
| Proportion of the Group's ownership interest in GSCL | **46%** | 46% |
| Carrying amount of the Group's interest in GSCL | **30,668** | 33,293 |

## 23. INVENTORIES

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Electronic components held for resale | **368,753** | 623,752 |
| Less: Allowance for inventories | **(80,365)** | (17,726) |
| | **288,388** | 606,026 |

The movements in the allowance of inventories are as follows:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| At beginning of year | **17,726** | 7,047 |
| Allowance recognised in profit or loss, net | **62,705** | 12,360 |
| Written off | **(66)** | (1,681) |
| At end of year | **80,365** | 17,726 |

## 24. TRADE AND BILLS RECEIVABLES

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Trade receivables | **1,212,970** | 1,932,795 |
| Less: allowance for credit losses | **(23,172)** | (53,348) |
| Bills receivables | **23,278** | 105,344 |
| Less: allowance for credit losses | **(556)** | (166) |
| | **1,212,520** | 1,984,625 |

As at 1 January 2021, trade receivables from contracts with customers amounted to HK$1,102,296,000.

The Group allows credit period of 0 days to 120 days (2021: 0 to 120 days) to its customers. The bills receivables have a general maturity period ranging from 30 to 180 days (2021: 30 to 180 days).

## 24. TRADE AND BILLS RECEIVABLES (Continued)

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

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| Trade receivables | | |
| 0 to 60 days | **823,528** | 1,307,653 |
| 61 to 120 days | **321,450** | 479,411 |
| Over 120 days | **44,820** | 92,383 |
| | **1,189,798** | 1,879,447 |
| Bills receivables | | |
| 0 to 60 days | **22,722** | 105,178 |

At 31 December 2022, trade and bill receivables of HK$338,769,000 (2021: HK$854,257,000) and HK$22,722,000 (2021: HK$105,178,000) were further discounted to banks with full recourse, respectively and trade receivables of HK$6,945,000 (2021: nil) were discounted to a financial institution with full recourse. The Group continues to recognise their full carrying amounts at the end of the reporting period and details are disclosed below.

As at 31 December 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$426,533,000 (2021: HK$369,712,000) which are past due as at the reporting date. Out of the past due balances, HK$27,124,000 (2021: HK$88,506,000) has been past due 90 days or above, for which the Group does not consider the balances in default as there has not been a significant change in the credit quality and amounts are still considered recoverable based on historical experience.

As at 31 December 2022, other than bills received amounting to HK$22,722,000 (2021: HK$105,178,000), 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 36(b).

## 25. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Deposits | | |
| — refundable | **5,350** | 9,515 |
| — non-refundable | **112,130** | 43,292 |
| Prepayments | **7,498** | 7,897 |
| Other receivables | **1,891** | 6,817 |
| Value-added tax recoverable | **4,621** | 19,976 |
| | **131,490** | 87,497 |
| Analysed as: | | |
| Non-current | **2,376** | 2,543 |
| Current | **129,114** | 84,954 |
| | **131,490** | 87,497 |

## 26. PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS

The cash and cash equivalents 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:

| | 2022 | 2021 |
|---|---|---|
| Range of interest rate per annum: | | |
| Pledged bank deposits | **0.01%–4.00%** | 0.01%–5.00% |
| Bank balances | **0.001%–0.4%** | 0.001%–0.3% |

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:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| HK$ | **201** | 201 |

## 27. TRADE PAYABLES

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Trade payables | **350,674** | 536,103 |

The credit period for trade payables ranging from 0 to 60 days (2021: 0 to 60 days).

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

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| 0–30 days | **269,729** | 448,331 |
| 31–60 days | **19,174** | 56,621 |
| 61–90 days | **36,670** | 27,712 |
| Over 90 days | **25,101** | 3,439 |
| | **350,674** | 536,103 |

As at 31 December 2022, included in the trade payables is HK$34,929,000 (2021: HK$58,471,000), 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

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Accrued purchases | **17,035** | 127,383 |
| Accrued staff costs | **120,344** | 117,018 |
| Accrued expenses | **19,482** | 14,879 |
| Other payables | **10,269** | 13,665 |
| | **167,130** | 272,945 |

## 29. LEASE LIABILITIES

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| **Lease liabilities payable:** | | |
| Within one year | **14,100** | 13,705 |
| Within a period of more than one year but not more than two years | **7,012** | 10,791 |
| Within a period of more than two years but not more than five years | **1,925** | 3,649 |
| | **23,037** | 28,145 |
| Less: Amount due for settlement with 12 months shown under current liabilities | **(14,100)** | (13,705) |
| Amount due for settlement after 12 months shown under non-current liabilities | **8,937** | 14,440 |

The weighted average incremental borrowing rates applied to lease liabilities is at 4.17% (2021: 4.32%).

## 30. CONTRACT LIABILITIES

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| Sales of electronic components | **33,575** | 33,895 |

The Group receives certain amount of the contract value from customers when they place their purchase order. This gives 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 2021, contract liabilities amounted to HK$51,665,000.

During the year ended 31 December 2022, revenue amounting to HK$33,895,000 (2021: HK$51,665,000) was recognised in the current year which relates to carried-forward contract liabilities.

## 31. AMOUNTS DUE FROM (TO) AN ASSOCIATE/NON-CONTROLLING SHAREHOLDERS OF A SUBSIDIARY

### (a) Amount due from an associate

The amount is trade nature with credit period of 60 days, unsecured and interest-free. The entire balance is aged within 30 days as at 31 December 2022.

### (b) Amounts due to non-controlling shareholders of a subsidiary

As at 31 December 2022, the entire balance represents the dividend payables to 2 non-controlling shareholders of a subsidiary, which are non-trade nature, unsecured, interest-free and repayable on demand.

As at 31 December 2021, the entire balance represents consideration payable for acquisition of a subsidiary of US$559,000 (equivalent to HK$4,363,000). The amount was unsecured, non-interest bearing and repayable within 1 year. The entire balance was settled during the year ended 31 December 2022.

## 32. BANK AND OTHER BORROWINGS

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| Import and export loans | **464,411** | 747,803 |
| Other bank borrowings | **556,801** | 890,329 |
| | **1,021,212** | 1,638,132 |
| Other borrowings | **9,014** | – |
| | **1,030,226** | 1,638,132 |
| Analysed as: | | |
| Secured | **1,010,734** | 1,631,917 |
| Unsecured | **19,492** | 6,215 |
| | **1,030,226** | 1,638,132 |
| Carrying amounts of the above bank borrowings that do not contain a repayable on demand clause and are repayable: | | |
| — within one year | **52,513** | 3,438 |
| — within a period of more than one year but not exceeding two years | **3,052** | 5,858 |
| — within a period of more than two years but not exceeding five years | **1,655** | 3,709 |
| | **57,220** | 13,005 |
| Carrying amounts of bank borrowings that contain a repayable on demand clause (shown under current liabilities) but are repayable* | | |
| — within one year | **963,992** | 1,619,005 |
| Carrying amounts of other borrowings that contain a repayable on demand clause (shown under current liabilities) but are repayable* | | |
| — within one year | **9,014** | 6,122 |
| | **1,030,226** | 1,638,132 |
| Less: Amount due within one year shown under current liabilities | **(1,025,519)** | (1,628,565) |
| Amount shown under non-current liabilities | **4,707** | 9,567 |

* *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:

| | **2022** | 2021 |
|---|---|---|
| Effective interest rate: | | |
| Bank borrowings and import and export loans | | |
| — variable rates | **1.77%–7.88%** | 1.53%–10.62% |
| — fixed rates | **2.50%–4.25%** | 2.50%–4.75% |
| Other borrowings and export loans: | | |
| — fixed rates | **4.90%–6.5%** | 6.5% |

The variable rates bank borrowings are subject to interest at Secured Overnight Funding Rate ("**SOFR**") plus a spread, Loan Prime Rate ("**LPR**") plus a spread, Hong Kong Interbank Offered Rate ("**HIBOR**") plus a spread and US Prime Rate plus a spread (2021: London Interbank Offered Rate ("**LIBOR**") plus a spread, LPR plus a spread, HIBOR plus a spread and US Prime Rate plus a spread).

## 33. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **2022 HK$'000** | 2021 HK$'000 |
|---|---|---|
| Deferred tax asset | **(5,882)** | (9,011) |
| Deferred tax liability | **329** | 724 |
| | **(5,553)** | (8,287) |

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 bills receivables** HK$'000 | **Intangible asset identified from business combination** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| At 1 January 2021 | (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)** |
| Charge (credit) to profit or loss | **3,129** | **(395)** | **2,734** |
| At 31 December 2022 | **(5,882)** | **329** | **(5,553)** |

## 33. DEFERRED TAXATION (Continued)

At the end of the reporting period, the Group has unused tax losses of approximately HK$64,042,000 (2021: HK$54,046,000), 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$20,198,000 (2021: HK$21,277,000) will expire from 2023 to 2027 (2021: 2022 to 2026) and the remaining tax losses may be carried forward indefinitely.

## 34. SHARE CAPITAL

| | Number of shares | Amount<br>US$'000 |
|---|---|---|
| Ordinary shares of US$0.00001 each | | |
| **Authorised:** | | |
| At 1 January 2021, 31 December 2021 and 2022 | 5,000,000,000 | 50 |
| **Issued and fully paid** | | |
| At 1 January 2021 | 492,955,030 | 5 |
| Share repurchased and cancelled | (4,274,000) | –* |
| At 31 December 2021 and 2022 | 488,681,030 | 5 |

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| Shown in the financial statements as | **38** | 38 |

* Representing US$43, equivalent to HK$335.

## 34. SHARE CAPITAL (Continued)

Note: During the year ended 31 December 2022, 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 |
| May 2022 | 2,250,000 | 1.61 | 1.47 | 3,521 |
| June 2022 | 2,500,000 | 1.80 | 1.60 | 4,307 |
| July 2022 | 2,850,000 | 1.90 | 1.80 | 5,312 |
| September 2022 | 2,750,000 | 1.97 | 1.70 | 5,279 |
| October 2022 | 1,750,000 | 1.92 | 1.84 | 3,334 |
| November 2022 | 2,000,000 | 1.95 | 1.84 | 3,806 |
| December 2022 | 1,500,000 | 1.92 | 1.87 | 2,859 |
| | 15,600,000 | | | 28,418 |

The Company repurchased 15,600,000 shares during the year ended 31 December 2022 for an aggregate consideration of HK$28,418,000 from the market pursuant to the share award scheme of the Company, which has been recognised under treasury share reserve as at 31 December 2022 and 3,000,000 ordinary shares under share award scheme have been granted to a director as RSUs as details set out in Note 38(a). 1,000,000 RSUs have been vested and HK$1,632,000 has been released from treasury share reserve during the year ended 31 December 2022.

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 |

The Company repurchased 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 share premium to the treasury share 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 and other borrowings, amounts due to non-controlling shareholders of a subsidiary, net of cash and cash equivalents 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-buy-backs as well as the issue of new debts and redemption of existing debts.

## 36. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Amortised cost | **2,169,194** | 2,712,718 |
| Financial assets at FVTPL | **157,547** | 152,149 |
| **Financial liabilities** | | |
| Amortised cost | **1,424,222** | 2,192,263 |
| **Lease liabilities** | **23,037** | 28,145 |

### b. Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, trade and bills receivables, deposits and other receivables, amount due from an associate, pledged bank deposits, cash and cash equivalents, trade payables, other payables, amount due to a non-controlling shareholder of a subsidiary and bank and other borrowings. 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)

### b. 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 | |
|---|---|---|---|---|
| | **2022 HK$'000** | 2021 HK$'000 | **2022 HK$'000** | 2021 HK$'000 |
| HK$ | **13,676** | 149,451 | **2,171** | 2,139 |
| RMB | **1,525** | 5,929 | **–** | – |

*Inter-company balances*

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2022 HK$'000** | 2021 HK$'000 | **2022 HK$'000** | 2021 HK$'000 |
| US$ | **53,862** | – | **87,363** | – |
| RMB | **42,800** | 109,688 | **50,510** | 110,980 |
| JPY | **13,769** | – | **–** | – |
| Taiwan New Dollars ("**TWD**") | **12,592** | – | **2,065** | 89 |

*Sensitivity analysis*

For the exposure to the fluctuation in US$ against HK$, as HK$ is pegged to US$, the directors of the Company are of opinion that the Group's exposure to the fluctuation in US$ is insignificant and no sensitivity analysis is presented.

The following table details the Group's sensitivity to a 5% (2021: 5%) increase and decrease in US$ against RMB. 5% (2021: 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 pledged bank deposits and inter-company balances and adjusts their translation at the end of the reporting period for a 5% (2021: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where US$ weakens 5% (2021: 5%) against RMB, JPY and TWD or increase in post-tax profit where RMB (i.e. functional currency of certain subsidiaries) weakens 5% against US$. For a 5% (2021: 5%) strengthening of US$ against the relevant currencies or a 5% strengthening of RMB against US$, there would be an equal and opposite impact on the profit.

## 36. FINANCIAL INSTRUMENTS (Continued)

### b. Financial risk management objectives and policies (Continued)

**Market risk** (Continued)

***Currency risk*** (Continued)

*Sensitivity analysis* (Continued)

The Group

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| RMB | **64** | 248 |

Inter-company balances

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| US$ | **(1,398)** | – |
| RMB | **(163)** | (53) |
| JPY | **575** | – |
| TWD | **440** | (4) |

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 fixed-rate bank 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 has been undertaken globally, to replace some interbank offered rates ("**IBORs**") with alternative nearly risk-free rates.

As listed in Note 32, several of the Group's LIBOR and HIBOR bank borrowings have been subject to the interest rate benchmark reform. The Group is closely monitoring the transition to new benchmark interest rates, including announcements made by the relevant IBOR regulators.

*LIBOR*

As at 31 December 2022, all LIBOR settings have been either ceased to be provided by any administrator or no longer be representative.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 36. FINANCIAL INSTRUMENTS (Continued)

### b. Financial risk management objectives and policies (Continued)

**Market risk** (Continued)

***Interest rate risk*** (Continued)

*HIBOR*

While the Hong Kong Dollar Overnight Index Average ("**HONIA**") has been identified as an alternative to HIBOR, there is no plan to discontinue HIBOR. The multi-rate approach has been adopted in Hong Kong, whereby HIBOR and HONIA will co-exist. The Group's bank borrowings linked to HIBOR will continue till maturity and hence, not subject to transition.

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, SOFR, 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.

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 2022 and 2021. 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 (2021: 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 (2021: 50 basis points) higher and other variables were held constant, profit of the year would be affected as follows. For a 50 basis points (2021: 50 basis points) lower, there would be an equal and opposite impact on the profit.

| | **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|
| Decrease in profit for the year | **(3,442)** | (6,103) |

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.

## 36. FINANCIAL INSTRUMENTS (Continued)

### b. Financial risk management objectives and policies (Continued)

**Market risk** (Continued)

***Other price risk*** (Continued)

*Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to price risks at the reporting date.

If the prices of the respective investments in life insurance policies had been 5% (2021: 5%) higher/lower, profit for the year ended 31 December 2022 would increase/decrease by HK$4,748,000 (2021: HK$4,166,000) as a result of the changes in fair value of investments in life insurance policies.

If the prices of the respective investments in unlisted unit trust funds had been 5% (2021: 5%) higher/lower, profit for the year ended 31 December 2022 would increase/decrease by HK$1,642,000 (2021: HK$1,981,000) 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 unlisted unit trust funds at the end of the year but not the exposure during the year.

**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/bills receivables***

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, management of the Group engaged an independent qualified professional valuer to assist them to determine the impairment assessment under ECL model on trade balances and bills receivables 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 and bills 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. Reversal of impairment losses of HK$30,305,000 (2021: net impairment losses of HK$18,911,000) 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 49.8% (2021: 51%) of the total trade and bills 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.

## 36. FINANCIAL INSTRUMENTS (Continued)

### b. Financial risk management objectives and policies (Continued)

**Credit risk and impairment assessment** (Continued)

***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** |
|---|---|
| | HK$'000 |
| As at 1 January 2021 | 173 |
| Impairment losses reversed due to settlement received | (173) |
| As at 31 December 2021 and 2022 | – |

***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.

***Amount due from an associate***

The Group assessed lifetime ECL for an amount due from an associate by reference to repayment history.

The directors of the Company consider that the ECL on an amount due from an associate to be insignificant.

## 36. FINANCIAL INSTRUMENTS (Continued)

### b. Financial risk management objectives and policies (Continued)

**Credit risk and impairment assessment** (Continued)

The Group's internal credit risk grading assessment comprises the following categories:

| Internal credit rating | Description | Trade and bills receivables/amount due from an associate | 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)

### b. 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 | External credit rating | Internal credit rating | 12m or lifetime ECL | 2022 Gross carrying amount | | 2021 Gross carrying amount | |
|---|---|---|---|---|---|---|---|---|
| | | | | | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Financial assets at amortised cost** | | | | | | | | |
| Trade and bills receivables | 24 | N/A | (Note 1) | Lifetime ECL (provision matrix) | 434,647 | | 656,950 | |
| | | | Low risk (Note 1) | Lifetime ECL (individual assessment) | 787,325 | | 1,377,289 | |
| | | | Loss (Note 1) | Credit-impaired | 14,276 | | 3,900 | |
| | | | | | | 1,236,248 | | 2,038,139 |
| Deposits and other receivables | 25 | N/A | Low risk (Note 2) | 12m ECL | | 4,865 | | 16,332 |
| Amount due from an associate | 31(a) | N/A | Low risk (Note 2) | Lifetime ECL — not credit-impairment | | 118 | | – |
| Pledged bank deposits | 26 | Aa3 to B2 | N/A | 12m ECL | | 457,286 | | 420,830 |
| Cash and cash equivalents | 26 | Aa3 to B2 | N/A | 12m ECL | | 494,405 | | 290,931 |
| | | | | | | 2,192,922 | | 2,766,232 |

## 36. FINANCIAL INSTRUMENTS (Continued)

### b. Financial risk management objectives and policies (Continued)

**Credit risk and impairment assessment** (Continued)

Notes:

(1) For trade and bills receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL, except for debtors with significant outstanding balances or credit-impaired, of which the Group determines the ECL on an individual basis.

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 and bills 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$787,325,000 and HK$14,276,000 respectively as at 31 December 2022 (31 December 2021: HK$1,271,945,000 and HK$3,900,000) were assessed individually.

*Gross carrying amount*

| Internal credit rating | 2022 Average loss rate % | 2022 Trade and bills receivables HK$'000 | 2022 Credit loss allowance HK$'000 | 2021 Average loss rate % | 2021 Trade and bills receivables HK$'000 | 2021 Credit loss allowance HK$'000 |
|---|---|---|---|---|---|---|
| **A. Provision matrix** | | | | | | |
| — Current (not past due) | **1.38** | **273,539** | **3,787** | 1.51 | 556,028 | 8,414 |
| — 1–30 days | **1.40** | **93,071** | **1,304** | 1.17 | 166,550 | 1,941 |
| — 31–60 days | **1.75** | **30,712** | **539** | 3.02 | 23,568 | 712 |
| — 61–90 days | **3.01** | **24,765** | **745** | 1.90 | 6,288 | 119 |
| — More than 90 days | **4.81** | **12,560** | **603** | 2.48 | 9,860 | 245 |
| **B. Individual assessment** | **0.31** | **787,325** | **2,474** | 3.00 | 1,271,945 | 38,183 |
| **C. Credit impaired** | **100.00** | **14,276** | **14,276** | 100.00 | 3,900 | 3,900 |
| | | **1,236,248** | **23,728** | | 2,038,139 | 53,514 |

The estimated loss rates under provision matrix and credit-impaired 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 estimated loss rates under individual assessment are estimated based on probability of default published by an international financial service company and are adjusted by loss given default rate and forward-looking information that is available without undue lost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2022, the Group reversed HK$4,972,000 (2021: provided HK$9,152,000) net impairment allowance for trade receivables based on provision matrix. Net reversal of impairment allowance of HK$25,333,000 (2021: provided impairment allowance HK$9,759,000) were made on debtors with significant balances and credit-impaired debtors respectively.

## 36. FINANCIAL INSTRUMENTS (Continued)

### b. Financial risk management objectives and policies (Continued)

**Credit risk and impairment assessment** (Continued)

Notes: (Continued)

(2) For the purpose of internal credit risk management, the Group uses the repayment history or other relevant information to assess whether credit risk has increased significantly since initial recognition. At 31 December 2022, the balance of other receivables, refundable deposits and amount due from an associate are not past due and based on the historical default rates of these balances are considered as low risk.

The following table shows the movement in lifetime ECL that has been recognised for trade and bills receivables under the simplified approach.

| | Lifetime ECL (not-credit impaired) | Lifetime ECL (credit–impaired) | Total |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| **As at 1 January 2021** | 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** |
| Changes due to trade and bills receivables recognised at 1 January 2022: | | | |
| — Impairment losses reversed | **(49,005)** | **–** | **(49,005)** |
| Newly originated trade and bills receivables | **8,324** | **10,376** | **18,700** |
| Exchange adjustments | **519** | **–** | **519** |
| **As at 31 December 2022** | **9,452** | **14,276** | **23,728** |

## 36. FINANCIAL INSTRUMENTS (Continued)

### b. 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 2022, the Group has available unutilised short-term bank loan facilities (excluding stand by letter of credit) of HK$2,067,600,000 (2021: HK$1,427,691,000).

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 % | 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 2022** | | | | | | | |
| Trade payables | – | 350,674 | – | – | – | 350,674 | 350,674 |
| Other payables | – | 10,269 | – | – | – | 10,269 | 10,269 |
| Bank and other borrowings | | | | | | | |
| — variable rates | 3.28 | 964,230 | 19,689 | – | – | 983,919 | 975,681 |
| — fixed rates | 4.37 | 13,433 | 37,548 | 3,252 | 1,909 | 56,142 | 54,545 |
| Amounts due to non-controlling shareholders of a subsidiary | – | 33,053 | – | – | – | 33,053 | 33,053 |
| | | 1,371,659 | 57,237 | 3,252 | 1,909 | 1,434,057 | 1,424,222 |
| Lease liabilities | 4.17 | 3,745 | 10,599 | 7,013 | 2,511 | 23,868 | 23,037 |

## 36. FINANCIAL INSTRUMENTS (Continued)

### b. 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 2021** | | | | | | | |
| Trade payables | – | 536,103 | – | – | – | 536,103 | 536,103 |
| Other payables | – | 13,665 | – | – | – | 13,665 | 13,665 |
| Bank and other borrowings | | | | | | | |
| — variable rates | 2.42 | 1,626,007 | 2,641 | 6,116 | 4,090 | 1,638,854 | 1,622,007 |
| — fixed rates | 2.94 | 485 | 15,859 | – | – | 16,377 | 16,125 |
| Amount due to a non-controlling shareholder of a subsidiary | – | 4,363 | – | – | – | 4,363 | 4,363 |
| | | 2,180,623 | 18,500 | 6,116 | 4,090 | 2,209,362 | 2,192,263 |
| Lease liabilities | 4.32 | 3,790 | 10,837 | 11,032 | 3,668 | 29,327 | 28,145 |

Bank and other 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 2022, the aggregate carrying amount of these bank and other borrowings amounted to approximately HK$973,006,000 (2021: HK$1,625,127,000). 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 and other borrowings of the Group will be repaid after the end of reporting period in accordance with the scheduled repayment dates set out in the 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 and other borrowings based on the scheduled repayment dates set out in the 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 and other borrowings** | | | | | |
| At 31 December 2022 | **3.23** | **883,110** | **97,752** | **980,862** | **973,006** |
| At 31 December 2021 | 2.42 | 1,634,959 | 29,496 | 1,664,455 | 1,625,127 |

## 36. FINANCIAL INSTRUMENTS (Continued)

### c. 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)** |
|---|---|---|---|---|
| | **31.12.2022** | 31.12.2021 | | |
| Financial assets at FVTPL (Note 21) | **Unlisted trust funds HK$39,318,000** | Unlisted trust funds HK$47,463,000 | 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 partnership HK$3,380,000** | Unlisted limited partnership HK$3,674,000 | Level 2 | The fair values of unlisted limited partnership are determined with reference to the recent transaction price of the investments. |
| | **Unlisted equity securities HK$1,128,000** | Unlisted equity securities HK$1,224,000 | Level 2 | The fair values of unlisted equity securities are determined with reference to the recent transaction price of the investments. |
| | **Life insurance policies HK$113,721,000** | Life insurance policies HK$99,788,000 | 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 during both years.

## 36. FINANCIAL INSTRUMENTS (Continued)

### c. 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 2021 | 79,143 |
| Additions | 19,500 |
| Total gains in profit or loss | 1,145 |
| At 31 December 2021 | **99,788** |
| Acquired on acquisition of a subsidiary (Note 43(a)) | **11,410** |
| Total gains in profit or loss | **2,523** |
| At 31 December 2022 | **113,721** |

## 37. RECONCILIATION OF LIABILITIES AND EQUITY ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities and equity arising from financing activities, including both cash and non-cash changes. Liabilities and equity 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.

| | Amounts due to a non-controlling shareholder of a subsidiary | Dividend payable | Bank and other borrowings | Lease liabilities | Treasury share reserve | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| As at 1 January 2021 | – | – | 727,065 | 27,544 | (3,433) | 751,176 |
| Financing cash flows | (5,616) | (39,146) | 835,763 | (13,548) | (2,430) | 775,023 |
| 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 |
| Dividend declared to non-controlling shareholders | 5,616 | – | – | – | – | 5,616 |
| Interest expenses | – | – | 52,552 | 1,217 | – | 53,769 |
| Share repurchased | – | – | – | – | 5,482 | 5,482 |
| 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** | **(381)** | **1,670,259** |
| Financing cash flows | **(94,160)** | **(58,143)** | **(395,411)** | **(16,648)** | **(28,418)** | **(592,780)** |
| Non-cash changes: | | | | | | |
| New leases entered/lease modified | **–** | **–** | **–** | **11,383** | **–** | **11,383** |
| Acquired on acquisition of a subsidiary | **–** | **–** | **23,481** | **–** | **–** | **23,481** |
| Dividend declared | **–** | **58,143** | **–** | **–** | **–** | **58,143** |
| Dividend declared to non-controlling shareholders | **122,850** | **–** | **–** | **–** | **–** | **122,850** |
| Interest expenses | **–** | **–** | **78,151** | **1,028** | **–** | **79,179** |
| Non-cash settlement of discounted bills | **–** | **–** | **(312,390)** | **–** | **–** | **(312,390)** |
| Shares vested under share award schemes | **–** | **–** | **–** | **–** | **1,632** | **1,632** |
| Exchange adjustments | **–** | **–** | **(1,737)** | **(871)** | **–** | **(2,608)** |
| As at 31 December 2022 | **33,053** | **–** | **1,030,226** | **23,037** | **(27,167)** | **1,059,149** |

## 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.

During the current year, the Group granted RSUs to a Group's director under the Share Award Scheme. The RSUs granted would vest on specific dates, or in equal tranches from the grant date over 3 to 27 months, on condition that the director remains in service without any performance requirements. Once the vesting conditions underlying the respective RSUs are met, the RSUs are considered duly and validly issued to the holder, and free of restrictions on transfer.

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

| | **Number of RSUs** | **Weighted average fair value per RSU** |
|---|---|---|
| Outstanding as at 1 January 2022 | – | – |
| Granted during the year | 3,000,000 | HK$1.37 |
| Vested during the year | (1,000,000) | HK$1.37 |
| Outstanding as at 31 December 2022 | 2,000,000 | HK$1.37 |

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

## 38. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

### (a) Share Award Scheme (Continued)

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

As at 31 December 2022, the Expected Retention Rate for the Group's director was assessed to be 100%. The total expenses recognised in the condensed consolidated statement of profit or loss and other comprehensive income for share-based awards granted to the Group's director are HK$2,649,000 for the year ended 31 December 2022 (2021: Nil).

No awards have been granted during the year ended 31 December 2021.

### (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.

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 2022, 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$24,792,000 (2021: HK$19,888,000).

## 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:

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| Financial assets at FVTPL | **153,039** | 147,251 |
| Pledged bank deposits | **457,286** | 420,830 |
| | **610,325** | 568,081 |

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 2022 and 2021 that were transferred to banks and a financial instruction by discounting those trade 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 trade and bills receivables and has recognised the cash received on the transfer as an other bank borrowings and other borrowing amounting to HK$361,491,000 and HK$6,945,000 (2021: HK$959,435,000 and nil), respectively (Note 24).

**As at 31 December 2022**

| | **Trade Receivables discounted to banks with full recourse HK$'000** | **Trade receivables discounted to a financial institution with full recourse HK$'000** | **Bills receivables discounted to banks with full recourse HK$'000** | **Total HK$'000** |
|---|---|---|---|---|
| Carrying amount of transferred assets | **338,769** | **6,945** | **22,722** | **368,436** |
| Carrying amount of associated liabilities | **(338,769)** | **(6,945)** | **(22,722)** | **(368,436)** |

As at 31 December 2021

| | Trade receivables discounted to banks with full recourse HK$'000 | Bills receivables discounted to banks with full recourse HK$'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) |

## 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 | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|---|---|
| 芯智股份有限公司 (Smart-Core Technology Co., Ltd "**SMC Taiwan**")* | (i) | Sales of goods | – | 372 |
| | | Purchase of goods | – | (1,228) |
| Quiksol International | (ii) | Sales of goods | – | 88 |

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.

* 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:

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| Short-term employee benefits | **7,228** | 11,079 |
| Post-employment benefits | **90** | 175 |
| | **7,318** | 11,254 |

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

### (a) For the year ended 31 December 2022

On 30 December 2022, the Group acquired 100% interest in Wisdom Fortune Corporation Limited ("**Wisdom Fortune**") from an independent third party for cash consideration of US$5,000,000 (equivalent to HK$39,000,000). Wisdom Fortune 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$7,700 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 |
|---|---|
| Property, plant and equipment | 112 |
| Intangible asset | 7,896 |
| Financial assets at fair value through profit or loss | 11,410 |
| Inventories | 11,247 |
| Trade receivables | 15,354 |
| Deposits, prepayment and other receivables | 10,242 |
| Tax recoverable | 1,526 |
| Bank balances and cash | 6,349 |
| Trade payables | (14,703) |
| Other payables | (6,008) |
| Dividend payable | (1,014) |
| Bank borrowings | (23,481) |
| Tax liabilities | (89) |
| | 18,841 |

The receivables acquired (which comprised trade receivables) with a fair value of HK$15,354,000 at the date of acquisition had gross contractual amounts of HK$15,354,000. All contractual cash flows were expected to be collected based on the best estimate at acquisition date.

## 43. ACQUISITION OF A SUBSIDIARY (Continued)

### (a) For the year ended 31 December 2022 (Continued)

**Goodwill arising on acquisition:**

| | HK$'000 |
|---|---|
| Consideration paid | 38,220 |
| Consideration payable (Note) | 780 |
| Less: recognised amounts of net assets acquired | (18,841) |
| | 20,159 |

Note: Consideration of US$100,000 (equipment to approximately HK$780,000) has not yet settled and recognised under other payables as at 31 December 2022.

Goodwill arose on the acquisition of Wisdom Fortune because the acquisition included some potential cost saving of marketing and selling expenses as at the date of acquisition. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

**Net cash outflows arising on acquisition of Wisdom Fortune**

| | HK$'000 |
|---|---|
| Consideration paid in cash | 38,220 |
| Less: bank balances and cash acquired | (6,362) |
| | 31,858 |

**Impact of acquisition on the results of the Group**

None of the Group's revenue and profit for the year is attributable to the additional business generated by Wisdom Fortune.

Had the acquisition of Wisdom Fortune been completed on 1 January 2022, revenue for the year of the Group would have been HK$10,240,850,000, and the profit for the year would have been HK$391,642,000. 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 2022, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Wisdom Fortune 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.

## 43. ACQUISITION OF A SUBSIDIARY (Continued)

### (b) For the year ended 31 December 2021

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)

### (b) For the year ended 31 December 2021 (Continued)

**Bargain purchase arose in the acquisition of business**

| | HK$'000 |
|---|---|
| Consideration paid | 7,800 |
| Consideration payable (Note 31(b)) | 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 ended 31 December 2021 was HK$28,254,000 attributable to the additional business generated by Quiksol International. Revenue for the year ended 31 December 2021 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 ended 31 December 2021 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

### a. General information of subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2022 and 2021 are as follows:

| Name of subsidiaries | Place of incorporation/ establishment and operations | Issued and fully paid share capital/ registered capital | Equity interest and voting power indirectly attributable to the Group 2022 | 2021 | Principal activities |
|---|---|---|---|---|---|
| Smart-Core International Company Limited | Hong Kong | Ordinary shares HK$10,000,000 | **100%** | 100% | Trading of electronic components |
| Smart-Core Technology Investment Limited (previously known as 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 (Notes b and d) | The PRC | Registered capital RMB1,000,000 | **100%** | 75% | Provision of technical value-added services |
| Quiksol HK (Note e) | 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, c and e) | The PRC | Registered capital RMB1,000,000 | **25%** | 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 JPY9,920,000 | **100%** | 100% | Trading of electronic components |
| Quiksol International (Note e) | Singapore | Ordinary shares SGD200,000 | **25%** | 25% | Trading of electronic components |
| Wisdom Fortune | Hong Kong | Ordinary shares HK$10,000,000 | **100%** | N/A | 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 2021 and 2022.

(d) 25% of share capital acquired by the Group during the year ended 31 December 2022.

(e) As set out in Note 4, the Group has control over these companies based on the terms stated in the shareholders' agreement.

None of the subsidiaries had issued any debt securities at the end of the reporting period.

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.

## 44. PARTICULAR OF PRINCIPAL SUBSIDIARIES (Continued)

### b. 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 | |
|---|---|---|---|---|---|---|---|
| | | **2022** | 2021 | **2022 HK$'000** | 2021 HK$'000 | **2022 HK$'000** | 2021 HK$'000 |
| Quiksol Group | Hong Kong/ Hong Kong and the PRC/ Singapore | **75%** | 75% | **216,859** | 180,765 | **327,693** | 233,885 |
| Individually immaterial subsidiaries with non-controlling interests | | | | **(1,850)** | (2,925) | **(136)** | 3,003 |
| | | | | **215,009** | 177,840 | **327,557** | 236,888 |

Summarised financial information in respect of Quiksol Group is set out below. The summarised financial information below represents amounts before intra-group eliminations and fair value adjustments arising from the acquisition:

| | **2022 HK$'000** | 2021 HK$'000 |
|---|---|---|
| Current assets | **609,970** | 580,624 |
| Non-current assets | **17,658** | 10,343 |
| Current liabilities | **180,773** | 267,265 |
| Non-current liabilities | **9,933** | 11,855 |
| Equity attributable to owners of the Company | **109,230** | 77,962 |
| Non-controlling interests | **327,692** | 233,885 |

## 44. PARTICULAR OF PRINCIPAL SUBSIDIARIES (Continued)

### b. Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Revenue | **2,790,408** | 2,592,531 |
| Expenses | **2,501,263** | 2,351,510 |
| Profit for the year | **289,145** | 241,021 |
| Profit attributable to owners of the Company | **72,286** | 60,256 |
| Profit attributable to non-controlling interests | **216,859** | 180,765 |
| Profit for the year | **289,145** | 241,021 |
| Other comprehensive (expense) income attributable to owners of the Company | **(5)** | 23 |
| Other comprehensive (expense) income attributable to non-controlling interests | **(16)** | 70 |
| Other comprehensive (expense) income for the year | **(21)** | 93 |
| Total comprehensive income attributable to owners of the Company | **72,281** | 60,279 |
| Total comprehensive income attributable to non-controlling interests | **216,843** | 180,835 |
| Total comprehensive income for the year | **289,124** | 241,114 |
| Dividends declared to non-controlling interests | **122,850** | 5,616 |
| Net cash from operating activities | **391,563** | 79,690 |
| Net cash used in investing activities | **(4,532)** | (3,332) |
| Net cash (used in) from financing activities | **(209,349)** | 26,460 |
| Effect of foreign exchange rate changes | **1,086** | 152 |
| Net cash inflow | **178,768** | 102,970 |

## 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 2022 of HK6 cents per ordinary share, in an aggregate amount of approximately HK$29,321,000, 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:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| **NON-CURRENT ASSET** | | |
| Investments in subsidiaries | **160,013** | 160,013 |
| **CURRENT ASSETS** | | |
| Amounts due from subsidiaries | **204,577** | 224,738 |
| Other receivables | **564** | 654 |
| Cash and cash equivalents | **6,636** | 262 |
| | **211,777** | 225,654 |
| **CURRENT LIABILITIES** | | |
| Other payables and accrued charges | **511** | 1,881 |
| Amounts due to subsidiaries | **2,305** | 198,761 |
| | **2,816** | 200,642 |
| **NET CURRENT ASSETS** | **208,961** | 25,012 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES AND NET ASSETS** | **368,974** | 185,025 |
| **CAPITAL AND RESERVES** | | |
| Share capital (Note 34) | **38** | 38 |
| Reserves | **368,936** | 184,987 |
| TOTAL EQUITY | **368,974** | 185,025 |

## 46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Details of movement in reserves of the Company are as below:

| | Share premium<br>HK$'000 | Treasury share reserve<br>HK$'000 | Share award reserve<br>HK$'000 | Capital redemption reserve<br>HK$'000 | (Accumulated losses) retained profits<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2021 | 256,169 | (3,433) | – | 1 | (22,768) | 229,969 |
| Loss and total comprehensive expense 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** |
| Profit and total comprehensive income for the year | **–** | **–** | **–** | **–** | **267,861** | **267,861** |
| Dividend recognised as distribution | **(58,143)** | **–** | **–** | **–** | **–** | **(58,143)** |
| Recognition of equity-settled share-based expense | **–** | **–** | **2,649** | **–** | **–** | **2,649** |
| Share repurchased and not yet cancelled | **–** | **(28,418)** | **–** | **–** | **–** | **(28,418)** |
| Share vested under share award scheme | **–** | **1,632** | **(1,370)** | **–** | **(262)** | **–** |
| At 31 December 2022 | **153,398** | **(27,167)** | **1,279** | **1** | **241,425** | **368,936** |

SMART-CORE HOLDINGS LIMITED
芯智控股有限公司