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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8521)

Annual Report 2022

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

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Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Wong Kai Hung Kelvin *(Chairman)*
Mr. Xi Bin

Non-executive Director
Mr. Hung Yuk Miu

Independent non-executive Directors
Mr. Sze Irons, *BBS JP*
Mr. Fong Kin Tat
Mr. Ng Wing Heng Henry

AUDIT COMMITTEE

Mr. Ng Wing Heng Henry *(Chairman)*
Mr. Sze Irons, *BBS JP*
Mr. Fong Kin Tat

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. Sze Irons, *BBS JP (Chairman)*
Mr. Wong Kai Hung Kelvin
Mr. Ng Wing Heng Henry

COMPLIANCE OFFICER

Mr. Wong Kai Hung Kelvin

COMPANY SECRETARY

Mr. Lei Kin Keong, CPA, ACG and HKACG

AUTHORISED REPRESENTATIVES

Mr. Wong Kai Hung Kelvin
Mr. Lei Kin Keong, CPA, ACG and HKACG

REGISTERED OFFICE

Cricket Square,
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P.O. Box 2681,
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Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
17/F, Far East Finance Centre,
16 Harcourt Road,
Hong Kong

AUDITOR

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

LEGAL ADVISOR

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

PRINCIPAL BANKERS

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

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

Bank of China
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Nancheng District, Dongguan City,
Guangdong Province, PRC

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

COMPANY'S WEBSITE

www.smart-team.cn

STOCK CODE

8521

Financial Summary

For the five years ended 31 December 2018, 2019, 2020, 2021 and 2022

	2022 HK$'000	2021 HK$'000	2020 HK$'000	2019 HK$'000	2018 HK$'000
Revenue	**101,100**	122,786	120,683	191,180	173,461
Cost of sales	**(83,477)**	(88,094)	(92,205)	(129,912)	(109,659)
Gross profit	**17,653**	34,692	28,478	61,268	63,802
Other income	**2,864**	3,793	2,415	1,836	1,570
Selling and distribution expenses	**(4,078)**	(4,254)	(3,399)	(5,286)	(4,740)
Administrative and other expenses	**(19,073)**	(18,241)	(19,762)	(19,192)	(30,494)
Impairment loss on plant and machinery	**(6,296)**	–	–	–	–
(Impairment loss)/reversal of impairment loss on trade receivables	**(29)**	(46,333)	–	57	(98)
Finance costs	**(1,412)**	(1,762)	(616)	(338)	(343)
(Loss)/Profit before tax	**(10,371)**	(32,105)	7,116	38,345	29,697
Income tax expenses	**(654)**	(398)	(1,005)	(3,353)	(5,530)
(Loss)/Profit for the year	**(11,025)**	(32,503)	6,111	34,992	24,167

	2022 HK$'000	2021 HK$'000	2020 HK$'000	2019 HK$'000	2018 HK$'000
ASSETS AND LIABILITIES					
Non-current assets	**21,526**	33,043	33,974	30,717	13,721
Current assets	**157,157**	176,304	185,815	152,962	151,418
Non-current liabilities	**5,152**	525	1,647	820	1,030
Current liabilities	**45,781**	57,242	39,332	15,555	27,214
Net assets	**127,750**	151,580	178,810	167,304	136,895

	2022 HK$'000	2021 HK$'000	2020 HK$'000	2019 HK$'000	2018 HK$'000
CASH FLOWS					
Net cash generated from/(used in) operating activities	**9,815**	30,775	(28,751)	14,161	15,128
Net cash used in investing activities	**(194)**	(361)	(5,398)	(12,674)	(9,990)
Net cash generated (used in)/from financing activities	**(5,473)**	18,864	14,799	(6,126)	54,229
Net increase/(decrease) in cash and cash equivalents	**4,148**	49,278	(19,350)	(4,639)	59,367
Cash and cash equivalents at the beginning of the year	**89,740**	38,134	55,155	61,026	3,119
Effect of foreign exchange rate changes	**(9,130)**	2,328	2,329	(1,232)	(1,460)
Cash and cash equivalents at the end of the year	**84,758**	89,740	38,134	55,155	61,026

Chairman Statement

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of the Company, I am pleased to present the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2022 ("**FY2022**").

With regards to our financial performance for FY2022 as compared with the year ended 31 December 2021 ("**FY2021**"), our revenue decreased by HK$21,686,000 or 17.7% from HK$122,786,000 to HK$101,100,000 and our gross profit margin decreased from 28.3% to 17.5%. With COVID-19 lingering in FY2022, some of the major customers of the Group temporarily suspended their business operations, and thus their demands for the Group's products was reduced in FY2022. The reduction in demand led to a significant decrease in revenue compared with the corresponding period in FY2021.

The Group recorded a net loss after tax of HK$11,025,000 for FY2022 when compared with a net loss after tax of HK$32,503,000 for FY2021 principally due to the significant decrease in the impairment loss on trade receivables of HK$46,304,000, from HK$46,333,000 for FY2021 to HK$29,000 for FY2022.

In September 2022, Guangdong Smart Team Textiles Technology Co., Ltd., one of the subsidiaries of the Company, was awarded the Innovation Award Enterprise of the 5th China Eco-friendly Fabric Design Competition in 2022 jointly issued by the China Textile Information Center (中國紡織信息中心) and Textile Product Development Center (紡織產品開發中心). It further obtained the Product Development Contribution Award from the China National Textile and Apparel Council Ltd. (中國紡織工業聯合會) in December 2022. These awards recognised the contribution of the Group in the product design and development. The Group will continue investing in research and development of functional knitted fabrics with different textures, styles, and specifications as well as dyeing methodology to meet market trends and satisfy customers' requirements.

Looking ahead, due to global financial uncertainty, the road to recovery of the economy in the PRC will be uneven. However, the directors of the Company remain positive and expect the PRC's economy will recover steadily in the second half of 2023, especially after the announcement of the PRC government's adjustment of COVID-19 pandemic policies in early 2023, including the reopening the borders. The management of the Company will continue to strengthen the Group's position in research and development, upgrade our standards of quality on new functional fabrics as well as expand our business into different market segments by strengthening the marketing and sales efforts.

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

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

Wong Kai Hung, Kelvin
Chairman

Hong Kong, 29 March 2023

Management Discussion and Analysis

BUSINESS REVIEW

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

With COVID-19 lingering in FY2022, some of the major customers of the Group temporarily suspended their business operations and thus their demands for the Group's products was reduced in FY2022. The reduction in demand led to a significant decrease in revenue as the major customers were more conservative in making purchases from the Group compared with the corresponding period in FY2021.

The management of the Group expects the PRC government's adjustment of its COVID-19 pandemic policies in early 2023, including the reopening the borders, will speed up China's economic recovery in 2023. Hence, the management of the Group expects the demand for the Group's products will rebound and the recovery will become significant in the second half of 2023.

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

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

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

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

Revenue

The following table sets forth an analysis of our revenue by products during FY2022 and FY2021.

	2022 **HK$'000**	2021 HK$'000
Sales of functional knitted fabrics	**81,981**	106,144
Sales of apparel	**13,126**	13,877
Sales of yarns	**5,993**	2,765
	101,100	122,786

The Group's revenue decreased by HK$21,686,000 or 17.7%, from HK$122,786,000 for FY2021 to HK$101,100,000 for FY2022. The decrease was mainly due to the significant decrease in revenue from the sales of functional knitted fabrics as a result of the decrease in sales orders from some of the major customers when compared with the corresponding period in 2021. With COVID-19 lingering in FY2022, some of the major customers temporarily suspended their business operations and thus their demands for the Group's products was reduced in FY2022. In the short term, despite the PRC government's adjustment of its COVID-19 pandemic policies in early 2023, since the Group's customers might still have stocked up, demand for the Group's products was lessened.

Gross profit and gross profit margin

The gross profit decreased by HK$17,039,000 or 49.1% from HK$34,692,000 for FY2021 to HK$17,653,000 for FY2022. The gross profit margin decreased by approximately 10.8 percentage points from approximately 28.3% for the year ended 31 December 2021 to approximately 17.5% for the year ended 31 December 2022. The decrease in gross profit margin was mainly due to (i) the increase in per unit cost of raw materials, outsourcing processing cost, and the shared fixed overhead; (ii) the recognised loss on disposal of the substandard products at approximately HK$2,697,000 in September 2022; and (iii) the write-down of the slow moving, obsolete and scrap inventory at approximately HK$6,088,000.

Other income

The other income decreased by HK$929,000 or 24.5% from HK$3,793,000 for FY2021 to HK$2,864,000 for FY2022.

Other income mainly comprises (i) bank interest income; (ii) government grants; (iii) rental income; (iv) sundry income and (v) net exchange gain only for FY2021. The decrease in other income for FY2022 was mainly due to the decrease in government grants or subsidies from PRC government authority by HK$470,000 and the decrease in rental income from leasing out machinery received by a subsidiary of the Company in the PRC by HK$186,000.

Selling and distribution expenses

The Group's selling and distribution expenses decreased by approximately HK$176,000, or 4.1%, from approximately HK$4,254,000 for FY2021 to approximately HK$4,078,000 for FY2022.

The Group has incurred lesser exhibition expenses because the exhibition events was delayed by a year. The Group has incurred lesser travelling expenses due to travel restrictions as a result of COVID-19 pandemics. The reduction amounted to approximately HK$1,474,000 but was offset by (i) the increase in marketing consultancy expenses of approximately HK$854,000 and (ii) a salary increment for staff and the increase in expenses for recruitment of additional staff of approximately HK$455,000.

Administrative and other expenses

The Group's administrative and other expenses increased by HK$832,000, or 4.6%, from HK$18,241,000 for FY2021 to HK$19,073,000 for FY2022. The increase was mainly caused by (i) an increase in administrative staff cost of approximately HK$441,000 due to a salary increment for staff; (ii) an increase of costs for enhancement of staff welfare by HK$501,000 due to more frequent team-building activities to promote the staff's sense of belonging in the Company; and (iii) the increase in product inspection fee by HK$787,000. Such an increase is partially offset by the decrease in vehicle maintenance by HK$148,000, office consumables by HK$398,000, business entertainment by HK$154,000, depreciation expenses by HK$246,000 and travelling by HK$277,000.

Impairment loss on plant and machinery

Due to the uncertainty of the future rental income that may be received by the Group from the leasing out of machineries, the Group recognised an impairment loss on leased machineries of approximately HK$6,296,000 in FY2022 (FY2021: Nil). As at 31 December 2022, the net book value of the leased machineries was approximately HK$9,584,000.

Impairment loss on trade receivables

During FY2021, an impairment loss of approximately HK$46,333,000 was made in respect of the entire balance of trade receivables due from a customer as at 30 September 2021. Such overdue balance arose from sales of functional knitted fabrics to such customer in the second half of 2020. The management assessed that the trade receivables from this customer was unlikely recoverable and has therefore decided to make impairment loss for such trade receivables during the period ended 30 September 2021. The Group has also initiated legal proceedings in September 2021 against this customer in the People's Court of Nan Shan District of Shenzhen with a view to recovering the outstanding trade receivables. On 24 November 2022, Guangdong Province Shenzhen Intermediate People's Court had ruled in favor of the Group's PRC subsidiary as the plaintiff and this customer was made to the process of liquidation. However, based on the available information up to the date of this report, the recoverable amount is expected to be minimal. In FY2022, the Directors assessed the risk or probability that a credit loss on trade receivables will occur by grouping different debtors of similar risk characteristics and taking into consideration the history of default, the general economic conditions of the industry in which the debtors operate, and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Directors estimated the irrecoverable debts of HK$29,000 to be recognised in FY2022.

Finance costs

Our finance costs decreased by HK$350,000 or 20% from HK$1,762,000 for FY2021 to HK$1,412,000 for FY2022 due to decrease in the bank borrowings during FY2022, compared with FY2021. The bank borrowings and bank overdraft were HK$37,617,000 as at 31 December 2022 (HK$42,808,000 as at 31 December 2021).

Taxation

Our income tax expenses increased by HK$256,000 or 64.3% from HK$398,000 for FY2021 to HK$654,000 for FY2022. Such increase is mainly attributed to the recognition of deferred tax credit amounted to HK$53,000 in FY2022 (FY2021: HK$2,354,000). In addition, the Group recognised a decrease in assessable profits of certain subsidiaries in FY2022.

The deferred tax credit recognised in FY2022 comprised (i) the reversal of deferred tax assets recognised in previous years of HK$1,103,000 due to insufficient taxable profit to utilise the unused tax losses in the foreseeable future in two subsidiaries of the Company, (ii) the recognised deferred tax assets of HK$944,000 due to the impairment loss on plant and equipment in FY2022 and (iii) the recognised deferred tax assets of HK$212,000 due to the provision of inventories in FY2022.

Loss for the year attributable to owners of the Company

As a result of the foregoing, the loss for FY2022 attributable to owners of the Company was HK$11,025,000 while the loss for FY2021 attributable to owners of the Company was HK$32,503,000.

Cash flows

The net cash generated from operating activities during FY2022 was about HK$9,815,000 while the net cash generated from operating activities during FY2021 was about HK$30,775,000. The change of cash generated from operating activities was mainly due to (i) the significant decrease in operating profit (excluding the impairment loss on trade receivables and the impairment loss on plant and equipment) and (ii) the reduction of cash inflow from trade receivables when compared with FY2021.

The net cash used in investing activities in FY2022 was about HK$194,000 while the net cash used in investing activities in FY2021 was about HK$361,000. The decrease was mainly due to the tight costs control on the acquisition of the plant and equipment.

The net cash used in financing activities was HK$5,473,000 in FY2022 while the net cash generated from financing activities in FY2021 was HK$18,864,000. The decrease was mainly due to the net cash inflow from bank borrowing being reduced significantly and the lesser interest expense incurred when compared with FY2021.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

We financed our operation mainly through cash generated from our operating activities and bank borrowings. As at 31 December 2022 and 2021, we had cash and cash equivalents of HK$87,057,000 and HK$89,740,000 respectively.

As at 31 December 2022, the Group had HK$35,318,000 of outstanding bank borrowing and HK$2,299,000 of bank overdraft (2021: HK$42,808,000 of outstanding bank borrowing and nil bank overdraft). As at 31 December 2022, the Group's borrowings were denominated in Renminbi ("**RMB**").

The Group's gearing ratio, which is calculated based on the total debt (defined as the sum of bank borrowings and overdrafts) as at the respective year end divided by total equity as at the respective year end were 29.4% and 28.2% as at 31 December 2022 and 2021 respectively.

CAPITAL STRUCTURE

As at 31 December 2022, the capital structure of the Company comprised issued share capital and reserves.

COMMITMENTS

As at 31 December 2022 and 2021, the Group did not have any capital commitment.

SEGMENT INFORMATION

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

SIGNIFICANT INVESTMENTS HELD

The Group did not hold any significant investment during FY2022.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND ACQUISITION OF CAPITAL ASSETS

There was no material acquisition and disposal of subsidiaries and assets by the Group during FY2022. As of the date of this report, the Group did not have any major future investment plans.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during FY2022.

CONTINGENT LIABILITIES

As at 31 December 2022, the Group has no material contingent liabilities.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

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

Foreign Exchange Risk

The Group's reporting currency is Hong Kong dollar and most of the business transactions are denominated in other currencies including RMB and US Dollar ("**USD**"). Hence, exchange rate fluctuation can affect the profit margin of the Group. The foreign exchange gains or losses of the Group primarily arise from settlement of trade payables denominated in USD and receipt of our trade receivables denominated in RMB and USD. However, the Group's principal business is located in the PRC, and its major transactions are conducted in RMB. The Group considers the risk exposure of the foreign exchange to be insignificant between HK$, US$, and RMB. During FY 2022, the Group did not use any hedging contracts to engage in speculative activities. However, the Group will closely monitor the foreign currency risk exposure and take necessary measures to minimise the potential foreign exchange risks.

Credit Risk

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

Policy Risk

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

Competition Risk

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

ESG Compliance Risk

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

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

CHARGES ON GROUP'S ASSETS

As at 31 December 2022, the Group had HK$35,318,000 bank borrowings secured by personal guarantee provided by Mr. Xi Bin, an executive Director of the Company and his spouse (31 December 2021: HK$42,808,000). During FY2022, the Group's bank facilities were secured by the pledged bank deposits as set out in note 21 to the consolidated financial statements. During FY2021, the Group had lease arrangement in respect of a motor vehicle and it was released in FY2022. The Group's obligation under the lease arrangement was secured by the lessor's title to the leased motor vehicle as set out in note 16(i) to the consolidated financial statements.

INFORMATION ON EMPLOYEES

As at 31 December 2022, the Group had 63 employees (31 December 2021: 69) and most of them were working in the Dongguan headquarters. We incurred staff costs inclusive of performance related bonus, other bonus and directors' emoluments in the aggregate of HK$15,691,000 and HK$17,740,000 for FY2022 and FY2021, respectively. We regularly review the performance of our employees and make reference to such performance reviews in our salary review and promotional appraisal in order to attract and retain talented employees. For our sales staff, we offer a remuneration package comprising basic salary and performance-based bonus.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wong Kai Hung Kelvin (黃繼雄), aged 47, founded our Group in October 2011. He was appointed as a Director on 21 February 2017 and became the chairman of our Board and executive Director on 1 April 2017. Mr. Wong is responsible for the overall business strategies, planning, management and operational development of our Group. Mr. Wong is also a director of various subsidiaries of the Company.

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

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

During the year ended 31 December 2022 and up to the date of this report, Cosmic Bliss Investments Limited ("**Cosmic Bliss**"), a company wholly owned by Mr. Wong, is interested in 360,000,000 Shares. By virtue of the provisions of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong), Mr. Wong is deemed to be interested in all the Shares held by Cosmic Bliss.

Mr. Xi Bin (奚斌), aged 47, joined our Group in October 2011. He was appointed as a Director on 31 March 2017 and became our executive Director on 1 April 2017. He is responsible for managing and overseeing the operations and sales function of our Group and is the chief executive officer of our Group. Mr. Xi is a director of various subsidiaries of the Company.

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

NON-EXECUTIVE DIRECTOR

Mr. Hung Yuk Miu (洪育苗), aged 42, was appointed as a Director on 31 March 2017 and became our executive Director on 1 April 2017. Mr. Hung has been re-designated from an executive Director to a non-executive Director with effect from 30 April 2019 primarily due to reallocation of responsibilities amongst the Group's management team. Mr. Hung joined our Group in May 2014 and, prior to re-designation as a non-executive Director, was the chief financial officer of our Group responsible for managing and overseeing the financial management of our Group. From July 2019 to May 2020, Mr. Hung was the chief financial officer and company secretary of Sheng Yuan Holdings Limited (stock code: 851), a company listed on the Stock Exchange. Since June 2020, Mr. Hung served as the vice president, the company secretary and chief financial officer of Greentech Technology International Limited (stock code: 195). Mr. Hung is an independent non-executive director of Shinsun Holdings (Group) Co., Ltd. since 1 March 2022 (stock code: 2599).

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Wing Heng Henry (伍永亨), aged 40, was appointed as an independent non-executive Director on 23 April 2018. He is primarily responsible for bringing an independent judgment to ensure the continuing effectiveness of management of our Company. Mr. Ng has over 14 years of experience in accounting, auditing and corporate governance. From January 2008 to March 2010, Mr. Ng worked at PricewaterhouseCoopers, an accountancy firm, as the senior associate at Assurance of Financial Services Practice, responsible for the auditing and accountancy procedures of Hong Kong companies. Since September 2010, he has worked at Tony Kwok Tung Ng & Co., an accountancy firm, and was appointed as a principal in January 2013, responsible for reviewing statutory audit files of both local and multinational companies, managing the audit teams and leading the non-audit projects and consulting services.

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

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

Biographical Details of Directors and Senior Management

Mr. Sze Irons, ***BBS JP*** **(施榮懷)**, aged 61, was appointed as an independent non-executive Director on 23 April 2018. He is primarily responsible for bringing an independent judgment to ensure the continuing effectiveness of management of our Company. Mr. Sze has extensive experience in investment and corporate management. Currently, Mr. Sze is an independent non-executive director of Continental Holdings Limited (stock code: 0513), an independent non-executive director of Chevalier International Holdings Limited (stock code: 0025), an independent non-executive director of Best Mart 360 Holdings Limited (stock code: 2360), an independent non-executive director of Jianzhong Construction Development Limited (stock code: 0589), an independent non-executive director of Redco Healthy Living Company Limited (Stock Code 2370) and an independent non-executive director of Forward Fashion (International) Holdings Company Limited (stock code: 2528).

Mr. Sze graduated with a Bachelor of Science from the University of Wisconsin-La Crosse in the United States in May 1985. Mr. Sze is currently a standing committee member of The 14th National Committee of the Chinese People's Political Consultative Conference* ("**CPPCC**") (中國人民政治協商會議全國委員會), a standing committee member of the Beijing Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議北京市委員會常務委員), the chairman of the HKCPPCC (Provincial) Members Association Limited* (港區省級政協委員聯誼會會長), a member of the Labour Advisory Board of the Government of the HKSAR, the Permanent Honorary President of the Chinese Manufacturers' Association of Hong Kong, the deputy secretary general of The Hong Kong Coalition, the chairman of the Mainland Business Advisory Committee of the Hong Kong Trade Development Council, a council member of the Hong Kong Repertory Theatre and a member of the University Court of The Hong Kong Polytechnic University. Mr. Sze was also elected as a member of the Election Committee of the Chief Executive of the HKSAR in 2016.

Mr. Fong Kin Tat (方建達), aged 48, was appointed as an independent non-executive Director on 23 April 2018. He is primarily responsible for bringing an independent judgment to ensure the continuing effectiveness of management of our Company.

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

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

SENIOR MANAGEMENT

Mr. Li Yanmin (李彥敏), aged 57, joined our Group in May 2015 as deputy general manager and human resources controller. He is responsible for operating and overseeing the human resources department of our Group.

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

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

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

Mr. Lei Kin Keong (李健強), aged 46, joined the Group in August 2022 and has been appointed as the chief financial officer of the Group responsible for overseeing the Group's finance, accounting and investor relations. He was also appointed as the company secretary of the Company (the "**Company Secretary**") on 12 August 2022.

Mr. Lei has over 20 years of solid experiences in auditing, financial accounting, company secretarial matters and business management. Prior to joining the Company, he served as an assistant vice-president at SWCS Corporate Services Group (Hong Kong) Limited from November 2019 to November 2021. He had also served as financial controller and/or company secretary at a number of listed companies in Hong Kong and had worked for several local and international audit firms in Hong Kong.

Mr. Lei obtained a Master of Science in Risk Management from the Glasgow Caledonian University through distance learning in June 2022 and a Bachelor of Arts in Accountancy from the Hong Kong Polytechnic University in December 2006. Mr. Lei is also a holder of a postgraduate diploma in Enterprise Risk Management and a postgraduate diploma in Corporate Compliance at the University of Hong Kong, School of Professional and Continuing Education. Mr. Lei is currently (i) a non-practising member of Hong Kong Institute of Certified Public Accountants, (ii) an associate of each of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute and (iii) both an associate and a non-practising Chartered Tax Adviser of The Taxation Institute of Hong Kong.

COMPANY SECRETARY

Mr. Lei Kin Keong (李健強), was appointed as the Company Secretary since 12 August 2022. Please see the paragraph headed "Senior Management" of this section for further details of the biography of Mr. Lei.

Corporate Governance Report

INTRODUCTION

The Group is committed to ensuring high standards of corporate governance and business practices. The Company's corporate governance practices are based on the principles of good corporate governance as set out in the Corporate Governance Code and Corporate Governance Report in Appendix 15 to the GEM Listing Rules (the "**CG Code**"). During FY2022 and up to the date of this report, the Company has complied with all the applicable code provisions of the CG Code. For the purpose of this Corporate Governance Report, references to a provision in the CG Code are references to such then prevailing provisions.

CULTURES AND VALUES

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

Business Strategies：

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

Integrity:

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

Commitment:

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

THE BOARD

Responsibilities

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

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

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

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

THE BOARD *(Continued)*

Composition

The nomination committee of the Board (the "**Nomination Committee**") ensures that the Board boasts balance of skills, experiences, qualifications and diversified perspectives in relation to business and development of the Company. The current composition of the Board consists of two (2) executive Directors, one (1) non-executive Director ("**NED**") and three (3) independent non-executive Directors ("**INED(s)**"). INEDs are responsible for exercising independent judgment on various Board decisions. The Directors during the year ended 31 December 2022 and up to the date of this report were:

Executive Directors

Mr. Wong Kai Hung Kelvin *(Chairman)*
Mr. Xi Bin *(Chief Executive Officer)*

Non-executive Director

Mr. Hung Yuk Miu

Independent non-executive Directors

Mr. Sze Irons, *BBS JP*
Mr. Fong Kin Tat
Mr. Ng Wing Heng, Henry

The current term of appointment of each of the executive Directors is for a term of three (3) years commencing from the 1 April 2020, subject to retirement and re-election in accordance to the articles of association of the Company (the "**Articles**") and the GEM Listing Rules. The appointments are terminable by either the Company or the executive Director giving each other three-month notice in writing. On 29 March 2023, the Company's remuneration committee recommended to the Board, and the Board approved a further extension of the director service contracts of the Company for three (3) years commencing from 1 April 2023; the other terms and conditions of the Agreements remain unchanged. Each of the INEDs has entered into a letter of appointment with the Company for a term of three (3) years commencing on 23 April 2021 respectively. The current term of appointment of the NED is for a term of three (3) years commencing on 1 November 2020.

The current term of appointment of the NED is for a term of three (3) years commencing on 1 November 2020. There was no fixed term of service period and either party agreed to give the other party not less than 3 (three) months' prior notice in writing to terminate the service contract.

Pursuant to the Article 84(1) and 84(2) of the Articles, each of Mr. Sze Irons, *BBS JP* and Mr. Fong Kin Tat will retire from the office of Director by rotation and shall, being eligible for re-election at the forthcoming annual general meeting of the Company to be held on Thursday, 25 May 2023 (the "**2023 AGM**"), offer himself for re-election at the 2023 AGM. The Board and the Nomination Committee have recommended the re-election of all the retiring Directors standing for re-election at the 2023 AGM.

THE BOARD *(Continued)*

Composition *(Continued)*

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

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

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

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

CONTINUOUS PROFESSIONAL DEVELOPMENT

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

It is the Company's practice to have each newly appointed Director to receive comprehensive, formal and tailored induction at time around the first occasion of his appointment, so as to ensure that he/she has appropriate understanding of the Group structure, Board and Board committee meetings procedures, business, management and operations of the Group, etc. and that he/she is fully aware of his/her responsibilities and obligations under the GEM Listing Rules and applicable regulatory requirements. During FY2022, no Director has been appointed.

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

CONTINUOUS PROFESSIONAL DEVELOPMENT *(Continued)*

The individual training record of each Director received during the year ended 31 December 2022 is set out below:

	Attending training course(s) relevant to Laws and the GEM Listing Rules	Reading materials relevant to the updates on the GEM Listing Rules including corporate governance
Executive Directors		
Mr. Wong Kai Hung Kelvin	✔	✔
Mr. Xi Bin	✔	✔
Non-executive Director		
Mr. Hung Yuk Miu	✔	✔
Independent non-executive Directors		
Mr. Sze Irons, *BBS JP*	✔	✔
Mr. Fong Kin Tat	✔	✔
Mr. Ng Wing Heng, Henry	✔	✔

BOARD MEETINGS

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

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

BOARD MEETINGS *(Continued)*

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

Directors and Committee members may participate either in person or through electronic means of communications. Directors and Committee members are free to contribute and share their views at meetings and major decisions will only be taken after deliberation at meetings. Directors and Committee members who are considered to have conflict of interests or material interests in the proposed transactions or issues to be discussed will not be counted in the quorum of meeting and will abstain from voting on the relevant resolutions. During the year ended 31 December 2022, the Board had at least four regular meetings and at least one meeting for each of the Committees. The individual attendance records of each Director at these meetings are set out below:

	Attendance record of Directors at the meetings					
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Corporate Governance Committee**	**General meeting**
Mr. Wong Kai Hung Kelvin	6/6	N/A	2/2	1/1	1/1	1/1
Mr. Xi Bin	6/6	N/A	N/A	N/A	N/A	0/1
Mr. Hung Yuk Miu	6/6	N/A	N/A	N/A	N/A	1/1
Mr. Sze Irons, *BBS JP*	6/6	4/4	2/2	1/1	N/A	1/1
Mr. Fong Kin Tat	6/6	4/4	2/2	N/A	1/1	1/1
Mr. Ng Wing Heng, Henry	6/6	4/4	N/A	1/1	1/1	1/1

Besides the above Board meetings, the Chairman of the Board, Mr. Wong Kai Hung Kelvin held a meeting with the INEDs without the presence of other Directors during FY2022.

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

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

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

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

For the year ended 31 December 2022, the members of the Audit Committee met the external auditors twice, fulfilling the requirement under code provision D.3.3 of the CG Code. During the year ended 31 December 2022, the individual attendance records of each member at the meeting of the Audit Committee is set out on page 21 of this annual report.

Highlights of the Committee's Work in 2022

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

a. the quarterly, interim and annual financial statements, results announcements and reports, the related accounting principles and practices adopted by the Group and the relevant audit findings;

b. the risk management and internal control system of the Group;

c. the re-appointment of external auditor;

d. the adequacy and effectiveness of the Group's risk management and internal control systems and its accounting, financial reporting and internal audit functions;

AUDIT COMMITTEE *(Continued)*

Highlights of the Committee's Work in 2022 *(Continued)*

e. the significant findings of the internal audit and external auditor and management's response to their recommendations;

f. the Company's continuing connected transactions (if any) and related parties transactions for the year ended 31 December 2022 pursuant to the GEM Listing Rules; and

g. the amendment of the policies of (i) the Anti-Corruption Policy; (ii) the Whistle-blowing Policy; (iii) the Board Diversity Policy; (iv) Shareholder Communication Policy; (v) Supplier's Code of Conduct; (vi) Climate Change Strategy; and (vii) Terms of Reference of ESG Working Group.

The Board is of the view that the Audit Committee has properly discharged its duties and responsibilities during the year ended 31 December 2022 and up to the date of this report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2022, the fee paid/payable to auditor in respect of audit service and/or non-audit services provided by the auditor to the Group was as follows:

Nature of services	2022 HK$'000	2021 HK$'000
Audit services	**615**	615
Non-audit services	**–**	–

NOMINATION COMMITTEE

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

(1) Declaration of conflict of interest in their roles as INEDs; and

(2) Time commitment and attention to the Company's affairs.

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

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

NOMINATION COMMITTEE *(Continued)*

The Nomination Policy and the Board Diversity Policy are reviewed and shall continue to be reviewed annually to ensure its effectiveness. The Nomination Committee would make recommendations (if any) on any proposed changes to the Board to complement the Company's corporate strategy. The Board currently has no female Director. The Board will continue to identify suitable candidates to ensure the Board achieves gender diversity no later than 31 December 2024.

During the year ended 31 December 2022, the Nomination Committee was satisfied with the diversity of the existing Board composition and did not, for the time being, set up any measurable objective regarding board diversity.

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

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

Highlights of the Committee's Work in 2022

During the year ended 31 December 2022, the Nomination Committee held two (2) meetings. The work performed by the Nomination Committee during the year ended 31 December 2022 included, but was not limited to, discussing and reviewing the following before recommending them to the Board for consideration and approval:

a. the revised Board Diversity Policy;

b. structure, size, and diversity of the Board, in particular, the completion of the targets and timelines for achieving gender diversity at the workforce level and Board level;

c. the revised Nomination Policy;

d. individuals suitably qualified for appointment as Director;

e. succession planning for the Directors, senior management, and key staff of the Group;

f. independence of the Independent Non-executive Directors; and

g. re-election of retiring Directors at the 2023 AGM, including the assessment of the ability to devote sufficient time to the Board and the length of service of the proposed independent Non-executive Directors according to the requirements of the GEM Listing Rules.

CORPORATE GOVERNANCE COMMITTEE

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

a. developing and reviewing our Group's policies and practices on corporate governance and making appropriate recommendations to the Board;

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

c. reviewing and monitoring our Group's policies and practices on compliance with legal and regulatory requirements;

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

e. reviewing our Group's compliance with the provisions of the CG Code and disclosure in the corporate governance report.

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

Highlights of the Committee's Work in 2022

During the year ended 31 December 2022, the members of the Corporate Governance Committee have fulfilled the requirement of code provision A.2.1 and was responsible for, among other matters, reviewing and monitoring the training and continuous professional development of the Directors; reviewing and monitoring the code of conduct and compliance with legal and regulatory requirements and reviewing the Company's compliance with the CG Code and disclosure in this report. The Corporate Governance Committee also reviewed the proposed amendment of the policies of (i) Board Diversity Policy; (ii) External Advisers Policy; (iii) Anti-Corruption Policy; and (iv) Whistle-blowing Policy before recommending them to the Board for consideration and approval during the year ended 31 December 2022.

REMUNERATION COMMITTEE

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

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

REMUNERATION COMMITTEE *(Continued)*

Remuneration Policy

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

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

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

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

Highlights of the Committee's Work in 2022

During the year ended 31 December 2022, the Remuneration Committee held two (2) meetings. The work performed by the Remuneration Committee during the year ended 31 December 2022 included, but not limited to, discussing and reviewing the following before recommending the same to the Board for consideration and approval:

a. the policy and structure for the remuneration of Directors and senior management of the Group;

b. the annual salary increment and remuneration packages for executive Directors;

c. the Directors' fees, in particular, the Directors' fees for the independent non-executive Directors;

d. the delegation of the rights to the executive Directors to determine senior management's salary package on a reasonable basis, and

e. the remuneration package of the chief financial officer and the Company Secretary of the Group before his appointment.

Pursuant to the code provision E.1.5 of the CG Code, the remuneration of the members of the Board and senior management by band for the FY2022 is set out below:

Remuneration Band	**Number of Individuals**
Nil to HK$1,000,000	6
HK$1,000,001 to HK$2,000,000	2

REMUNERATION COMMITTEE *(Continued)*

Highlights of the Committee's Work in 2022 *(Continued)*

Of the five individuals with the highest emoluments, two of them (FY2021: 2) are our executive Directors. Details of the remuneration of each Director and the five individuals with the highest emoluments in the Group for the year ended 31 December 2022 are set out in notes 11 and 12 to the consolidated financial statements, respectively.

COMPANY SECRETARY

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

Mr. Chan Chi Yeung was the Company Secretary until his resignation on 12 August 2022. The Company has engaged Mr. Lei Kin Keong as the Company Secretary since 12 August 2022. For the professional qualifications of Mr. Lei, please refer to the section headed "Biographical Details Of Directors And Senior Management" in this report. Mr. Chan and Mr. Lei had complied with all the required qualifications, experiences and training requirements under the GEM Listing Rules. During the year ended 31 December 2022, the Company Secretaries have complied with the GEM Listing Rules by taking not less than 15 hours of relevant professional training.

Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2022.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The responsibilities of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements are set out in the Independent Auditor's Report on pages 81 to 86 in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code for dealing in securities of the Company by the Directors (the "**Securities Dealing Code**"). Having made specific enquiry, all Directors have confirmed that they have complied with the Securities Dealing Code for the year ended 31 December 2022 and up to the date of this report.

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

No incident of non-compliance of the Securities Dealing Code and/or the Inside Information Policy was noted by the Company for the year ended 31 December 2022 up to the date of this report.

INTERNAL AUDIT FUNCTION

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

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

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

During FY2022, the Board, through its review, was of the view that the risk management functions and the internal control systems of the Group were effective and adequate.

Main features of the risk management and internal control systems

For the year ended 31 December 2022, the management assessed that there were no significant changes in the Group's risks (including ESG risks), and the management considered they have such ability to respond to the change in its business and the external environment.

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

Board/Audit Committee

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

- oversees the management in the design, implementation and monitoring of the risk management and internal control systems.

INTERNAL CONTROL AND RISK MANAGEMENT *(Continued)*

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

Management

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

Process Used to Identify, Evaluate and Manage Significant Risks

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

Risk Identification

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

Risk Assessment

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

INTERNAL CONTROL AND RISK MANAGEMENT *(Continued)*

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

Risk Response

- Categorises the risks into low risk, medium risk and high risk;

- Determines the strategy to handle the risk; and

- Develops the risk register and internal control audit plan and determines the frequency of review and control testing on key controls.

Risk Monitoring and Reporting

- on-going communication of monitoring results to the Board which enables it to assess control of the Group and the effectiveness of risk management during the Year, including:

  (i) risk questionnaires completed by the management, risk register and internal control audit plan; and

  (ii) fact finding report with recommendations on the review and testing of internal controls on certain operating cycles and areas.

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

During the year ended 31 December 2022, the Board has conducted its regular and annual review of the effectiveness of our risk management and internal control systems, in particular, the operational and financial reports, compliance control and risk management reports, budgets and business plans provided by management. The Audit Committee also performs regular review of the Group's performance, risk management and internal control systems and discusses with the Board, in order to ensure effective measures are in place to protect material assets and identify business risks of the Group. The Board's annual review also considered the extent to and the frequency of communication of monitoring results to the Board, significant control failings or weakness that have been identified during the year ended 31 December 2022 and the effectiveness of the Company's processes for financial reporting and GEM Listing Rules compliance. Such review during the year ended 31 December 2022 did not reveal any major issues and the Board considers the risk management functions and the internal control systems are effective and adequate.

INVESTOR RELATIONS

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

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

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

The 2023 AGM of the Company will be held on 25 May 2023, the notice of which shall be sent to the Company's shareholders in accordance with the Articles, the GEM Listing Rules and other applicable laws and regulations.

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

SHAREHOLDERS' RIGHTS

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

Convening of extraordinary general meeting and putting forward proposals

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

SHAREHOLDERS' RIGHTS *(Continued)*

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

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

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

Putting Forward Enquiries to the Board

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

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

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

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

COMMUNICATION WITH SHAREHOLDERS

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

The Board has reviewed the implementation of the shareholders' and investors' communication policy during FY2022. The Board confirms the effectiveness of the communication policy and will continue to review the communication policy annually.

DIVIDEND POLICY

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

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

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

CONSTITUTIONAL DOCUMENTS

There had been no changes to the Articles during the year. The existing version of the Articles is posted on the designated website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.smart-team.cn).

The Board proposed to seek approval from the Shareholders at the 2023 AGM for the amendments to the Articles in order to (i) bring the Articles in line with the relevant requirements of the applicable laws of the Cayman Islands and the GEM Listing Rules and (ii) make some other housekeeping improvements. Details of such proposed amendments will be published in the circular to be despatched to the Shareholders.

On behalf of the Board

Wong Kai Hung, Kelvin
Chairman and Executive Director

29 March 2023

Directors' Report

The Directors are pleased to present this report and the audited consolidated financial statements of the Group for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

Details of the principal activities of the subsidiaries of the Company are set out in note 31 to the consolidated financial statements and an analysis of the Group's performance for the year ended 31 December 2022 is set out in the "Management Discussion and Analysis" section of this report. For future business development, the Group will strengthen its position in research and development of the new functional fabrics as well as expanding different markets and strengthening the marketing and sales efforts to attract new customers.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the five years ended 31 December 2018, 2019, 2020, 2021 and 2022 as extracted from the Prospectus and the consolidated financial statements is set out on page 4 of this report. This summary does not form part of the audited consolidated financial statements of the Group.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2022 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income of this annual report.

The Board did not recommend the payment of final dividend for the year ended 31 December 2022 (2021: nil).

PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2022 are set out in note 25 to the consolidated financial statements of this annual report.

PRE-EMPTIVE RIGHTS

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

RESERVE

Details of movements in the reserves of the Company and the Group are set out in note 34 to the consolidated financial statements and the consolidated statement of changes in equity of this report respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2022, the Company's reserves available for distribution to Shareholders comprised of the share premium, capital reserve and retained profits with an aggregate amount of approximately HK$41,670,000 (2021: HK$42,511,000).

REVIEW OF FINANCIAL INFORMATION

The Audit Committee comprises three INEDs, namely, Mr. Ng Wing Heng Henry, Mr. Sze Irons, *BBS JP*, and Mr. Fong Kin Tat. Mr. Ng Wing Heng Henry is the chairman of the Audit Committee. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and has discussed the internal controls system, risk management system and financial reporting matters including the review of the audited consolidated financial statements and annual results of the Group for the year ended 31 December 2022.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2022, the aggregate sales attributable to the Group's largest customer and the five largest customers accounted for approximately 25.5% and 73.0% (2021: 37.0% and 76.4%) of the Group's total revenue for the year, respectively.

During the year ended 31 December 2022, the aggregate purchases attributable to the Group's largest supplier and the five largest suppliers accounted for approximately 31.7% and 81.2% (2021: 26.1% and 87.0%) of the Group's total purchase for the year, respectively.

At no time during the year ended 31 December 2022 that any of the Directors, their close associates or any Shareholders (to the best knowledge of the Directors who own more than 5% of the Company's issued share capital), has any interests in any of the above five largest customers and suppliers of the Group for the year ended 31 December 2022.

RELATIONSHIP WITH EMPLOYEES, SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

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

During the year ended 31 December 2022, there was no material and significant dispute between the Group and its employees, suppliers, customers and/or other stakeholders.

RELATIONSHIP WITH KEY STAKEHOLDERS

(i) Employees

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

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

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

(ii) Suppliers

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

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

(iii) Customers

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

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

(iv) Shareholders

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

DEED OF NON-COMPETITION

Mr. Wong Kai Hung Kelvin and Cosmic Bliss Investments Limited (together, the "**Controlling Shareholders**"), have confirmed to the Company of their compliance with the non-competition undertakings provided to the Company under a deed of non-competition (the "**Deed of Non-Competition**") entered into between the Controlling Shareholders and the Company dated 23 April 2018 during the year ended 31 December 2022.

The INEDs have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by the Controlling Shareholders during the year ended 31 December 2022.

LOAN AGREEMENTS WITH COVENANT RELATING TO SPECIAL PERFORMANCE OF THE CONTROLLING SHAREHOLDERS

On 25 February 2021, Smart Team Textiles Technology Limited ("**Smart Team**"), a wholly-owned subsidiary of the Company, as borrower; Bank of China (Hong Kong) Limited ("**BOC Bank**"), as lender; and each of the Company and Mr. Wong Kai Hung Kelvin ("**Mr. Wong**"), an executive Director, chairman of the Board and a controlling shareholder of the Company, as guarantor, entered into a banking facility letter ("**Facility Letter**") in relation to the general banking facilities granted under the SME Financing Guarantee Scheme guaranteed by the HKMC Insurance Limited. The Facility Letter is comprises of a revolving loan facility of up to HK$10,000,000 and an overdraft facility of up to HK$8,000,000. According to the terms of the Facility Letter, all amounts borrowed thereunder shall be repaid every 12 months after the date of each drawdown and the amount borrowed shall be used to finance the acquisition of assets or as general working capital for business operation.

Pursuant to the Facility Letter, certain specific performance covenants are imposed on Mr. Wong, (i) to remain as the chairman of the Board or an executive Director; and (ii) together with his family member(s) shall remain as the largest shareholder of the Company, directly or indirectly. Please refer to the announcement of the Company dated 25 February 2021 for more details.

As at 31 December 2021, the bank borrowing from BOC Bank was fully repaid by Smart Team.

There were no loan agreements with a covenant relating to a special performance of the controlling shareholders during the year ended 31 December 2022.

Directors' Report

DIRECTORS

The Directors who held office during the year ended 31 December 2022 and up to the date of this annual report were:

Executive Directors

Mr. Wong Kai Hung Kelvin *(Chairman)*
Mr. Xi Bin

Non-executive Director

Mr. Hung Yuk Miu

Independent non-executive Directors

Mr. Sze Irons, *BBS JP*
Mr. Fong Kin Tat
Mr. Ng Wing Heng Henry

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of all the Directors and senior management of the Company are set out on pages 12 to 15 of this annual report.

INDEPENDENCE CONFIRMATION

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

DIRECTORS' SERVICE CONTRACTS

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

The Company has entered into a letter of appointment with the NED. The term of appointment of the NED is for a term of three year commencing on 1 November 2020 and is subject to retirement and re-election in accordance with the Articles and terminable by either party by giving at least three months' written notice to the other.

Each of the INEDs has entered into a letter of appointment with the Company, respectively. Each of the INED's appointment is for a term of three (3) years, commencing on 23 April 2021, subject to retirement and re-election in accordance to the Articles and GEM Listing Rules and is terminable by either party by giving at least three months' written notice to the other.

None of the Directors being proposed for re-election at the 2023 AGM has a service contract or letter of appointment with the Company, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

EMOLUMENT POLICY, DIRECTORS' REMUNERATION AND PENSION SCHEME

As at 31 December 2022, the Group had 63 (2021: 69) employees. The emolument policy of the directors and senior management of the Group is formulated by the Remuneration Committee based on their merit, qualifications and competence. It is the Group's policy to compensate each employee fairly and equitably. The Group has a system for measuring employees' performance against agreed-upon goals with specific performance standards. Performance discussion is carried out on an ongoing basis and a formal evaluation is conducted at least once a year to review employees' overall performance, achievements, and areas in need of improvement. Salary review will be based on both Group's performance and individual performance and subject to the Group's discretion.

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

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

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

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

SHARE OPTION SCHEME AND SHARE AWARD SCHEME

During the years respectively ended 31 December 2021 and 31 December 2022, the Company did not have any share option scheme or share award scheme which were required to be disclosed.

MANAGEMENT CONTRACTS

No contract, other than employment contracts concerning management and administration of the whole or any substantial part of the Company's business was entered into or existed during the year ended 31 December 2022.

FULLY EXEMPT CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Purchase of yarns

The Group entered into various purchase agreements with Zhongshan Da Chong Elastic Thread Factory Limited (中山市大涌線廠有限公司) ("**Da Chong**") for the purchase of yarns of HK$12,000 in FY2021 but there was no such transaction in FY2022. Da Chong, which is owned as to 15% by Mr. Wong Kai Hung Kelvin and 85% collectively by his close family members, is our connected person and the transactions contemplated under such purchase agreements constituted continuing connected transactions of the Group under Chapter 20 of the GEM Listing Rules.

As (i) all the transactions contemplated under the abovementioned purchase agreements were conducted on normal commercial terms and (ii) all the applicable percentage ratios under Chapter 20 of the GEM Listing Rules (other than the profit ratio) for the transactions under such purchase agreements, on an aggregated basis, are less than 5% and the annual amount was less than HK$3 million, the continuing connected transactions contemplated thereunder are fully exempt from all annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. For details of such transactions, please refer to note 30 to the consolidated financial statements of the Company for FY2022 contained in this annual report.

Provision of personal guarantees by the executive Directors

Mr. Xi Bin, our executive Director, and his spouse and hence our connected persons, have provided a personal guarantee to secure the bank facilities granted to the Group during the year ended 31 December 2022. For details, please refer to notes 23(a) and 30(c) to the consolidated financial statements. The provision of personal guarantees constituted a connected transaction of the Group under Chapter 20 of the GEM Listing Rules. However, as the personal guarantees provided by Mr. Xi were provided to the Group on normal commercial terms or better and were not secured by the assets of our Group, they were fully exempt from all annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

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

Provision of certain consultancy service by the non-executive Director

Proudy Limited, a company wholly owned by Mr. Hung Yuk Miu, a non-executive Director and thus a connected person of the Company, has entered into an agreement with the Group to provide certain consultancy service (the "**Consultancy Service**") to the Group from 1 January 2020 for a term of 3 years. On 30 December 2022, the Consultancy Service Agreement has been renewed and extended for a term of 2 years from 1 January 2023 to 31 December 2024. Such Consultancy Service constitutes a continuing connected transaction of the Company under Chapter 20 of the GEM Listing Rules. As the Consultancy Service provided by Proudy Limited to the Group are on normal commercial terms and all the applicable percentage ratios under Chapter 20 of the GEM Listing Rules, on an annual basis, are less than 5% and the annual amount payable was less than HK$3 million, the continuing connected transaction are fully exempted from all annual review, reporting, announcement and independent shareholders' approval under Chapter 20 of the GEM Listing Rules. The consultancy fee to Proudy Limited in FY2022 was HK$120,000 (FY2021: HK$419,000) as set out in note 30(a) to the consolidated financial statements of the Company contained in this annual report.

The Directors confirm that the related party transactions during FY2022 as disclosed in note 30 to the consolidated financial statements fall under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) but are fully exempt from all annual review, reporting, announcement and independent shareholders' approval requirements in accordance with Chapter 20 of the GEM Listing Rules.

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

Save as disclosed in note 30 to the consolidated financial statements, there were no transaction, arrangement, or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which any Director or any entities connected with a Director, the controlling Shareholder, the substantial Shareholders had a material interest, whether directly or indirectly, subsisted at the end of FY2022 or at any time during FY2022.

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

As at 31 December 2022, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") which are (a) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO); (b) required to be recorded in the register required to be kept under section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the required standard dealings by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

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

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

Name of Director	Name of Group member/associated corporation	Capacity/nature of Interest	Total number of shares	Percentage of interest
Mr. Wong Kai Hung Kelvin ("**Mr. Wong**")	The Company	Interest in a controlled corporation	360,000,000 Shares *(Note 1)*	75.00%
Mr. Wong	Cosmic Bliss Investments Limited ("**Cosmic Bliss**") *(Note 2)*	Beneficial owner	1 share of US$1.00	100.00%

Notes:

1. These Shares are registered in the name of Cosmic Bliss, a company wholly owned by Mr. Wong. By virtue of the provisions in Part XV of the SFO, Mr. Wong is deemed to be interested in all the Shares held by Cosmic Bliss. Mr. Wong is the sole director of Cosmic Bliss.

2. Cosmic Bliss is an associated corporation of our Company by virtue of its being the holding company of our Company. Cosmic Bliss is wholly owned by Mr. Wong.

Save as disclosed above, as at 31 December 2022, none of the Directors or chief executive of the Company nor their associates had registered an interest or short position in any shares or underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they are taken or deemed to have under such provisions of the SFO) or that was required to be recorded in the register kept by the Company pursuant to section 352 of the SFO, or which are required to be notified to the Company and the Stock Exchange, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

Directors' Rights to Acquire Shares and Debentures

At no time during the year ended 31 December 2022 and up to the date of this report was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement which would enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

So far as is known to any Directors or chief executive of the Company, as at 31 December 2022, the following persons (other than Directors or chief executive of the Company whose interests are disclosed under the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" above) have interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as required to be recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the Shares of the Company

Name of person	Name of Group member	Capacity/nature of Interest	Number and class of securities	Percentage of interest
Cosmic Bliss *(Note 1)*	The Company	Beneficial owner	360,000,000 Shares	75.00%
Ms. Kwan, Vivian Wun-kwan *(Note 2)*	The Company	Interest of spouse	360,000,000 Shares	75.00%

Notes:

1. The entire issued share capital of Cosmic Bliss is wholly owned by Mr. Wong, our executive Director.

2. These Shares are registered in the name of Cosmic Bliss, a company wholly owned by Mr. Wong. Ms. Kwan, Vivian Wun-kwan is the spouse of Mr. Wong. By virtue of the provisions in Part XV of the SFO, Ms. Kwan, Vivian Wun-kwan is deemed to be interested in all the Shares Mr. Wong is interested or deemed to be interested.

Save as disclosed above, as at 31 December 2022, the Directors were not aware of any other person who had or deemed to have interests or short positions in the Shares and underlying Shares which has disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision (as defined in section 469 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) for the benefit of the existing Directors is currently in force and was in force throughout the year ended 31 December 2022. The Company has taken out directors' liability insurance that provides appropriate cover for the Directors.

COMPETING INTERESTS

During the year ended 31 December 2022, none of the Directors or the controlling shareholders of the Company or their close associates (as defined in the GEM Listing Rules) is interested in any business which competes or may compete, either directly or indirectly, with the business of the Group nor any conflicts of interest which has or may have with the Group of interests with the Group for the year ended 31 December 2022.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the year end 31 December 2022 or subsisted at the end of the year.

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

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any securities of the Company during the year ended 31 December 2022 and up to the date of this report.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

Details of the principal corporate governance practices as adopted by the Company are set out in the section headed "Corporate Governance Report "on pages 16 to 33 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to operating in compliance with the applicable environmental laws as well as to protecting the environment by minimising the negative impact of the Group's existing business activities on the environment. For details, please refer to the sub-section headed "A. Environmental" under the section headed "Environmental, Social and Governance Report" on pages 47 to 80 of this annual report. To the best knowledge of the Directors, the Group has complied with all relevant laws and regulations regarding environmental protection for the year ended 31 December 2022.

COMPLIANCE WITH LAWS AND REGULATIONS

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

During the year ended 31 December 2022 and up to the date of this annual report, to the best of the Company's knowledge, information and belief, having made all reasonable enquiries, the Group is not aware of any non-compliance in any material respect with the relevant laws and regulations that have a significant impact on the business and operation of the Group for the year ended 31 December 2022. Details of the Company's compliance with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in the GEM Listing Rules are provided in the Corporate Governance Report included in this annual report.

BOARD COMMITTEES

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

EVENT AFTER THE REPORTING PERIOD

The global outbreak of COVID-19 since January 2020 has, to a certain extent, affected the business and operation of the Group. Looking forward to 2023, with the global financial uncertainty, the road to recovery of the economy in the PRC will be uneven. However, the directors of the Company remain positive and expect the PRC's economy will recover steadily in the second half of 2023, especially after the announcement of PRC government's adjustment of COVID-19 pandemic policies in earlier of 2023, including the reopening the borders. The Board expects the demand for our products will increase in the second half of 2023 and the management of the Group is closely monitoring the market situation and continuously evaluating the impact of the epidemic on the Group's operation and financial performance. The Group will make adjustments to its business plan and operations, if necessary, with a view to capturing the momentum of economic recovery for the Group. As at the date of this report, the Board expected the Group's supply chains or sales to major customers would continue to recover from the adverse impact caused by COVID-19.

Other than the aforementioned event, the Board is not aware of any significant event after the reporting period of the Group that requires disclosure.

ANNUAL GENERAL MEETING

The 2023 AGM will be held on 25 May 2023 and the notice of the 2023 AGM will be published and despatched to the shareholders of the Company in accordance with the Company's Articles and the GEM Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

To ascertain the entitlement to attend and vote at the 2023 AGM, the register of members of the Company will be closed from 22 May 2023 to 25 May 2023, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to attend and vote at the 2023 AGM, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong by 4:30 p.m. on 19 May 2023 (Hong Kong time).

AUDITOR

The consolidated financial statements for the year ended 31 December 2022 have been audited by SHINEWING (HK) CPA Limited ("**SHINEWING**"), the auditor of the Company, who will retire at the conclusion of the 2023 AGM and will be eligible, to re-appointment. A resolution for the re-appointment of Shinewing as auditor of the Company will be proposed at the 2023 AGM.

Wong Kai Hung, Kelvin
Chairman

Hong Kong, 29 March 2023

Environmental, Social and Governance Report

INTRODUCTION

ST International Holdings Company Limited (the "**Company**") together with its subsidiaries (the "**Group**" or "**we**"), are principally engaged in the sales of functional knitted fabrics and apparel in the People's Republic of China (the "**PRC**").

The Group is pleased to present the Environmental, Social and Governance Report (the "**ESG Report**") of the Group for the financial year ended 31 December 2022 ("**FY2022**"). The ESG Report not only elaborates our commitments and strategies on corporate social responsibility but also summarises our Environmental, Social and Governance ("**ESG**") initiatives, plans and performance in sustainable development.

We believe that sustainability is an essential element of continuous success, therefore we have integrated this key concept into our business strategy. In order to pursue a successful and sustainable business model, we have integrated different ESG aspects into our risk management system. We adhere to the ESG management direction in accordance with the concept of sustainable development and are committed to progressing effectively against ESG affairs of the Group.

The ESG Governance Structure

The Group is committed to facilitating the development of a corporate culture in which ESG practices are fully integrated into daily business operations. To achieve this goal, the Group has developed a framework to ensure ESG governance is aligned with its strategic growth, while incorporating ESG considerations into its decision-making process. The Group's ESG governance is overseen by functional groups from all levels of the organisation, which comprises the board of directors (the "**Board**") and the ESG taskforce (the "**Taskforce**").

The Board retains the collective and ultimate responsibility for the management approach, strategies and reporting of the Group's ESG matters. In order to better evaluate, prioritise and manage the Group's ESG-related issues, the Board discusses and reviews the Group's ESG-related risks and opportunities, performance, goals and targets with the assistance of the Taskforce. Based on the recommendation from the Taskforce, the Board also reviews the progress towards achieving the ESG-related goals as well as the effectiveness of management approach and strategies. In addition, the Board sets the general directions of the Group's ESG strategies and ensures the effectiveness of ESG risk management and internal control mechanism.

The Taskforce, comprising core members from different departments of the Group, including representatives from sales, purchasing, administration and finance department. The Taskforce is responsible for collecting information relevant to the ESG aspects for the purpose of preparing the ESG reports. The Taskforce discusses, examines and evaluates the Group's performance in different aspects such as environment, safe workplace, labour standards, and product responsibility in the ESG perspectives at least once per year. In addition, the Taskforce reports directly to the Board through meetings on an annual basis, on its findings, decisions and recommendations. Where appropriate, external advisors would be engaged to provide expertise and professional advice for the ESG management process.

Progress Review Made against ESG-related Goals and Targets

The Board believes that setting ESG-related targets can enhance the Group's corporate social responsibility performance as well as the ESG awareness of the stakeholders. During the year ended 31 December 2021 ("**FY2021**"), the Group set various ESG-related targets on relevant key performance indicators (the "**KPIs**"), which were approved by the Board.

The Group closely reviews from time to time the performance and implementation progress of the ESG-related goals and targets. Delegated by the Board, the Taskforce analyses the Group's ESG data relative to its historical records and benchmarks against other comparable peers and reports to the Board at least once a year. The Board then carefully evaluates the attainability of the targets in light of the Group's operations and prospects. Aiming to achieve the targets, the Group is committed to implementing various measures, which are mentioned in this ESG Report.

During FY2022, the Board and Taskforce reviewed in detail the targets previously introduced by the Group. The Group is pleased to report that it is on track to achieve its targets on greenhouse gas ("**GHG**") emissions, waste disposal, energy consumption, and water consumption, meanwhile, expecting positive progress in the coming years by enhancing sustainability in its operations. The Taskforce, on the other hand, will revise the action plans if the progress does not meet expectations or if business operations change, to ensure the Group meet its targets.

REPORTING SCOPE

The Group identifies the reporting scope based on the materiality principle and considers the core business and main revenue sources. As there were no material changes in the Group's main operational structure during FY2022, the reporting scope of the ESG Report continues to align with the annual report which covers the Company's subsidiaries, including Dongguan Smart Union Textiles Technology Co., Ltd (東莞聯兆紡織科技有限公司), Guangdong Smart Team Textiles Technology Co., Ltd ("**Smart Team**") (廣東兆天紡織科技有限公司), and Magic Team (Beijing) International Fashion Design Co., Ltd (幻天（北京）國際服裝設計有限公司) in the PRC, as well as the Group's headquarter in Hong Kong. The Group will continue to assess the major ESG aspects of different businesses and extend the scope of disclosures when and where applicable.

CHAIRMAN STATEMENT

Dear Stakeholders,

On behalf of the Board of the Group, I am pleased to present the ESG Report for FY2022, which provides an annual update on the ESG performance of the Group.

The Group recognises that aligning ESG governance with its business strategies is important to its long-term success in a rapidly changing world. The Group has incorporated sustainable development into its strategies and built an effective governance structure, namely the Board and the Taskforce, to monitor and review the ESG-related issues of the Group. The risk management and internal control frameworks provide a structured approach for the Board to formulate policies and ensure effective execution. More information about the Group's governance structure is stated in the section "The ESG Governance Structure".

The Group maintains close communication with its stakeholders to gather their opinions, understand their concerns and fulfil their expectations and requirements. Materiality assessment surveys and other stakeholder engagement activities are conducted to identify and address the key ESG issues. The management of all business units report to the Board on an annual basis regarding the performance of the ESG and materiality assessment is also performed during FY2022 to ensure the ESG matters are prioritised and managed according to their materiality. More information about the Group's material issues is stated in the sections headed "Stakeholder Engagement" and "Materiality Assessment".

To fufill its corporate social responsibility, the Group holds innovative environmentally friendly materials in high regard and upholds its vision of sustainable production. We strive to reduce our carbon footprint in the manufacturing process and sales. Apart from passing the Swedish OEKO-Tex Standard 100, ISO9001 and ISO14001 certifications, Smart Team newly obtained the Global Recycled Standard ("**GRS**") certification during FY2022, indicating its adherence to global standards in aspects of traceability, environmental principles, social requirements, chemical content and labelling. During FY2022, Smart Team was awarded the "Textile Industry R&D Contribution Award (中國紡織工業聯合會產品開發貢獻獎)" from the China National Textile and Apparel Council in recognition of its effort in technological innovation, fashion creativity, and promoting green development of textile products. In addition, Smart Team received the "Carbon-neutral Pioneer Special Contribution" trophy by joining hands to offer more sustainable brand products, produce carbon-neutral products and promote the low-carbon underwear industry.

Supporting the PRC government's goals with the vision of zero-carbon emissions, we consistently enhance our sustainability strategy during business operations. On 12 December 2022, Smart Team announced its participation at the China National Textile and Apparel Council's "30 • 60 Carbon Neutrality Acceleration Plan (30 • 60碳中和加速計劃)" to help speed up Chinese fashion brands' stewardship in tackling climate change. Smart Team demonstrates its positive influence in the industry, pushing forward cross-sector low-carbon and sustainable transformation. On the other hand, to minimise climate change risk and enhance our carbon management performances, we established the Climate Change Policy during FY2022, covering governance, mitigation, adaptation, resilience and disclosures regarding climate-related issues management. With sound management principles in our operations, we take up our corporate responsibility to raise environmental awareness not only of the Group but also among our business partners such as third-party factories and suppliers.

Environmental, Social and Governance Report

To progressively integrate sustainable development into the foundation of the Group's business development strategy across all business units, it has implemented quantifiable targets on relevant KPIs, covering GHG emissions, waste disposal, energy consumption and water consumption over the year ending 31 December 2025 ("**FY2025**"). The ESG-related targets were approved by the Board and the progress is reviewed by the Taskforce annually. The Taskforce makes full use of the available ESG data to compare the performance between different years and reports to the Board periodically. Aiming to achieve the targets, the Group is committed to implementing various measures, which will be mentioned in this ESG Report. The Board believes the ESG-related targets can enhance the Group's corporate social responsibility performance as well as the ESG awareness of the stakeholders.

Finally, on behalf of the Board, I would like to, once again, express my sincere gratitude to my fellow directors, the management team, all employees and stakeholders for their strong contributions to the Group's sustainable development.

Wong Kai Hung, Kelvin
Chairman

Hong Kong, 29 March 2023

REPORTING FRAMEWORK

The ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide ("**ESG Reporting Guide**") as set out in Appendix 20 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited.

During FY2022, the Group confirmed that it has established appropriate and effective management policies and internal control systems for ESG issues and confirmed that the disclosed contents in the ESG Report comply with the requirements of the ESG Reporting Guide.

Information relating to the Group's corporate governance practices has been set out in the Corporate Governance Report of this annual report.

Reporting Principles

The Group attaches great importance to materiality, quantitative and consistency during the preparation for the ESG Report, the Group has applied these reporting principles listed in the ESG Reporting Guide as the following:

Materiality: Materiality assessment was conducted to identify material issues during FY2022, thereby adopting the confirmed material issues as the focus for the preparation of the ESG Report. The materiality of issues was reviewed and confirmed by the Board and the Taskforce. Details will be mentioned in the sections headed "Stakeholder Engagement" and "Materiality Assessment".

Quantitative: The standards, methodologies and applicable assumptions used in the calculation of the ESG KPIs and relevant data in the ESG Report were supplemented by explanatory notes to establish benchmarks where feasible.

Consistency: The preparation approach of the ESG Report was substantially consistent with the previous year. If there are any changes that may affect comparison with previous reports, explanations will be provided to the corresponding data.

REPORTING PERIOD

The ESG Report specifies the ESG activities, challenges and measures being taken during FY2022.

Environmental, Social and Governance Report

STAKEHOLDER ENGAGEMENT

We value our stakeholders and their feedback regarding our businesses and ESG aspects. To understand and address their key concerns, we have been maintaining close communication with our stakeholders. We will continuously increase the involvement of stakeholders via constructive conversation to chart a course for long-term prosperity. The Group's communication channels with the key stakeholders and their respective expectations are summarised as follows:

Stakeholders	Expectations	Communication Channels
Shareholders and investors	• Financial returns • Compliance with national or local policies, laws and regulations • Growth in corporate value • Transparency and effective communication	• General meetings • Financial reports • Announcements and circulars • Email, telephone communication and company website
Government and regulators	• Compliance with national or local policies, laws and regulations • Support for local economic growth • Driving local employment • Tax payment in full and on time • Ensuring production safety	• Regular information reporting • Regular meetings with regulators • Dedicated reports • Examination and inspection
Business partners	• Operation with integrity • Fair competition • Performance of contracts • Mutual benefits	• Review and appraisal meetings • Business communication • Exchanges and discussions • Engagement and cooperation
Customers	• Outstanding products and services • Product health and safety • Performance of contracts • Operation with integrity	• Customer service center and hotlines • Customer feedback surveys • Customer communication meetings • Social media platforms • Client review
Industry	• Establishment of industry standards • Driving industrial development	• Participation of industrial forums • Visits and inspections
Employees	• Protection of rights • Occupational health and safety • Remuneration and benefits • Career development • Humanity care	• Meetings with employees • House journals and intranet • Employee mailbox • Employee activities • Training and workshops
Community and the public	• Improvement in the community environment • Charity participation • Transparent information • Social medial platform	• Company website • Announcements and circulars • Interview with media

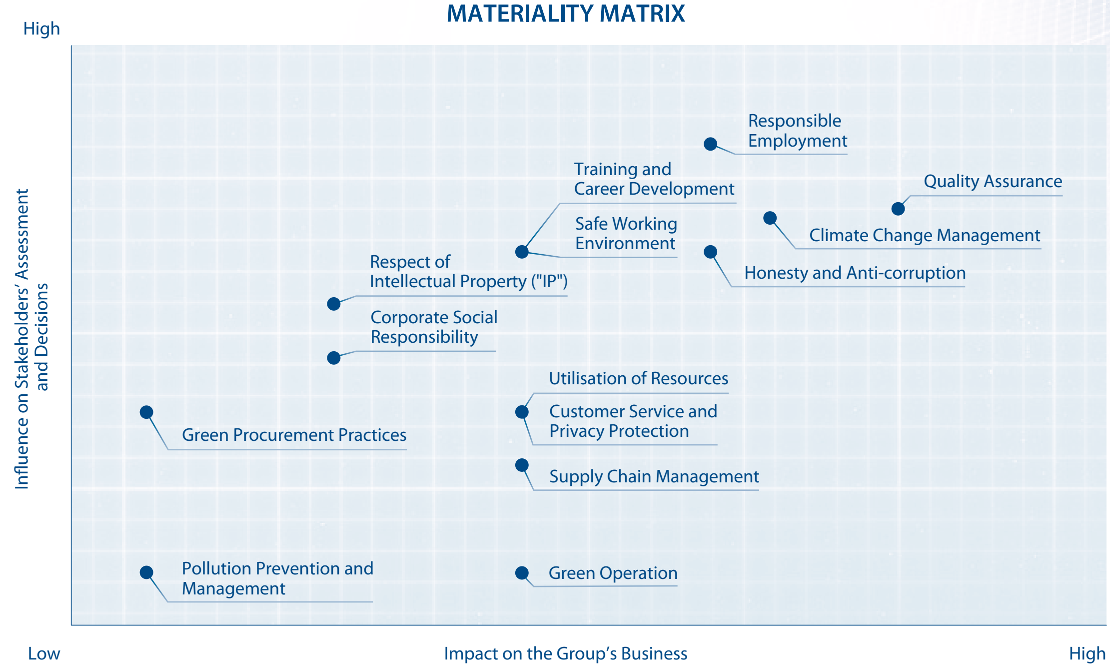
We aim to collaborate with our stakeholders to improve our ESG performance and create greater values for the wider community on a continuous basis.

MATERIALITY ASSESSMENT

The Taskforce and employees in major functions of the Group are involved in the preparation of the ESG Report so as to assist the Group in reviewing its operations, identifying the relevant ESG issues and assessing the importance of those relevant matters to our business and stakeholders. We have compiled a survey to collect information from relevant departments, business units and stakeholders of the Group to identify material ESG issues. Based on the results of survey, the Group compiled the materiality matrix. The results of the materiality assessment were reviewed and confirmed by the Taskforce, and then approved by the Board.

The following matrix summarises the Group's material ESG issues:

MATERIALITY MATRIX



CONTACT US

We welcome comments and suggestions from stakeholders. We are pleased to receive your valuable feedback on the ESG Report and/or our sustainability performance. Please feel free to share your feedback by email at yanminli@smart-team.cn.

A. ENVIRONMENTAL

Environmental Target

The Group is committed to transforming into a low-carbon economy and conserving resources in its business activities, including the use of energy, water and paper. We aim to reduce the use of resources and the consequential carbon footprint through the adoption of various green initiatives. During FY2021, the Group announced its quantifiable targets for emissions and resource consumption that need to be achieved in FY2025 by using FY2021 as the baseline year for its environmental KPIs. The set targets are as follow:

Environmental KPIs	Reduction Target	Status	Interim Performance
GHG Emissions	Reduce the total GHG emissions intensity (0.90 tCO_2e per employee) by at least 3%	In progress	Increased by approximately 12.22% during FY2022
Waste Disposal	Reduce the paper waste intensity (0.005 tonnes per employee) by at least 3%	Achieved	Reduced significantly from approximately 0.005 tonnes per employees in FY2021 to approximately 0.0005 tonnes per employees in FY2022
	Reduce the total non-hazardous waste intensity (0.20 tonnes per employee) by at least 3%, using FY2022 as the baseline year	New target	Due to the data collection mechanism, general waste data has been collected since FY2022, the Group decided to set a new target on the aspect of waste disposal after careful consideration
Energy Consumption	Reduce the total energy consumption intensity (1.90 MWh per employee) by at least 3%	In progress	Increased by approximately 9.47% during FY2022
Water Consumption	Reduce the total water consumption intensity (5.33 m^3 per employee) by at least 3%	In progress	Increased by approximately 42.59% during FY2022

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

A1. Emissions

The Group emphasises good environmental management and strives to protect the environment in order to fulfil the social responsibilities of the Group. Therefore, we have implemented the Environmental Management Policy and an environmental management system, with the aim to prevent pollution and to minimise any potential environmental impacts. One of our subsidiaries, Smart Team is accredited with ISO 14001:2015 Environmental Management System. Meanwhile, the Group upholds its vision of sustainable design and production, looking for green and renewable materials, and actively contributing to environmental protection actions. During FY2022, Smart Team obtained the GRS certification, indicating its adherence to global standards in aspects of traceability, environmental principles, social requirements, chemical content and labelling. The GRS certificate, with credibility as its foundation, is only granted to applicants who meet standards in all five aspects.

As all production processes of the Group have been out-sourced to third-party factories, the Group's daily operations have limited direct impact on the environment while its emissions are limited to exhaust gas emissions from vehicles, GHG emissions and non-hazardous waste. However, we strive to minimise potential environmental impacts caused by third-party factories by ensuring that they have obtained relevant environmental permits that are mandatory for their manufacturing activities and have complied with relevant environmental laws and regulations before entering into business relationships with them. We are committed to promoting a green environment by implementing a variety of environmentally friendly business practices, educating our employees to enhance their environmental protection awareness and complying with relevant environmental laws and regulations.

During FY2022, the Group was not aware of any material non-compliance with environmental-related laws and regulations, including but not limited to the Environmental Protection Law of the People's Republic of China, the Prevention and Control of Atmospheric Pollution of the People's Republic of China, the Hong Kong Waste Disposal Ordinance, and the Water Pollution Control Ordinance that would have a significant impact on the Group.

Exhaust Gas Emissions

The Group's major source of exhaust gas emissions was originated from petrol consumption by vehicles. In response to the above source, the following emission reduction measures are adopted to minimise the impacts:

- Conduct regular vehicle inspection and maintenance to maintain efficiency of vehicles;
- Remind employees to turn off the engines of idling vehicles;
- Encourage the use of public transportation for business travel; and
- Reduce the number of business trips by utilising electronic communication means such as video conferences or visit several customers in a single business trip.

Summary of the Group's exhaust gas emissions performance was as follows:

Indicator[1]	Unit	Emissions	
		FY2022	FY2021
Nitrogen Oxides (NOx)	kg	78.84	84.49
Sulphur Oxides (SOx)	kg	0.09	0.11
Particulate Matter (PM)	kg	7.48	8.01

Note(s):

1. The calculation method of exhaust gas emissions is based on How to prepare an ESG Report – Appendix 2: Reporting Guidance on Environmental KPIs issued by The Stock Exchange of Hong Kong Limited.

GHG Emissions

The major sources of the Group's GHG emissions were generated from petrol consumption of vehicles (Scope 1), purchased electricity (Scope 2), and employee business-related air travels (Scope 3). In response to the growing concerns about climate change and to achieve its GHG reduction target, we have adopted the following measures to reduce GHG emissions derived from business operation:

- Actively adopt measures to reduce emissions generated from petrol consumption of vehicles which are described in the section headed "Exhaust Gas Emissions" under this aspect; and
- Actively adopt environmental protection, energy which are described in the sections headed "Energy Management" under aspect A2.

Due to the steady business recovery from the outbreak of the novel coronavirus pandemic ("**COVID-19**") in the PRC, the Group's total GHG emissions intensity per employee increased by approximately 12.22% from 0.90 tCO_2e/employee in FY2021 to 1.01 tCO_2e/employee in FY2022.

Summary of the Group's GHG emissions performance was as follows:

Indicator[2]	Unit	Emissions FY2022	Emissions FY2021
Direct GHG emissions (Scope 1)			
• Fuel consumed by vehicles	tCO_2e	16.75	19.24
Energy indirect GHG emissions (Scope 2)			
• Purchased electricity	tCO_2e	40.44	31.78
Other indirect GHG emissions (Scope 3)			
• Business air travel	tCO_2e	6.16	11.32
Total GHG emissions (Scope 1, 2 and 3)	tCO_2e	63.35	62.34
Total GHG emissions intensity[3]	tCO_2e/employee	1.01	0.90

Note(s):

2. GHG emissions data is presented in terms of carbon dioxide equivalent and based on, including but not limited to, The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards issued by the World Resources Institute and the World Business Council for Sustainable Development, "How to prepare an ESG Report – Appendix II: Reporting Guidance on Environmental KPIs" issued by The Stock Exchange of Hong Kong Limited, Global Warming Potential Values from the IPCC Fifth Assessment Report, 2014 (AR5), the Notice on the Management of Enterprise Greenhouse Gas Emissions Reporting by Power Generation Industry for 2023-2025 issued by the Ministry of Ecology and Environment of the PRC, and 2021 Sustainability Report published by Hong Kong Electric Investments.

3. As at 31 December 2022, the Group had a total of 63 employees (as at 31 December 2021: 69 employees). This data has also been used for calculating other intensity data.

Sewage Discharge

As the Group has outsourced the production processes to third-party factories, sewage generated was mainly resulted from water consumed by employees. The sewage discharged by the Group are discharged into the municipal sewage pipe network to the regional water purification plant, thus water consumed by the Group is considered as sewage discharged. The data on water consumption and corresponding water conservation measures are described in the section headed "Water Management" under aspect A2.

Waste Management

Hazardous Waste

Hazardous waste generated by the Group were mainly office supplies such as toner cartridges and light tubes. However, they were only consumed in a relatively small amount and were collected by the property management company, therefore they are considered as immaterial to the Group. Despite the Group has generated an insignificant amount of hazardous waste, it has established guidelines in governing the management and disposal of hazardous waste. In case there are any hazardous waste produced, the Group is required to engage a qualified chemical waste collector to handle such waste, and comply with relevant environmental rules and regulations.

Non-hazardous Waste

The non-hazardous waste generated by the Group's business activities were mainly waste fabrics and general waste. In addition, waste fabrics are generated in the course of operation due to the Group's business nature. All waste fabrics generated by the Group during FY2022 were sold to third party manufacturers. For management of other non-hazardous waste, the Group adheres to the principles of reduce, reuse and recycle to handle and dispose of waste generated by our business activities. All of our waste management practices are in compliance with relevant environmental laws and regulations. To achieve the Group's waste reduction target, it continues to place great effort in adopting different environmentally friendly initiatives to minimise general waste generated from its business operations. We have taken the following measures to reduce non-hazardous waste in our business operations:

- Use reusable products instead of one-off office supplies whenever possible;
- Extend stationery life cycle by reusing envelopes and refilling pens;
- Place recycling bins in office areas to improve employees' recycling habits;
- Distribute office memos by electronic means to remind staff to only print necessary materials to avoid wastage;
- Use recycled paper for printing and copying; and
- Promote double-sided printing to utilise the use of paper efficiently.

With the above waste reduction initiatives in place, employees' waste reduction awareness has been increased. Furthermore, due to the adoption of Dingding System (釘釘考勤應用) to replace handwritten forms with electronic applications, the Group's paper waste intensity has decreased significantly from approximately 0.005 tonnes of paper per employee in FY2021 to approximately 0.0005 tonnes of paper per employee in FY2022.

Due to the enhancement of the data collection mechanism, the Group has recorded the amount of general waste generated since FY2022 despite such waste was mainly collected and managed by the property management office. During FY2022, the Group's total non-hazardous waste disposal intensity was approximately 0.02 tonnes per employee. Summary of the Group's non-hazardous waste performance was as follows:

Indicator	Unit	Emissions	
		FY2022	FY2021
Paper	tonnes	0.03	0.32
General waste[4]	tonnes	1.06	N/A
Total non-hazardous waste	tonnes	1.09	0.32
Total non-hazardous waste disposal intensity	tonnes/employee	0.02	0.005

Note(s):

4. The amount of general waste is calculated based on the Volume-to-weight Conversion Factor provided by the United States Environmental Protection Agency.

A2. Use of Resources

The Group advocates and encourages the principle of effective utilisation of resources, and is devoted to the optimisation of the use of resources in all of its business operations. We promote a green office and operational environment and continue to introduce resource efficiency initiatives and eco-friendly measures to the Group's operations.

The Group has established relevant policies and procedures in governing the use of energy and water so as to achieve higher efficiency and reduce unnecessary use of resources.

Energy Management

The Group has developed related energy measures and initiatives on the efficient use of energy, and such measures and initiatives are formally documented in the Environmental Management Policy. Employees are required to follow and comply with the related measures and initiatives and assume responsibility for the Group's overall energy efficiency. To continuously enhance the Group's energy consumption performance, an energy management system has been established and the Group regularly reviews and assesses its energy consumption objectives and targets. Unexpected increases in energy consumption will be investigated for the root causes, and corresponding preventive measures will be taken when deemed necessary. The Group has introduced various measures and initiatives so as to achieve its target. Such measures and initiatives included but not limited to the following:

- Turn off all unnecessary lightings and use natural lightings as far as practicable;
- Set the air conditioning system at a minimum of 25.5℃;
- Clean filters of the air-conditioning system regularly to maintain its efficiency;
- Allow employees to dress light in hot weather and Fridays so as to reduce the use of air conditioning; and
- Set computers and other information and communication technology equipment to automatic standby mode or switch them off when not in use.

The Group's total energy consumption intensity per employee increased by approximately 9.47% from 1.90 MWh/employee in FY2021 to 2.08 MWh/employee in FY2022. The increase was mainly attributed to the steady business recovery from the outbreak of COVID-19 in the PRC. Summary of the Group's energy consumption performances was as follows:

Indicator	Unit	Consumption	
		FY2022	FY2021
Direct energy consumption[5]	MWh	61.07	70.16
Indirect energy consumption	MWh	69.90	60.76
Total energy consumption	MWh	130.97	130.92
Total energy consumption intensity	MWh/employee	2.08	1.90

Note(s):

5. The unit conversion method of energy consumption data is formulated based on the Energy Statistics Manual issued by the International Energy Agency.

Water Management

The Group's water consumption comprised mainly domestic water used within the office areas. Committed to water conservation and to achieve the target, we encourage all employees to develop the habit of water conservation. We have also been strengthening our water-saving promotion, such as posting water saving reminders and guiding employees to consume water reasonably. The following are measures that we have implemented to increase water use efficiency:

- Recycle and reuse grey water for cleaning and watering plants in offices;
- Reduce water pressure to the lowest practicable level; and
- Fix dripping taps to avoid further leakage and wastage.

The water bill of the Hong Kong office is covered in the property management fee and there are no individual meters in the office for recording water consumption. Therefore, the Group was not able to obtain the records of water consumption during FY2022.

During FY2022, the Group's total water consumption intensity increased by approximately 42.59%. The increase was mainly attributed to the steady business recovery from the outbreak of COVID-19 in the PRC, eventually, it led to reducing the work-from-home's hours and increased the water consumption. Summary of the Group's water consumption performance was as follows:

Indicator	Unit	Consumption	
		FY2022	FY2021
Total water consumption	m^3	479.00	368.00
Total water consumption intensity	m^3/employee	7.60	5.33

Due to the Group's business nature, the Group did not encounter any problem in sourcing water that is fit for purpose.

Use of Packaging Material

As the Group's production processes had been outsourced to third-party factories, the operation of the Group did not involve any use of packaging materials.

A3. The Environment and Natural Resources

The Group pursues the best practices for environmental protection and focuses on the Group's business impacts on the environment and natural resources. For the purpose of protecting the natural environment, as well as achieving environmental sustainability, the concepts of environmental protection and natural resource conservation have been integrated into our internal management and daily operations in addition to operating in compliance with relevant environmental laws and international standards. Although the core business of the Group only has a minor impact on the environment and natural resources, as an ongoing commitment to good corporate social responsibility, the Group is determined to minimise any negative environmental impacts in its business operations. The Group regularly assesses the environmental risks of its business and adopts preventive measures to reduce the risks and ensures compliance with relevant laws and regulations.

Green Operation

To enhance working efficiency, the Group is committed to providing employees a comfortable and green working environment. The Group maintains office order and environmental sanitation and keeps the office clean and tidy. In addition, the indoor air quality of the workplace is regularly monitored and measured. The indoor air quality is controlled and maintained by installing air purification equipment in the workplace and regularly cleaning air-conditioning systems to ensure its effectiveness in filtering pollutants and dust.

A4. Climate Change

The Group is committed to managing the potential climate-related issues which may impact its business activities. The Group has formulated the Climate Change Policy, and constantly identifies and analyses the risks and opportunities associated with climate change and takes those factors into consideration in the formulation of business strategies.

The Group has conducted a climate change assessment and identified risks and opportunities making reference to the recommendations of the Task Force on Climate-related Financial Disclosures ("**TCFD**"). The Group also incorporates ESG-related risks such as climate risk into its risk management system to identify and mitigate risks that may affect the Group. Besides, to gradually reduce GHG emissions and make contributions to mitigate climate change, the Group has formulated emissions reduction target and corresponding measures, which are described in section headed "GHG Emissions" under aspect A1.

Physical Risks

Extreme weather events, such as typhoons, storms and floods incurred by climate change may also bring financial losses to the Group. Extreme weather events may force the Group to suspend operation partially, damage machines in the suppliers' garments factories, make employees unable to go to work as usual, interrupt transportation and supply chain, and even threaten the safety of employees of the Group. As a countermeasure, the Group has set up emergency measures for the above conditions, guiding employees' work arrangements and management methods under extreme weather conditions.

Transition Risks

The Group anticipates that there will be more stringent climate legislations and regulations to support the global vision of carbon neutrality. If the Group fails to comply with the laws and regulations as applicable to its businesses from time to time, its business operations may be affected. Negative publicity may also arise due to failure to meet the compliance requirements for climate change. The Group's related capital investment and compliance costs may thus increase. In response to the policy and legal risks as well as the reputation risks, the Group regularly monitors existing and emerging trends, policies and regulations relevant to climate and be prepared to alert the top management where necessary to avoid cost increments, non-compliance fines or reputational risks due to delayed response.

30 • 60 Carbon Neutrality Acceleration Plan (30 • 60碳中和加速計劃)

The PRC's textile and garment industry plays an important role in pushing forward the state's carbon peaking and carbon neutrality goals. To support this good cause, Smart Team announced its participation at the China National Textile and Apparel Council's "30 • 60 Carbon Neutrality Acceleration Plan (30 • 60碳中和加速計劃)" to help speed up Chinese fashion brands' stewardship in tackling climate change during FY2022. It was hoped that such initiatives could serve as examples for other companies, speeding up the transition to green and low-carbon economy, and contributing to the national goal in carbon emissions reduction.

B. SOCIAL

B1. Employment

Human resource serves as the basis for the continuous development of the Group. The Group believes sustainable and continuous success relies heavily upon the ability to attract, develop and retain talents. Therefore, we adhere to a people-oriented principle, respect and protect the legitimate rights and interests of every employee. We regulate and manage the employment process, protect employees' occupational health and safety, strengthen democratic management style, safeguard the interests of employees and value employees' enthusiasm, initiative and creativity so as to build a harmonious labour relationship.

Relevant employment policies of the Group have been formally documented in the employee handbook of the Group ("**Employee Handbook**"), covering recruitment, promotion and dismissal, remuneration and benefits, diversity and equal opportunities, etc. Our policies and employment process are reviewed on a regular basis to ensure the continuous improvement of our employment standards.

During FY2022, the Group was not aware of any material non-compliance with employment-related laws and regulations, including but not limited to the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, the Social Insurance Law of the People's Republic of China and the Hong Kong Employment Ordinance that would have a significant impact on the Group.

Responsible Employment

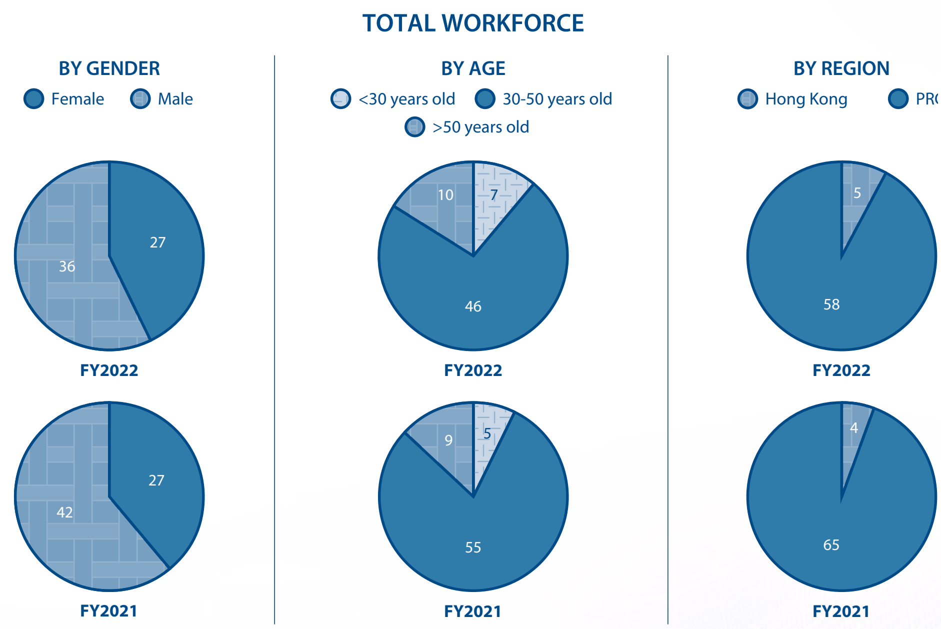
Recruitment, Promotion and Dismissal

The Group seeks to build an elite workforce by recruiting outstanding employees. We adhere to a transparent and fair principle in our robust recruitment process, based on merit selection against the job criteria applied. Recruitment of individuals are based on their suitability for the positions and potential to fulfil the Group's current and future needs, regardless of their race, gender, religion, physical disability, marital status, sexual orientation, etc.

The Group offers promotion and development opportunities for outstanding employees through an open and fair assessment system so as to explore their capability, assist them in career development and contribute to the Group's sustainable growth. Staff performance reviews are carried out regularly to assess employees' work performance based on the principle of meritocracy, talents and competitiveness on an open and fair basis.

Furthermore, the Group does not tolerate dismissal of employees under any unreasonable basis, and exit interviews are required to be conducted with the resigned staff to collect opinions for any possible improvements on the Group's policies.

As at 31 December 2022, the Group had a total of 63 employees (as at 31 December 2021: 69 employees), all of which were full-time employees. The following graphs show our employees' diversity by gender, age group and geographical region.



During FY2022, the Group's overall turnover rate[6] was approximately 47.62% (FY2021: approximately 49.28%). The employee turnover rate by gender, age group and geographical region is as follows:

Turnover Rate[7]	FY2022	FY2021
Gender		
Male	41.67%	28.57%
Female	55.56%	70.37%
Age Group		
Age 30 or below	71.43%	41.67%
Age 31-50	50.00%	30.91%
Age 51 or above	20.00%	22.22%
Geographical Region		
The PRC	50.00%	47.69%
Hong Kong	20.00%	25.00%

Note(s):

6. The overall turnover rate is calculated by dividing the number of employees leaving employment during the reporting period by the number of employees as at the end of the reporting period.

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

Remuneration and Benefits

The Group has established a fair, reasonable and competitive remuneration system. Our basis to determine one's remuneration includes job-related skills, qualifications, experiences, capability, work performances, and prevailing market remuneration rate. Staff performance reviews are conducted regularly to assess the performance of each employee so as to decide the salary adjustments. Employees' remuneration is composed of basic salary, performance bonus, overtime pay, full attendance award, related subsidies and various bonuses.

The Group signed and executed labour contracts with all employees in accordance with the Labour Contract Law of the People's Republic of China and the Employment Ordinance of Hong Kong. The Group pays five social insurances and one housing fund for its employees in the PRC in compliance with the relevant laws and regulations of the PRC, namely endowment insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing provident fund to ensure employees are covered by social insurance. We also remit contributions to the Mandatory Provident Fund (the "**MPF Scheme**") retirement benefit scheme under the Hong Kong's Mandatory Provident Fund Schemes Ordinance for employees in Hong Kong.

In addition to the remuneration package, there is an assortment of welfare offered by the Group. The benefit system of the Group is divided into three parts, which are statutory benefits, caring benefits and incentive benefits.

STATUTORY BENEFITS	CARING BENEFITS	INCENTIVE BENEFITS
• Five social insurances and one housing fund for employees in the PRC • MPF Scheme for employees in Hong Kong • All statutory holidays	• Lunch allowance • High-temperature allowance • Free accommodation • Paid annual leave, maternity leave, paternity leave, marriage leave, funeral leave, and sick leave	• Wage for seniority • Long service allowance • Performance based salary • Year-end bonus

Equal Opportunities and Anti-discrimination

We are committed to creating and maintaining an inclusive and collaborative workplace culture in which all staff can thrive. We are dedicated to providing equal opportunities in all aspects of employment and maintaining workplace free from discrimination, physical or verbal harassment against any individual on the basis of age, colour, gender, marital status, physical or mental disability, place of origin, race, religion, and sexual orientation. We have zero tolerance for sexual harassment or abuse in the workplace in any form. Any employee who is intimidated, humiliated, bullied or harassed (including sexual harassment) may report to the employee's representative, or file complaints directly to the management representative or the general manager, and the Group will take a serious approach to resolve these issues upon receiving the said complaint.

Work-life Balance

The Group recognises the importance of maintaining a healthy lifestyle and work-life balance for our employees. Thus, the Group strives to establish a harmonious labour relationship and working environment which promote positive and healthy lifestyle and avoid overtime of employees working as far as reasonably practicable. We will also organise football games and matches on a regular basis as a way of promoting a healthy work-life balance.

B2. Health and Safety

The Group values the importance of employees' health and safety, and is committed to providing employees with a healthy, safe and comfortable working environment. We strive to eliminate potential workplace health and safety hazards, and safety management measures in all aspects are implemented to enhance employees' health and safety during work. We have established an occupational health and safety system and obtained the certificate of ISO 45001: 2018 Occupational Health and Safety Management System for Smart Team. As part of the occupational health and safety system, occupational safety and sanitation rules and standards were implemented, meanwhile, employees received regular workplace safety training to increase their awareness of work safety issues.

During FY2022, the Group was not aware of any material non-compliance with health and safety related laws and regulations, including but not limited to the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, and the Occupational Safety and Health Ordinance of Hong Kong that would have a significant impact on the Group.

During the FY2022, the Group recorded a work-related injury case, resulting in 20 lost days. An employee was injured while operating the fabric strength testing machine. His right hand was hurt and immediately taken to the hospital for treatment. The Group has taken action to prevent similar accidents in the future by providing additional safety training to increase risk awareness and to develop the skills necessary to operate equipment safely. To further reduce the frequency of similar incidents, the Group also ensures that all machines are properly maintained and inspected. In addition, there were no work-related fatalities that occurred in each of the past three years including FY2022.

Safe Working Environment

To pursue an injury-free working environment, the Group requires all employees to receive safety trainings before the commencement of work. We also emphasise to our employees that strict compliance with safety requirements is vital to protect themselves from accidents and injuries. Safety guidelines are provided to our employees who work in our third-party manufacturers' production facilities. When safety issues are spotted, employees are required to report in a timely manner. The Group has also formulated a series of emergency plans in case of any accidents and organised fire drills on a regular basis to further reinforce employees' safety awareness.

In response to the outbreak of COVID-19, the Group has implemented a series of precautionary measures in accordance with regional laws and regulations to ensure the health and safety of our employees. An Epidemic Prevention and Control Team was established to implement the disease prevention and control measures and monitor their corresponding effectiveness. In addition to requiring employees to check their temperature daily, all personnel are required to wear facial masks at all times within the Group's premises. The Group has also imposed measures to avoid the spreading of COVID-19, such as providing alcohol-based hand sanitisers to everyone and increasing the frequency of deep cleaning and disinfection in common areas.

B3. Development and Training

The Group considers our staff as one of the most precious assets and resources. We recognise the valuable contribution our talents made towards the continuing success of the Group. We are committed to investing in our human capital towards delivering excellence and striving to create an intellectually-stimulating environment within which employees do not only develop basic skills and knowledge but also specific talent and ability. This is achieved through the continuous development of training strategies that focuses and emphasises on creating values and serving the needs of our customers, our talents and society.

Training and Career Development

Relevant training procedures have been developed so as to standardise the management of employees' training. The Group has also formulated a training management system and is formally documented in the Employee Handbook.

The Group has developed a comprehensive training program and the human resources department typically sets up annual training plans by the end of each year. The training plans are constantly adjusted according to the strategic development and employee needs, to meet the all-round and multi-level training needs of employees in different positions. New employees are required to attend mandatory induction courses to ensure that they are well equipped with the necessary skills to perform their duties. The Group also provides regular trainings to our employees on areas including but not limited to technical know-how, industrial knowledge and hands-on skills. Training contents are updated regularly to ensure that the materials are up to date and thus able to enhance the skills, knowledge, and competency of our employees.

In addition to internal trainings, the Group encourages and supports employees to participate in external personal and professional trainings to fulfil the needs of the Group's development. To encourage employees in taking the initiative in learning and pursuing further career development, we offer reimbursements to our employees who have received relevant trainings and completed development programs that pertain to their respective work positions and skills. We also encourage our research and development personnel to participate in trainings provided by external research institutions, such as Donghua University, in order to maintain our capability and competitiveness in the product-developing industry.

During FY2022, the Group provided in total 51.00 hours of training to approximately 34.92% (FY2021: approximately 11.59%)[8] of its employees, with an average training time[9] of approximately 0.81 hours (FY2021: approximately 11.13 hours).

	FY2022			FY2021		
	Percentage of Trained Employee[10] (%)	Breakdown of Trained Employee[11] (%)	Average Training Hours[12] (hours)	Percentage of Trained Employee[10] (%)	Breakdown of Trained Employee[11] (%)	Average Training Hours[12] (hours)
Gender						
Male	50.00	81.82	1.08	11.90	37.50	11.43
Female	14.81	18.18	0.44	11.11	62.50	10.67
Employment Category						
Senior management level	88.89	36.36	3.00	14.29	12.50	13.71
Middle management level	75.00	27.28	1.25	6.25	12.50	6.00
Basic-level	17.39	36.36	0.30	13.04	75.00	12.52

Note(s):

8. This percentage is calculated by dividing the total number of employees who took part in training during the reporting period by the total number of employees as at the end of the reporting period.

9. The average training hours per employee is calculated by dividing the total number of training hours during the reporting period by the total number of employees as at the end of the reporting period.

10. The percentage of trained employees by category is calculated by dividing the number of employees in the specified category who took part in training during the reporting period by the number of employees in the specified category as at the end of the reporting period.

11. The breakdown of trained employees by category is calculated by dividing the number of employees in the specified category who took part in training during the reporting period by the total number of employees who took part in training during the reporting period.

12. The average training hours by category is calculated by dividing the number of training hours for employees in the specified category during the reporting period by the number of employees in the specified category as at the end of the reporting period.

B4. Labour Standards

Child and forced labour are strictly prohibited throughout the recruitment process as defined by laws and regulations. The Group has established a sophisticated recruitment process to examine candidates' background and official reporting procedures to handle any exceptions. Personal data are collected during the employment process to assist in the selection of suitable candidates and to verify candidates' personal data. The human resources department of the Company confirms/verifies that the identity documentations of candidates are carefully checked. Once the Group discovers any case which fails to conform to the relevant labour laws, regulations or standards, the relevant employment contract will be immediately terminated.

Furthermore, employees overtime working is based on voluntary principle so as to avoid the violation of labour standards and safeguard the rights and interests of employees. Overtime salary or compensatory leave are also required to be provided afterwards. To prevent any form of forced labour, a job description outlining the principal responsibilities of employee is attached in the labour contract. The Group also prohibits any punitive measures, management methods and behaviours such as abusive, corporal punishment, violence, mental stress, sexual harassment (including inappropriate language, posture and physical contact) for any reason. At the same time, the Group also refrains from engaging with third-party factories and any suppliers who are aware of child labour or forced labour in their operations.

During FY2022, the Group was not aware of any material non-compliance with laws and regulations related to the prevention of child labour and forced labour, including but not limited to the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China and the Hong Kong Employment Ordinance that would have a significant impact on the Group.

B5. Supply Chain Management

As a socially responsible enterprise, the Group emphasises heavily on the management of potential environmental and social risks in our supply chain. We have established the Procurement and Payment Management System, in which all suppliers are evaluated carefully and subjected to monitoring and assessments on a regular basis. During FY2022, the Group had a total of 94 (FY2021: 65) suppliers. 92 of which were located in the PRC (FY2021: 65) while 2 of which were located in Hong Kong (FY2021: nil). All of them were engaged and evaluated under the Group's procurement practices.

Procurement Practices

The Group has established a meticulous supplier selection system which involves the following operational departments:

PROCUREMENT DEPARTMENT	PRODUCTION DEPARTMENT	FINANCE DEPARTMENT
• Select suppliers • Request quotes • Conclude procurement contracts • Reconcile accounts with suppliers • Follow up on deliveries and returns	• Receive and inspect procured goods according to the purchase order • Handle warehouse return procedures • Manage storage	• Evaluate procurement contracts • Process accounts • Reconcile accounts with suppliers • Supervise and review business processes • Prepare ageing analysis sheets for payable accounts • Prepare payment plans • Audit and execute payment plans

During the supplier selection process, we review not only suppliers' basic information, but also consider a number of other factors including but not limited to the delivery schedule, pricing, product quality, possession of requisite licenses, certifications, and the compliance to relevant industrial laws, regulations and standards. In addition, we place product quality as our priority, and the performances of our raw material suppliers are reviewed from time to time to ensure raw materials supplied are able to meet our quality standards.

In view of the growing concern on social and environmental issues, the Group has also incorporated environmental and social considerations into the supplier selection process. We aim to maintain a good relationship with suppliers having remarkable records in environmental and social performance. Suppliers who fail to demonstrate a good standard or fail to meet the Group's supplier selection criteria are excluded from our list of suppliers for future engagements. Furthermore, the Group gives priority to suppliers that use environmentally preferable products and services in the selection process in order to minimise the potential impact of its supply chain on the environment.

In addition to the supplier selection system, a Supplier Code of Conduct was formulated to ensure and facilitate suppliers to compete in a transparent and fair way. We do not discriminate against any suppliers, and we do not allow any forms of corruption or bribery. Employees and other individuals with interest in the suppliers are not allowed to participate in relevant procurement activities. The Group only selects suppliers with good track record in the past and no serious violations of business ethics. During FY2022, all key manufacturers and material suppliers of the Group have signed the Supplier Code of Conduct.

B6. Product Responsibility

The Group actively monitors the quality of our products with our internal control process, and maintains on-going communication with our customers to ensure mutual understanding while fulfilling customers' needs and expectations. We aim to apprehend customers' need and expectations, and strive to continuously improve the quality of our products and services.

During FY2022, the Group was not aware of any material non-compliance with laws and regulations concerning health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress, including but not limited to the Law of the People's Republic of China on the Protection of Consumer Rights and Interests, the Product Quality Law of the People's Republic of China, the Patent Law of the People's Republic of China, the Advertising Law of the People's Republic of China, and the Hong Kong's Personal Data (Privacy) Ordinance, Trade Descriptions Ordinance, Copyright Ordinance that would have a significant impact on the Group.

Quality Assurance

We recognise the importance of achieving and maintaining high product quality standard to the sustainable growth of the Group. One of the Group's subsidiaries, Smart Team has obtained the certificate of ISO 9001:2015 Quality Management System on research, design and sales of textiles. The Group was also accredited with the OEKO-Tex Standard 100, which guaranteed that our products meet the human-ecological requirements for baby clothing.

To maintain high product quality, great emphasis is attached on the quality management. We have established a quality control team led by a manager experienced in the textile industry, who is responsible for ensuring the quality standards of the raw materials, products manufactured by third-party factories at each stage of production processes, as well as our end products. Moreover, standardised technical checklists which prescribe specific technical requirements and guidance have been formulated to these third-party factories.

In addition, to ensure the scheduled production plans are well-executed, representatives from our production control team are assigned to station in the third-party factories to carry out on-site inspection, provide production instructions and guidance, monitor production progress, coordinate day-to-day work, and take immediate actions to remedy defects discovered.

During FY2022, the Group did not record any material cases of product or service-related complaints, also the Group did not record any material recalls of products sold or shipped subjects to safety and health reasons (FY2021: nil).

Research and Development

The Group views that the effort in conducting research and development is indispensable so as to maintain a high product quality standard. We constantly seek to develop new products and enhance our existing products with special features through our research and development capabilities. Smart Team was awarded the "Textile Industry R&D Contribution Award (中國紡織工業聯合會產品開發貢獻獎)" from the China National Textile and Apparel Council in FY2022 in recognition of its efforts to establish sound research and development structures for high-quality products to promote sustainable development and social responsibility.

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

Being one of the pioneers in a net-zero economy, we actively promote green transformation in the textile industry. Smart Team is one of the strategic partners of Lenzing Group, which is the pioneer to launch planted-based carbon-neutral TENCEL™ fibres. During FY2022, Lenzing Group presented Smart Team the "Carbon-neutral Pioneer Special Contribution" trophy, joining hands to promote the low-carbon underwear industry, marking deeper cooperation between the two. The Group looks forward to incorporating TENCEL™ fibres to manufacture more quality products. Meanwhile, our research centres will maintain a close connection with Lenzing Group for technology exchange, so as to speed up the research and development of green products.

Customer Services and Privacy Protection

The Group provides quality and warm service experience to customers through standardised service quality management. To minimise complaints from customers which may result in product recall or other adverse consequences, our sales executives are responsible for liaising with our customers during the ordering stage and maintain close contact with them after delivery to ensure the Group is being notified for any quality problem or customers' complaints.

The Group has also established a set of procedures for the handling of customers' feedback or complaints in a professional manner. When receiving product or service-related enquiries or complaints, our sales executives communicate with customers immediately to resolve the problems. We are committed to understanding the facts and root causes of each customers' complaint, identifying areas for improvement and ensuring that necessary improvements are made in order to enhance the quality of the Group's service and products. We believe that this does not only help to build customers' loyalty to the Group, but also retains a customer base for promoting future development of the Group.

Apart from handling complaints, the Group understands that the protection of customers' privacy also contributes towards excellent customer service experience. We are determined to protect customers' personal data by handling them with the highest degree of confidentiality. Strict policies have been established for the collection and usage of customers' data, and they are documented in the Employee Handbook. Our employees are prohibited from revealing or capitalising on any confidential matters or customer's information regardless of the employment status at the time of data usage. Any employee who is found to have divulged confidential information to any third-party without authorisation will be subjected to disciplinary actions.

Protection of IP Rights

We believe our know-how and IP rights are critical to the success of the Group, therefore we had developed an IP management system which is accredited with Intellectual Property Management System Certification.

The Group has adopted a number of measures and policies to protect our IP rights from any misuse or leakage of our IP. A specialised team has been established to manage and handle trademarks and patents to protect our rights from infringement. Employees are also required to sign a nondisclosure agreement which prohibits the divulgence of any trade secrets of the Group to any third parties. Moreover, we have entered into data processing agreements with third-party factories to protect our IP rights. For any infringement of our IP, we will urge infringers to cease such action or further action will be taken.

Advertising and Labelling

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

B7. Anti-corruption

The Group considers integrity as an important and essential element to its continuing business development, therefore we value the importance of anti-corruption work and are committed to building an honest and transparent corporate culture.

During FY2022, the Group was not aware of any material non-compliance with related laws and regulations of bribery, extortion, fraud and money laundering, including but not limited to the Criminal Law of the People's Republic of China, the Company Law of the People's Republic of China, and the Hong Kong's Prevention of Bribery Ordinance and Hong Kong's Anti-Money Laundering and Counter Terrorist Financing Ordinance that would have a significant impact on the Group. There is no material violation on concluded legal case regarding corruption brought against the Group or our employees during FY2022.

Honesty and Anti-corruption

The Group strictly adheres to a high standard of business conduct and has established the Fraud Prevention and Anti-corruption System to define appropriate measures in handling conflict of interests, leakage of confidential information, embezzlement of the Group's asset, etc. to comply with relevant laws and regulations. The Group has adopted a zero-tolerance approach towards all forms of corruption, including deception, bribery, forgery, extortion, conspiracy, embezzlement, money laundering and collusion. Disciplinary actions will be taken against any kind of misconduct or malpractice.

The Group has also adopted Whistleblowing Policy for employees to report any suspected cases of misconduct, malpractice, impropriety, unethical or unfair treatment in confidence. All employees are required to report to the management incidents or suspected cases of corruption, theft, fraud and embezzlement. Employees who have a legitimate malpractice concern may, as an initial step, inform their respective immediate supervisor and report to the Chairman of the Board. In serious cases, the employee may contact the Chair of the Audit Committee directly. Any reported case of fraudulence will receive timely, fair and independent investigation and appropriate follow-up action. The Group will make an investigation and report to the law enforcement if appropriate.

To develop the anti-corruption awareness and good professional conduct among its employees and to comply with relevant applicable regulations in Hong Kong and the PRC, the Group has continued to provide anti-corruption training for its employees on an annual basis. During FY2022, 1 director and 25 employees (FY2021: 6 directors and 2 employees) underwent a total of approximately 26 hours (FY2021: approximately 16 hours) of training covering the topics of understanding of common corruption issues faced during daily operations, essential elements of the code of conduct, corruption risk identification and controls, measures to prevent and tackle unethical conduct, and promulgation of anti-corruption practices.

B8. Community Investment

Corporate Social Responsibility

The Group believes in shouldering the responsibility of contributing to society and strives to be a responsible corporate citizen. We focus on providing assistance to people in need of relief as a result of emergencies or natural disasters. We have formulated the Community Investment Policy, and are committed to being an active member of the community by supporting and participating in various charitable community activities. The Community Investment Policy aims to provide guidance and standards to all employees who wish to support community activities as part of the Group.

We hope to foster employees' sense of social responsibility by encouraging them to participate in charitable activities so as to provide greater contributions back to the community. We believe that by actively participating in activities that contribute to the community, we are able to enhance the civic awareness of our employees and establish correct values for them.

The Group is committed to providing access to educational opportunities for marginalised children and help underprivileged children to acquire basic literacy and numeracy skills. Since 2018, the Group has been sponsoring students in Daliang Mountain, Sichuan for the cost of living and tuition fees. The Group provided financial support to children to help them succeed in school and achieve their educational goals. It is hoped that they will be able to contribute their knowledge and skills to the Group in the future. During FY2022, the Group devoted its resources to maintain its business operation during the outbreak of COVID-19 and suspended all its philanthropic activities. Should the pandemic have been ended, the Group will reallocate its resources to focus more on social activities and contribute to the community in the future.

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Mandatory Disclosure Requirements	Section/Declaration
Governance Structure	The ESG Governance Structure; Chairman Statement
Reporting Principles	Reporting Framework
Reporting Boundary	Reporting Scope

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to Exhaust Gas and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions
KPI A1.1	The types of emissions and respective emissions data.	Emissions – Exhaust Gas Emissions
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Emissions – GHG Emissions
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Emission – Waste Management (Not applicable – Explained)
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Emission – Waste Management
KPI A1.5	Description of emissions target(s) set and steps taken to achieve them.	Emissions – Environmental Targets; GHG Emissions
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Emissions – Environmental Targets; Waste Management

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Use of Resources – Energy Management
KPI A2.2	Water consumption in total and intensity.	Use of Resources – Water Management
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Emissions – Environmental Targets; Use of Resources – Energy Management
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Emissions – Environmental Targets; Use of Resources – Water Management
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Use of Resources – Use of Packaging Material (Not applicable – Explained)
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's 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 – Green Operation
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

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare.	Employment
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Employment – Responsible Employment
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Employment – Responsible Employment
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
KPI B2.1	Number and rate of work-related fatalities.	Health and Safety
KPI B2.2	Lost days due to work injury.	Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Health and Safety – Safe Working Environment
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 – Training and Career Development
KPI B3.2	The average training hours completed per employee by gender and employee category.	Development and Training – Training and Career Development

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards
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, and how they are implemented and monitored.	Supply Chain Management – Procurement Practices
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 – Procurement Practices
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 – Procurement Practices

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Responsibility – Quality Assurance
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Product Responsibility – Quality Assurance
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Product Responsibility – Protection of IP Rights
KPI B6.4	Description of quality assurance process and recall procedures.	Product Responsibility – Customer Services and Privacy Protection
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Product Responsibility – Customer Services and Privacy Protection

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

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香港銅鑼灣告士打道311號
皇室大廈安達人壽大樓17樓

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

OPINION

We have audited the consolidated financial statements of ST International Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 87 to 148, 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 the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(Continued)*

Valuation of inventories

Refer to note 17 to the consolidated financial statements and the accounting policies on page 104.

The key audit matter	How the matter was addressed in our audit
The Group has carrying value of inventories amounted to approximately HK$26,478,000 as at 31 December 2022. Inventories are valued at the lower of cost or net realisable value. We have identified the estimated write down for inventories as a key audit matter because the assessment of write down for inventories involved significant management judgements and estimates regarding the net realisable value on inventories. Significant auditor's judgement will be involved during the review procedures.	Our audit procedures were designed to assess the methodology and assumptions used by management in assessing the inventory provisions. We have reviewed management's identification of slow moving and obsolete inventories, and critically assessed whether appropriate provisions had been established for slow moving and obsolete items. When considering management's assessment, we have also taken into account, the most recent prices achieved on sales across different products and by checking subsequent sales. We have also assessed the reliability of management's assessment by considering the utilisation or release of previously recorded provisions.

KEY AUDIT MATTERS *(Continued)*

Expected credit losses of trade receivables

Refer to note 18 to the consolidated financial statements and the accounting policies on pages 105 to 110.

The key audit matter	How the matter was addressed in our audit
The Group's trade receivables amounted to approximately HK$16,477,000, representing approximately 10% of the Group's current assets, as at 31 December 2022. In general, the credit terms granted by the Group to the customers ranged between 30 to 120 days. Management performed periodic assessment on the recoverability of the trade receivables and the sufficiency of provision for impairment based on information including credit profile of different customers, ageing of the trade receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. Management also considered forward looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment. We focused on this area due to the impairment assessment of trade receivables under the expected credit losses model involved the use of significant management judgements and estimates.	Our audit procedures were designed to challenge the assumptions and critical judgements of the Group's forward-looking expected credit losses model on impairment assessment of trade receivables. We have assessed the provision matrix used in the model by reference to the historical information together with other external available information. In particular, we have challenged the appropriateness of the default rate of various debtors that have similar loss patterns by taking into account the ageing at year end. We have also challenged the appropriateness of the assumptions used in forward-looking information by comparing credit worthiness of each debtor and macro economy and industry performance and checking historical and subsequent settlement records of and other correspondence with the customers.

KEY AUDIT MATTERS *(Continued)*

Impairment of plant and equipment

Refer to note 15 to the consolidated financial statements and the accounting policies on pages 103.

The key audit matter	How the matter was addressed in our audit
The Group's plant and equipment amounted to approximately HK$16,265,000, representing approximately 9% of the Group's total assets, as at 31 December 2022. The group's impairment assessment of plant and equipment involved the use of significant management judgements and estimates.	Our audit procedures were designed to evaluate the management's assessment of the indicators of impairment and, where such indicators were identified, assessed the management's impairment testing. We have discussed with the management on the key assumptions used in the management's assessment of the indicators of impairment. We have also performed check on sample basis by physically inspecting whether the plant and equipment are kept in a good condition. We have assessed the appropriateness of their assessment methodology and challenged the data used as inputs for the impairment assessment.

OTHER INFORMATION

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

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

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

- Conclude on the appropriateness of the Company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chan Ka Wai
Practising Certificate Number: P07328
Hong Kong
29 March 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Revenue	5	**101,100**	122,786
Cost of sales		**(83,447)**	(88,094)
Gross profit		**17,653**	34,692
Other income	7	**2,864**	3,793
Selling and distribution expenses		**(4,078)**	(4,254)
Administrative and other expenses		**(19,073)**	(18,241)
Impairment loss on plant and equipment	15	**(6,296)**	–
Impairment loss on trade receivables		**(29)**	(46,333)
Finance costs	8	**(1,412)**	(1,762)
Loss before tax		**(10,371)**	(32,105)
Income tax expenses	9	**(654)**	(398)
Loss for the year	10	**(11,025)**	(32,503)
Other comprehensive (expense) income for the year			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		**(12,805)**	5,154
Gain on disposal of equity investments designated at fair value through other comprehensive income ("FVTOCI")		**–**	119
Other comprehensive (expense) income for the year		**(12,805)**	5,273
Total comprehensive expense for the year		**(23,830)**	(27,230)
Loss per share – basic and diluted *(HK$ cents)*	14	**(2.30)**	(6.77)

Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Non-current assets			
Plant and equipment	15	**16,265**	27,255
Deferred tax asset	24	**3,771**	4,010
Right-of-use assets	16	**1,490**	1,778
		21,526	33,043
Current assets			
Inventories	17	**26,478**	37,939
Trade receivables	18	**16,477**	18,286
Deposits, prepayments and other receivables	18	**24,346**	27,281
Pledged bank deposits	21	**2,799**	3,058
Bank balances and cash	21	**87,057**	89,740
		157,157	176,304
Current liabilities			
Trade payables	22	**1,633**	3,654
Other payables and accruals	22	**6,380**	7,418
Contract liabilities	20	**2,518**	1,289
Lease liabilities	16	**811**	1,028
Bank borrowings	23	**30,896**	42,808
Bank overdraft	23	**2,299**	–
Tax payable		**1,244**	1,045
		45,781	57,242
Net current assets		**111,376**	119,062

Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Non-current liabilities			
Lease liabilities	16	**730**	525
Bank borrowing	23	**4,422**	–
		5,152	525
NET ASSETS		**127,750**	151,580
Capital and reserves			
Share capital	25	**4,800**	4,800
Reserves		**122,950**	146,780
Total equity		**127,750**	151,580

The consolidated financial statements on pages 87 to 148 were approved and authorised for issue by the board of directors on 29 March 2023 and are signed on its behalf by:

Mr. Wong Kai Hung, Kelvin	**Mr. Xi Bin**
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*	Capital reserve *HK$'000*	Statutory reserve *HK$'000*	Retained earnings *HK$'000*	Fair value reserve *HK$'000*	Exchange reserve *HK$'000*	Total *HK$'000*
			(Note a)	*(Note b)*			*(Note c)*	
At 1 January 2021	4,800	48,589	1,824	5,926	115,525	(119)	2,265	178,810
Loss for the year	–	–	–	–	(32,503)	–	–	(32,503)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	5,154	5,154
Gain on disposal of financial assets at FVTOCI	–	–	–	–	–	119	–	119
Total comprehensive (expenses) income for the year	–	–	–	–	(32,503)	119	5,154	(27,230)
At 31 December 2021 and 1 January 2022	4,800	48,589	1,824	5,926	83,022	–	7,419	151,580
Loss for the year	–	–	–	–	(11,025)	–	–	(11,025)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	(12,805)	(12,805)
Total comprehensive expenses for the year	–	–	–	–	(11,025)	–	(12,805)	(23,830)
At 31 December 2022	4,800	48,589	1,824	5,926	71,997	–	(5,386)	127,750

Notes:

(a) Capital reserve

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

(b) Statutory reserve

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

(c) Exchange reserve

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	2022 *HK$'000*	2021 *HK$'000*
OPERATING ACTIVITIES		
Loss before tax	**(10,371)**	(32,105)
Adjustment for:		
Depreciation of plant and equipment	**2,964**	3,701
Depreciation of right-of-use assets	**1,247**	1,214
Bank interest income	**(77)**	(40)
Finance costs	**1,412**	1,762
Impairment loss on trade receivables	**29**	46,333
Impairment loss on plant and equipment	**6,296**	–
Write-down of inventories	**6,088**	1,160
Government grants	**(937)**	(1,407)
Operating cash flows before movements in working capital	**6,651**	20,618
Decrease (increase) in inventories	**2,449**	(1,475)
Decrease in trade receivables	**236**	12,181
Decrease in deposits, prepayments and other receivables	**681**	5,463
Decrease in trade payables	**(1,772)**	(1,178)
Increase (decrease) in other payables and accruals	**596**	(1,092)
Increase (decrease) in contract liabilities	**1,385**	(1,004)
Cash generated from operations	**10,226**	33,513
PRC income tax refund	**96**	–
PRC income tax paid	**(507)**	(2,738)
NET CASH FROM OPERATING ACTIVITIES	**9,815**	30,775

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	2022 *HK$'000*	2021 *HK$'000*
INVESTING ACTIVITIES		
Acquisition of plant and equipment	**(271)**	(1,004)
Interest received	**77**	40
Proceeds from disposal of financial asset at fair value through other comprehensive income	**–**	603
NET CASH USED IN INVESTING ACTIVITIES	**(194)**	(361)
FINANCING ACTIVITIES		
Government grants received	**937**	1,407
Proceeds from bank borrowings	**48,679**	42,204
Repayment of bank borrowings	**(52,678)**	(21,705)
Repayment of lease liabilities-principal	**(999)**	(1,280)
Repayment of lease liabilities-interest	**(47)**	(100)
Interest paid	**(1,365)**	(1,662)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(5,473)**	18,864
NET INCREASE IN CASH AND CASH EQUIVALENTS	**4,148**	49,278
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**89,740**	38,134
Effect of foreign exchange rate changes	**(9,130)**	2,328
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**84,758**	89,740
Analysis of Components of Cash and Cash Equivalents:		
Bank balances and cash	**87,057**	89,740
Bank overdraft	**(2,299)**	–
	84,758	89,740

1. GENERAL INFORMATION

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

The parent and the ultimate holding company of the Company is Cosmic Bliss Investments Limited ("Cosmic Bliss"), a company incorporated in the British Virgin Islands (the "BVI"). The ultimate controlling party is Mr. Wong Kai Hung, Kelvin ("Mr. Wong").

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

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

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

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

In the current year, the Group has applied, for its first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial year beginning 1 January 2022:

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

The application of the amendments to HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and amendments to HKFRSs issued but not yet effective

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

HKFRS 17 (including the October 2020 and February 2022 amendments to HKFRS 17)	Insurance Contracts[1]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5(2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[2]
Amendments to HKAS 1	Non-current Liabilities with Covenants[2]
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 1 January 2024.
[3] Effective for annual periods beginning on or after a date to be determined.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market condition (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The significant principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers

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

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

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

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

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

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

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

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers *(Continued)*

Contract assets and contract liabilities

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

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

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

The Group recognised revenue from sales of goods.

Sales of goods

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

Leasing

Definition of a lease

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

The Group as lessor

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as lessee

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

Lease liabilities

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as lessee *(Continued)*

Lease liabilities (Continued)

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

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and accumulated losses and adjusted for any remeasurement of lease liabilities. They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfer's ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The Group presents right-of-use assets as a separate line in the consolidated statement of financial position. The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss. When the Group obtains ownership of the underlying leased assets at the end of the lease term upon exercising purchase options, the carrying amount of the relevant right-of-use asset is transferred to plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

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

Government grants

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefits cost

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

Short term employee benefits

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

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

Taxation

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Current and deferred taxes are recognised in profit or loss.

Research and development expenditure

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development expenditure *(Continued)*

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

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

Plant and equipment

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

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

Cash and cash equivalents

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

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

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

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

Financial assets

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

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

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

Financial assets at amortised cost (debt instruments)

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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

Amortised cost and effective interest method

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Equity instruments designated as at FVTOCI

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

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

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

Impairment of financial assets

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

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

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

Significant increase in credit risk

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Significant increase in credit risk *(Continued)*

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Definition of default

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

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

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

Credit-impaired financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Write-off policy

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

Measurement and recognition of expected credit losses

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

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

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

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

Derecognition of financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities subsequently measured at amortised cots

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

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

Derecognition of financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

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

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

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

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Impairment of trade receivables

The impairment provisions for trade receivables are based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, bases on the number of days that an individual receivable is overdue as well as the Group's historical experience and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss. At 31 December 2022, the carrying amount of trade receivables is approximately HK$16,477,000 (2021: HK$18,286,000) and allowance for impairment of trade receivables is approximately HK$67,000 (2021: HK$47,038,000).

Estimated write-down for inventories

The management of the Group reviews an ageing analysis of inventories at the end of each reporting period and makes write-down of inventories for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group makes write-down for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices, the costs necessary to make the sale and current market conditions. As at 31 December 2022, the carrying amount of inventories was approximately HK$26,478,000 (2021: HK$37,939,000) and net of accumulated write-down of inventories is HK$10,290,000 (2021: HK$4,818,000).

Impairment of prepayments

The management of the Group determines the provision for impairment of prepayments. This estimate is based on the credit history of its suppliers and current market conditions. Management reassesses the provision on a regular basis by reviewing the utilisation of prepayment balance based on past credit history and prior knowledge of supplier insolvency and market volatilities. As at 31 December 2022, the carrying amount of prepayments is approximately HK$23,241,000 (2021: approximately HK$24,216,000), no impairment loss has been recognised (2021: nil).

Deferred taxes

As at 31 December 2022, the Group has unused tax losses of approximately HK$40,793,000 (2021: HK$31,349,000). As at 31 December 2021, deferred tax asset of HK$1,110,000 (2022: nil) have been recognised in respect of approximately HK$6,447,000 (2022: nil) of such losses. No deferred tax asset had been recognised in respect of the remaining tax losses of approximately HK$40,793,000 (2021: HK$24,902,000) due to the unpredictability of future profit streams. The realisability of deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which a reversal takes place.

As at 31 December 2022, the Group has deductible temporary differences of HK$54,980,000 (2021: HK$51,863,000). As at 31 December 2022, deferred tax asset of HK$3,771,000 (2021: HK$2,900,000) have been recognised in respect of approximately HK$25,318,000 (2021: HK$19,331,000) of such temporary differences losses. No deferred tax asset has been recognised in respect of the remaining deductible temporary differences of approximately HK$29,842,000 (2021: HK$32,532,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

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

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

As at 31 December 2022, the carrying amounts of right-of-use assets, plant and equipment, were HK$1,490,000 and HK$16,265,000 (2021: HK$1,778,000 and HK$27,255,000 respectively).

5. REVENUE

Revenue represents the amounts received and receivable from sales of goods in the normal course of business, net of sales related tax.

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

	2022 ***HK$'000***	2021 *HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products line		
– Sales of functional knitted fabrics	**81,981**	106,144
– Sales of apparel	**13,126**	13,877
– Sales of yarns	**5,993**	2,765
	101,100	122,786

Disaggregation of revenue by timing of recognition

	2022 ***HK$'000***	2021 *HK$'000*
Timing of revenue recognition		
At a point in time	**101,100**	122,786

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

6. SEGMENT INFORMATION

Operating segments and the amounts of each segment item reported in the consolidated financial statements are identified from the financial information provided regularly to the executive management of the Group, being the chief operating decision maker, for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

The Group is organised into a single operating segment as sales of functional knitted fabrics, apparel and yarns primarily in the PRC and all revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to this single segment. Accordingly, no segment analysis by business and geographical information is presented.

Information about major customers

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

	2022 ***HK$'000***	2021 *HK$'000*
Customer A	**25,940**	45,625
Customer B	**23,211**	21,722
Customer C	**11,487**	N/A[1]

[1] The corresponding revenue did not contribute over 10% of the total revenue of the Group for that period.

7. OTHER INCOME

	2022 ***HK$'000***	2021 *HK$'000*
Bank interest income	**77**	40
Government grants *(note)*	**937**	1,407
Rental income	**1,461**	1,647
Sundry income	**389**	602
Net exchange gain	**–**	97
	2,864	3,793

Note:

Government grants of approximately HK$937,000 (2021: HK$1,407,000) have been received by the subsidiaries in the PRC for the year ended 31 December 2022. The amounts have been included in other income for the year ended 31 December 2022 and 2021. There were unfulfilled conditions or contingencies related to these grants.

8. FINANCE COSTS

	2022 **HK$'000**	2021 *HK$'000*
Interests on:		
– Bank borrowings	**1,365**	1,662
– Lease liabilities	**47**	100
	1,412	1,762

9. INCOME TAX EXPENSES

	2022 **HK$'000**	2021 *HK$'000*
PRC Enterprise Income Tax ("EIT")		
– Current tax	**899**	2,752
– Overprovision in prior years	**(192)**	–
	707	2,752
Deferred taxation *(note 24)*	**(53)**	(2,354)
	654	398

Hong Kong Profits Tax was calculated at 16.5% (2021: 16.5%) of the estimated assessable profits for the year ended 31 December 2022 and 2021. No provision for Hong Kong Profits Tax has been made as there are no assessable profits for the years ended 31 December 2022 and 2021.

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

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

One of the Group's subsidiaries registered in the PRC is qualified under the Notice of Comprehensive Tax Relief for Small and Micro Enterprises recognised as a small and low profit enterprise which has been granted tax concession by PRC tax bureau and is entitled to PRC enterprise income tax at concessionary rate of 5% for the first portion of less than RMB 1 million taxable income and 10% for the second portion of more than RMB 1 million but less than 3 million taxable income during the reporting period.

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

9. INCOME TAX EXPENSES *(Continued)*

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

	2022 **HK$'000**	2021 HK$'000
Loss before tax	**(10,371)**	(32,105)
Tax at the applicable tax rate at 25% (2021: 25%)	**(2,593)**	(8,026)
Tax effect of preferential tax rate	**(117)**	(533)
Tax effect of super deduction of research and development expenses	**(437)**	(877)
Tax effect of income not taxable for tax purpose	**(51)**	(38)
Tax effect of expense not deductible for tax purposes	**439**	432
Overprovision in respect of prior years	**(192)**	–
Tax effect of tax losses not recognised	**1,892**	2,092
Tax effect of deductible temporary difference not recognised	**7**	7,108
Reversal of tax losses previously recognised	**1,103**	–
Reversal of withholding tax on undistributed earnings of a PRC subsidiary	**–**	(400)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**603**	640
Income tax expense for the year	**654**	398

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

Details of the deferred taxation are set out in note 24.

10. LOSS FOR THE YEAR

	2022 HK$'000	2021 HK$'000
Loss for the year has been arrived at after charging/(crediting):		
Directors' emoluments *(note 11)*	**3,462**	3,480
Salaries, allowances and other benefits (excluding directors' emoluments)	**11,409**	13,166
Contributions to retirement benefits scheme (excluding directors' emoluments)	**820**	1,094
Total staff costs	**15,691**	17,740
Auditor's remuneration	**615**	615
Depreciation of plant and equipment	**2,964**	3,701
Depreciation of right-of-use assets	**1,247**	1,214
Research and development costs recognised as an expense *(note)*	**3,274**	5,871
Cost of inventories recognised as an expense	**71,978**	78,476
Write-down of inventories	**6,088**	1,160
Expenses relating to short-term leases	**61**	50
Net foreign exchange loss (gain)	**229**	(97)

Note:

The research and development expenses disclosed here excluded salaries, allowances and other benefits of approximately HK$2,605,000 (2021: HK$3,132,000), and contributions to retirement benefits scheme of approximately HK$133,000 (2021: HK$311,000) for the year ended 31 December 2022 which had been included in salaries, allowances and other benefits disclosed above.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 6 (2021: 6) directors and the chief executive were as follows:

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

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

	Year ended 31 December 2021				
	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement benefit scheme contributions	Total
		Note (a)		*Note (a)*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:					
Mr. Wong Kai Hung, Kelvin	–	1,440	–	18	1,458
Mr. Xi Bin	–	1,499	–	36	1,535
	–	2,939	–	54	2,993
Non-executive director:					
Mr. Hung Yuk Miu	127	–	–	–	127
	127	–	–	–	127
Independent non-executive directors:					
Mr. Ng Wing Heng, Henry	120	–	–	–	120
Mr. Fong Kin Tat	120	–	–	–	120
Mr. Sze Irons	120	–	–	–	120
	360	–	–	–	360
Total	487	2,939	–	54	3,480

Notes:

(a) Salary and retirement benefit scheme contributions paid to a director is generally an emolument paid or receivables in respect of that person's other services in connection with management of the affairs of the Company or its subsidiary undertakings.

(b) Mr. Xi Bin is the chief executive officer of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive officer.

(c) Neither the chief executive officer nor any of the directors waived any emoluments during the years ended 31 December 2022 and 2021.

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

Aggregate emoluments paid to or receivable by directors in respect of their services as directors, whether of the Company or its subsidiaries undertaking		Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of affairs of the Company or its subsidiaries undertaking		Total	
2022	2021	**2022**	2021	**2022**	2021
HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
482	487	**2,980**	2,993	**3,462**	3,480

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2021: two) were directors and the chief executive officer of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining three (2021: three) individuals were as follows:

	2022 ***HK$'000***	2021 *HK$'000*
Salaries and other allowances	**1,370**	1,798
Retirement benefit scheme contributions	**36**	45
	1,406	1,843

Their emoluments were within the following bands:

	Number of individuals	
	2022	2021
Nil to HK$1,000,000	**3**	2
HK$1,000,001 to HK$1,500,000	**–**	1

During the years ended 31 December 2022 and 2021, no emoluments were paid or payable by the Group to the five highest paid individuals as inducements to join or upon joining the Group or as a compensation for loss of office.

13. DIVIDENDS

No dividend has been declared by the Company for the years ended 31 December 2022 and 2021, nor has any dividend been proposed since the end of the reporting period.

14. LOSS PER SHARE

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

	2022	2021
Loss for the year attributable to owners of the Company *(HK$'000)*	**(11,025)**	(32,503)
Weighted average number of ordinary shares in issue *('000)*	**480,000**	480,000
Basic loss per share *(HK cents per share)*	**(2.30)**	(6.77)

Diluted loss per share was the same as the basic loss per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2022 and 2021.

15. PLANT AND EQUIPMENT

	Machineries HK$'000	Office Equipment HK$'000	Motor Vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
COST					
At 1 January 2021	27,579	4,395	3,819	–	35,793
Additions for the year	66	64	–	874	1,004
Exchange realignment	812	128	73	12	1,025
At 31 December 2021 and 1 January 2022	28,457	4,587	3,892	886	37,822
Additions for the year	49	181	–	41	271
Exchange realignment	(2,412)	(387)	(219)	(76)	(3,094)
At 31 December 2022	26,094	4,381	3,673	851	34,999
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2021	2,353	2,117	2,189	–	6,659
Charge for the year	2,635	448	463	155	3,701
Exchange realignment	106	67	32	2	207
At 31 December 2021 and 1 January 2022	5,094	2,632	2,684	157	10,567
Charge for the year	1,794	354	456	360	2,964
Impairment losses recognised in profit or loss	6,296	–	–	–	6,296
Exchange realignment	(708)	(228)	(131)	(26)	(1,093)
At 31 December 2022	12,476	2,758	3,009	491	18,734
CARRYING VALUES					
At 31 December 2022	13,618	1,623	664	360	16,265
At 31 December 2021	23,363	1,955	1,208	729	27,255

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

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

15. PLANT AND EQUIPMENT *(Continued)*

The Group leased out a machinery under operating leases with cost of approximately HK$18,192,000 (2021: HK$19,876,000) and accumulated depreciation and impairment losses of approximately HK$8,608,000 (2021: HK$1,436,000). The lease runs for a period of 1 year. Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future period are approximately HK$1,601,000 (2021: HK$1,749,000) in the coming year. During the year, the directors of the Company conducted a review of the Group's plant and equipment and determined that machineries were impaired, due to the fact that the amount of value-in-use is lower than its net book value. The review led to the recognition of an impairment loss of HK$6,296,000, which has been recognised in profit or loss. The recoverable amount of the relevant asset has been determined on the basis of its value-in-use. The discount rate used in measuring value-in-use was 7%. No impairment assessment was performed in 2021 as there was no indication of impairment.

16. LEASES

(i) Right-of-use assets

	2022 **HK$'000**	2021 HK$'000
Leased properties	**1,490**	1,496
Motor vehicle	**–**	282
	1,490	1,778

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

Right-of-use assets included HK$898,000 (2021: HK$1,163,000) of leased properties located in the PRC and HK$592,000 (2021: HK$333,000) of lease properties located in Hong Kong.

In respect of the lease arrangement for renting motor vehicle, the Group has option to purchase motor vehicle for a nominal amount at the end of the lease term. The Group's obligation is secured by the lessor's title to the leased asset for such lease.

Additions to the right-of-use assets for the year ended 31 December 2022 amounted to HK$1,006,000 (2021: HK$667,000), due to the newly leased properties.

(ii) Lease liabilities

	2022 **HK$'000**	2021 HK$'000
Non-current	**730**	525
Current	**811**	1,028
	1,541	1,553

16. LEASES *(Continued)*

(ii) Lease liabilities *(Continued)*

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

	31/12/2022 ***HK$'000***	31/12/2021 *HK$'000*
Within one year	**811**	1,028
After one year but within two years	**271**	525
After two years but within five years	**459**	–
	1,541	1,553
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(811)**	(1,028)
Amount due for settlement after 12 months	**730**	525

During the year ended 31 December 2022, the Group entered into two (2021: one) new lease agreements in respect of renting properties and recognised lease liabilities in aggregate of HK$1,006,000 (2021: HK$667,000).

16. LEASES *(Continued)*

(iii) Amounts charged in profit or loss

	31/12/2022 **HK$'000**	31/12/2021 HK$'000
Depreciation expense on right-of-use assets	**1,247**	1,214
Expense relating to short-term leases	**61**	50
Interest expense on lease liabilities	**47**	100

(iv) Others

As at 31 December 2022 and 2021, all committed lease agreements have been commenced.

During the year ended 31 December 2022, the total cash outflow for leases amount to HK$1,107,000 (2021: HK$1,430,000).

17. INVENTORIES

	2022 **HK$'000**	2021 HK$'000
Work in progress	**23,003**	35,297
Finished goods	**3,475**	2,642
	26,478	37,939

18. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2022 HK$'000	2021 HK$'000
Gross amount of total trade receivables arising from contracts with customer	**16,544**	65,324
Less: allowance for impairment of trade receivables	**(67)**	(47,038)
	16,477	18,286
Other receivables	**776**	2,910
Prepayments	**23,241**	24,216
Deposits	**329**	155
	24,346	27,281

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

	2022 HK$'000	2021 HK$'000
Within 30 days	**15,213**	14,893
31 to 60 days	**169**	741
61 to 90 days	**1,162**	2,693
More than 1 year	**–**	46,997
Total	**16,544**	65,324

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

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

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

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

As at 31 December 2022	**Weighted average expected loss rate** *%*	**Gross carrying amount** *HK$'000*	**Loss allowance** *HK$'000*
Within 90 days	**0.40%**	**16,544**	**67**

As at 31 December 2021	Weighted average expected loss rate *%*	Gross carrying amount *HK$'000*	Loss allowance *HK$'000*
Within 90 days	0.22%	18,327	41
Default receivables	100%	46,997	46,997
Total		65,324	47,038

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

	2022 *HK$'000*	2021 *HK$'000*
At the beginning of the year	**47,038**	41
Impairment loss for the year	**29**	46,333
Amount written off as uncollectible	**(43,014)**	–
Exchange realignment	**(3,986)**	664
At the end of the year	**67**	47,038

A write-off of trade receivable with a gross amount of approximately HK$43,014,000 resulted in a significant decrease in the gross carrying amount of trade receivables, contributed to the decrease in loss allowance of approximately HK$43,014,000.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

During the year ended 31 December 2021, the Group sold its investment in unlisted equity securities issued by a private entity established in the PRC. This investment no longer coincided with the Group's investment strategy. The fair value on the date of disposal was HK$612,000 (equivalent to RMB500,000) and the accumulated loss recognised in other comprehensive income of HK$119,000 (equivalent to RMB99,000) was transferred to retained profits.

20. CONTRACT LIABILITIES

	2022 ***HK$'000***	2021 *HK$'000*
Current		
Manufacturing arrangements	**2,518**	1,289

Contract liabilities include prepayments received for the sales of goods.

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

The significant change in contract liabilities in 2022 was mainly due to increase in committed sales order at the end of the year.

Revenue recognised during the year ended 31 December 2022 that was included in the contract liabilities at the beginning of the year is HK$1,289,000 (2021: HK$2,241,000). There was no revenue recognised in the current year that related to performance obligations that were satisfied in the previous year.

21. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances represented short-term deposits with a maturity of three months or less. At 31 December 2022, bank balances carried at prevailing market rates range from 0.01% to 0.25% per annum (2021: from 0.01% to 0.10% per annum). At 31 December 2022, the pledged bank deposits carry fixed interest rate at 0.40% per annum (2021: 0.40% per annum). The pledged bank deposits will be released upon the settlement of relevant bank borrowings and termination of bank facilities.

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

21. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH *(Continued)*

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

	2022 **HK$'000**	2021 HK$'000
RMB	**2,799**	3,058
USD	**10**	65

22. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2022 **HK$'000**	2021 HK$'000
Trade payables	**1,633**	3,654
Other payables and accruals:		
Accrued expenses	**1,448**	1,432
Other payables	**236**	211
Other tax payables	**4,696**	5,775
	6,380	7,418

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

	2022 **HK$'000**	2021 HK$'000
Within 30 days	**833**	1,508
31 to 60 days	**19**	649
61 to 90 days	**10**	628
91 to 180 days	**222**	772
More than 180 days	**549**	97
Total	**1,633**	3,654

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

23. BANK OVERDRAFT/BORROWING

	2022 HK$'000	2021 HK$'000
Bank overdraft	2,299	–
Unsecured bank borrowings	35,318	42,808
	37,617	42,808

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

	2022 HK$'000	2021 HK$'000
On demand and within one year	30,896	42,808
After one year but within two years	672	–
After two years but within five years	3,750	–
	35,318	42,808
Amounts shown under current liabilities	30,896	42,808
Amounts shown under non-current liabilities	4,422	–
	35,318	42,808

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

(a) The amounts of banking facilities utilisation at 31 December 2022 and 2021 are set out as following:

	2022 HK$'000	2021 HK$'000
Facilities amount	62,109	52,808
Utilisation		
– Unsecured bank borrowings	37,617	42,808

23. BANK OVERDRAFT/BORROWING *(Continued)*

(b) As at 31 December 2022, there was interest-bearing borrowing carried interest at variable market interest rate based on PRC Loan Prime Rate plus 0.4% per annum and interest-bearing borrowings carried interest at fixed interest rate as follows (2021: fixed interest rate ranged from 3.8% to 4.2% per annum):

	2022	2021
Variable-rate borrowings	**4.05% to 6.375%**	N/A
Fixed-rate borrowings	**3.8% to 4.25%**	3.8% to 4.2%

24. DEFERRED TAXATION

The following is the analysis of the deferred tax asset:

	2022 *HK$'000*	2021 *HK$'000*
Deferred tax asset	**3,771**	4,010

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

	Provision of inventories *HK$'000*	Impairment loss on plant and equipment *HK$'000*	Impairment loss on trade receivables *HK$'000*	Tax losses *HK$'000*	Withholding tax on undistributed earnings of a PRC subsidiary *HK$'000*	Total *HK$'000*
At 1 January 2021	–	–	–	(2,056)	400	(1,656)
(Credited) charge to profit or loss *(note 9)*	–	–	(2,900)	946	(400)	(2,354)
At 31 December 2021 and 1 January 2022	–	–	(2,900)	(1,110)	–	(4,010)
(Credited) charge to profit or loss *(note 9)*	(212)	(944)	–	1,103	–	(53)
Exchange differences	7	32	246	7	-	292
At 31 December 2022	(205)	(912)	(2,654)	-	-	(3,771)

24. DEFERRED TAXATION *(Continued)*

Deferred tax assets not recognised

As at 31 December 2022, the Group has unused tax losses of approximately HK$40,793,000 (2021: HK$31,349,000). As at 31 December 2021, deferred tax asset of HK$1,110,000 (2022: nil) have been recognised in respect of approximately HK$6,447,000 (2022: nil) of such losses. No deferred tax asset had been recognised in respect of the remaining tax losses of approximately HK$40,793,000 (2021: HK$24,902,000) due to the unpredictability of future profit streams. At the end of the reporting period, the estimated unused tax losses attributable to subsidiaries in the PRC amounted to HK$4,272,000 (2021: nil) that will expire within five years from the end of respective reporting period. The remaining tax losses will be carried forward indefinitely.

As at 31 December 2022, the Group has deductible temporary differences of HK$54,980,000 (2021: HK$51,863,000). As at 31 December 2022, deferred tax asset of HK$3,771,000 (2021: HK$2,900,000) have been recognised in respect of approximately HK$25,138,000 (2021: HK$19,331,000) of such temporary differences losses. No deferred tax asset has been recognised in respect of the remaining deductible temporary differences of approximately HK$29,842,000 (2021: HK$32,532,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

25. SHARE CAPITAL

	Number of ordinary shares *'000*	Share capital *HK$'000*
Ordinary shares of HK$0.01 each		
Authorised		
As at 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	10,000,000	100,000
Issued and fully paid		
As at 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	480,000	4,800

26. RETIREMENT BENEFITS PLAN

Hong Kong

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

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

PRC

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

27. CAPITAL RISK MANAGEMENT

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

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

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

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

28. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	At 31 December	
	2022	2021
	HK$'000	*HK$'000*
Financial assets		
Financial asset at amortised cost (including bank balances and cash)	**107,438**	114,149
Financial liabilities		
At amortised cost	**40,934**	48,105

b) Financial risk management objectives and policies

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

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

Market risk

(i) Currency risk

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

28. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Currency risk (Continued)

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

	Asset	
	2022	2021
	HK$'000	*HK$'000*
RMB	**2,799**	3,058
USD	**10**	65

Foreign currency sensitivity

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

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

	2022	2021
	HK$'000	*HK$'000*
Increase in loss before tax	**117**	128

This is mainly attributable to the exposure for outstanding RMB receivables.

28. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to pledged bank deposits, bank balances (note 21), bank borrowings and bank overdraft (note 23). The Group currently does not have any interest rate hedging policy. It is the Group's policy to keep pledged bank deposits, bank balances and bank borrowings at floating rate as to minimise the fair value interest rate risk.

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

Sensitivity analysis

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

If interest rates had been 50 basis points (2021: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit would increase/decrease by approximately HK$337,000 (2021: HK$348,000) for the year ended 31 December 2022.

28. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies *(Continued)*

Credit risk

As at 31 December 2022, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

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

For deposits and other receivables, pledged bank deposits and bank balances, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Management considered deposits and other receivables to be low credit risk and thus the impairment provision recognised during the year was limited to 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

28. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the debtor

The Group's exposure to credit risk

In order to minimise credit risk, the Group has tasked its management to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

28. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

The Group's exposure to credit risk (Continued)

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

28. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

The Group's exposure to credit risk (Continued)

The tables below detail the credit quality of the Group's financial assets as well as the Group's maximum exposure to credit risk by credit risk rating grades.

	Internal credit rating	12-month or lifetime ECL	31 December 2022 Gross carrying amount	Loss allowance	Net carrying amount	31 December 2021 Gross carrying amount	Loss allowance	Net carrying amount
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	N/A	Lifetime ECL	16,544	(67)	16,477	65,324	(47,038)	18,286
Deposits and other receivables	Performing	12-month ECL	1,105	–	1,105	3,065	–	3,065
Pledged bank deposits	Performing	12-month ECL	2,799	–	2,799	3,058	–	3,058
Bank balances and cash	Performing	12-month ECL	87,057	–	87,057	89,740	–	89,740

The Group's concentration of credit risk by geographical location is mainly in the PRC, which accounted for 100% and 100% of the total trade receivables as at 31 December 2022 and 2021.

As at 31 December 2022 and 2021, the Group has concentration of credit risk as 29% and 26% of the total trade receivables was due from the Group's largest customer while 83% and 49% of the total trade receivables was due from the Group's top five largest customers, respectively.

Liquidity risk

The Group monitors and maintains a level of bank balances and cash deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for the non-derivative financial liabilities are based on the agreed repayment dates.

The tables include both interest and principal cash flows. To the extent that interest cash flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

28. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Liquidity risk tables

	Weighted average effective interest rate %	On demand or within one year HK$'000	More than one year but less than five years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2022					
Trade payables	–	1,633	–	1,633	1,633
Other payables and accruals		1,684	–	1,684	1,684
Bank borrowings	3.80% – 4.25%	32,312	4,625	36,937	35,318
Bank overdraft	6,375%	2,446	–	2,446	2,299
		38,075	4,625	42,700	40,934
Lease liabilities	3.80% – 6.375%	850	830	1,680	1,541

	Weighted average effective interest rate %	On demand or within one year HK$'000	More than one year but less than five years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2021					
Trade payables	–	3,654	–	3,654	3,654
Other payables and accruals	–	1,643	–	1,643	1,643
Bank borrowings	3.80% – 4.20%	44,584	–	44,584	42,808
	–	49,881	–	49,881	48,105
Lease liabilities	4.35% – 6.65%	1,030	606	1,636	1,553

29. FAIR VALUE MEASUREMENTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Reconciliation of level 3 fair value measurements of financial asset on recurring basis:

	Unlisted equity securities *HK$'000*
At 1 January 2021	469
Total losses:	
– in other comprehensive income	
Gain on disposal	**119**
Exchange realignment	**15**
Disposal	**(603)**
At 31 December 2021	–

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values due to their short-term maturities.

30. RELATED PARTY TRANSACTIONS

During the years ended 31 December 2022 and 2021, transactions with the following parties are considered to be related parties transactions:

Name of related party	Relationship with the Group
Mr. Wong	Director and Controlling Shareholder of the Group
Mr. Xi Bin	Director of the Company
Mr. Hung Yuk Miu ("Mr. Hung")	Non-executive Director of the Group
Zhongshan Da Chong Elastic Thread Factory Ltd. (中山市大涌線廠有限公司) *(note)*	Owned as to 15% by Mr. Wong and as to 85% collectively by the close family members of Mr. Wong
Proudy Limited	Wholly owned by Mr. Hung

Note: The English translation of the name is for reference only. The official name of this entity is in Chinese.

30. RELATED PARTY TRANSACTIONS *(Continued)*

(a) Save as disclosed elsewhere in the consolidated financial statements, during the years ended 31 December 2022 and 2021, the Group has entered into transactions with related parties as follows:

Related party	Nature of transaction	2022 HK$'000	2021 HK$'000
Zhongshan Da Chong Elastic Thread Factory Ltd. *(note)*	Purchase of yarns	–	11
Proudy Limited	Consultancy services	**120**	419

Each of the above transactions was conducted at terms determined on a basis mutually agreed with the Group and the respective related party.

(b) Compensation to key management personnel

The key management personnel are the directors of the Company. Details of the remuneration paid to the directors are set out in note 11 to the consolidated financial statements.

(c) Personal guarantee provided by executive Director to secure bank borrowings

Mr. Xi Bin, the executive director, has provided personal guarantee for the bank borrowings with principal amount of approximately HK$35,318,000 (2021: approximately HK$42,808,000) for the year ended 31 December 2022.

All the above related party transactions fall under the definition of connected transaction or continuing connected transactions as defined in chapter 20 of the GEM listing rule.

31. SUBSIDIARIES OF THE GROUP

Name of subsidiary	Place of incorporation/ operation	Class of shares held	Paid up issued registered ordinary share capital	Proportion of ownership interest held by the Company				Proportion of voting power held by the Company 31 December		Principal activities
				Directly		Indirectly				
				2022	2021	**2022**	2021	**2022**	2021	
				%	%	**%**	%	**%**	%	
World Vantage Investments Limited ("World Vantage")	BVI	Ordinary shares	USD1	**100%**	100%	**N/A**	N/A	**100%**	100%	Investment holdings
Smart Team Textiles Technology Limited ("Smart Team")	Hong Kong	Ordinary shares	HK$10	**N/A**	N/A	**100%**	100%	**100%**	100%	Sales of functional knitted fibres and yarns
Guangdong Smart Team Textiles Technology Co., Ltd.*# ("Guangdong Smart Team") 廣東兆天紡織科技有限公司	PRC	Contributed capital	RMB10,000,000	**N/A**	N/A	**100%**	100%	**100%**	100%	Sales of functional knitted fabric
Dongguan Smart Union Textiles Technology Limited *# ("Smart Union") 東莞聯兆紡織科技有限公司	PRC	Contributed capital	RMB1,000,000	**N/A**	N/A	**100%**	100%	**100%**	100%	Sales of functional knitted fabric
Magic Team (Beijing) International Fashion Design Co., Ltd.*# ("Magic Team") 幻天(北京)國際服裝設計有限公司	PRC	Contributed capital	RMB500,000	**N/A**	N/A	**100%**	100%	**100%**	100%	Design and sales of apparel

* The English name is for identification only. The official name of the company is in Chinese.
\# Those subsidiaries are wholly foreign owned enterprises.

None of the subsidiaries had issued any debt securities during both years or at the end of both years.

32. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2022, the Group entered into new lease arrangements in respect of certain leased properties. Right-of-use assets and lease liabilities of HK$1,006,000 (2021: HK$667,000) were recognised at the commencement date of the leases.

33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, both cash and non-cash changes. Liabilities arising from financing activities are those which cash flows were, of future cash flows will be, classified in the consolidated financial statements of cash flow from financing activities.

				Non-cash changes		
	1/1/2022	Financing cash flows	New lease arrangement	Finance costs incurred	Foreign exchange movements	31/12/2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings	**42,808**	**(5,364)**	**–**	**1,365**	**(3,491)**	**35,318**
Lease liabilities	**1,553**	**(1,046)**	**1,006**	**47**	**(19)**	**1,541**
	44,361	**(6,410)**	**1,006**	**1,412**	**(3,510)**	**36,859**

				Non-cash changes		
	1/1/2021	Financing cash flows	New lease arrangement	Finance costs incurred	Foreign exchange movements	31/12/2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings	21,387	18,837	–	1,662	922	42,808
Lease liabilities	2,127	(1,380)	667	100	39	1,553
	23,514	17,457	667	1,762	961	44,361

34. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2022 HK$'000	2021 HK$'000
Non-current asset			
Investment in a subsidiary		**100**	100
Current assets			
Amount due from a subsidiary	*(a)*	**46,470**	47,190
Bank balances and cash		**120**	121
		46,590	47,311
Current liabilities			
Amount due to a subsidiary		**100**	100
Accrual		**120**	–
		220	100
NET CURRENT ASSETS		**46,370**	47,211
NET ASSETS		**46,470**	47,311
Capital and reserves			
Share capital	*25*	**4,800**	4,800
Reserves	*(b)*	**41,670**	42,511
Total equity		**46,470**	47,311

Notes:

(a) The amount due from a subsidiary is unsecured, non-interest bearing and repayable on demand. The directors of the Company expect repayments from subsidiary within next twelve months from the end of the reporting period.

34. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes: (Continued)

(b) Movements in reserves

	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2021	48,589	(5,447)	43,142
Loss for the year	–	(631)	(631)
Total comprehensive expense for the year	–	(631)	(631)
At 31 December 2021 and 1 January 2022	48,589	(6,078)	42,511
Loss for the year	–	(841)	(841)
Total comprehensive expense for the year	–	(841)	(841)
At 31 December 2022	48,589	(6,919)	41,670