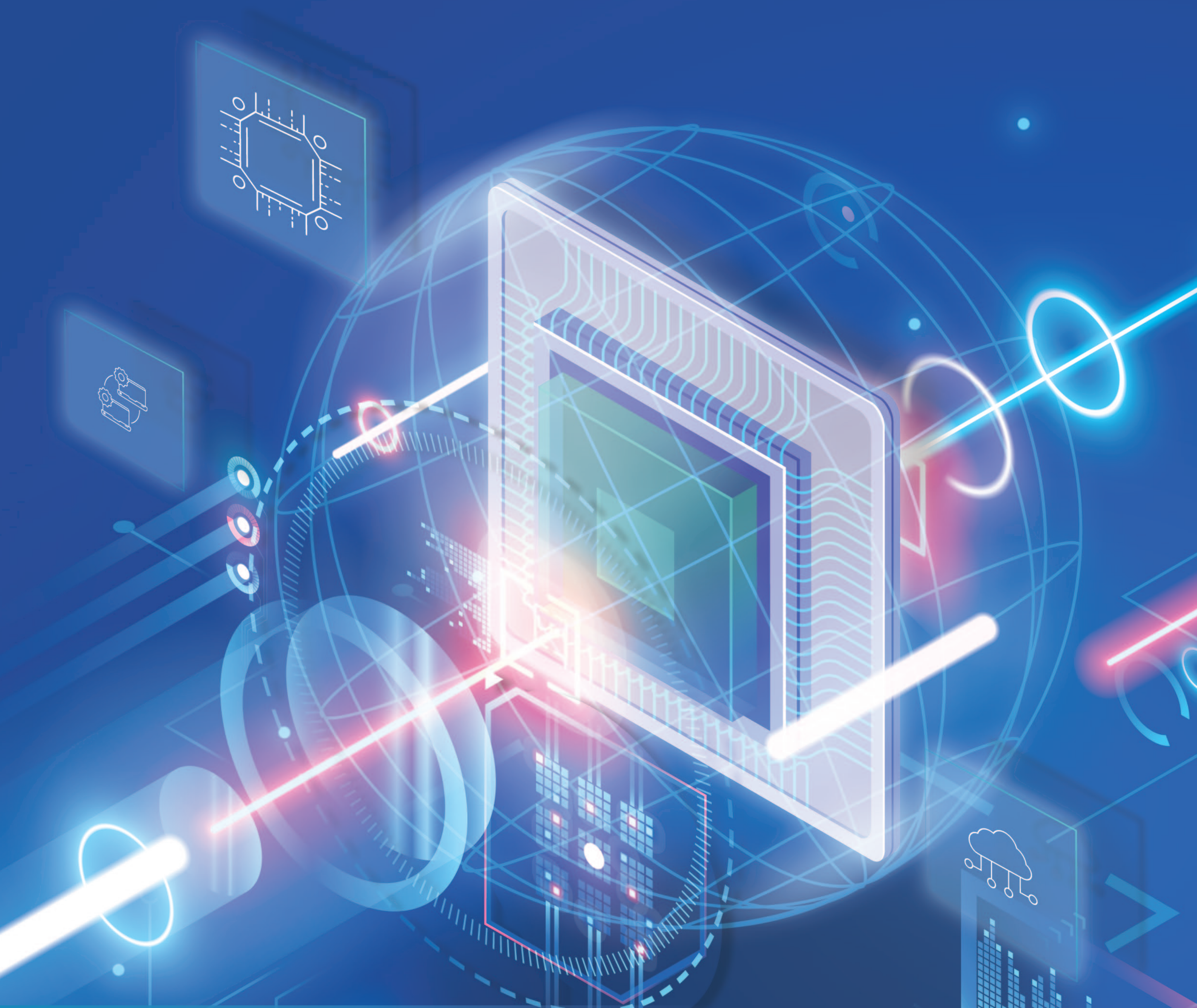
# SMART-CORE HOLDINGS LIMITED
# 芯智控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code：2166



# 2023
# ANNUAL REPORT

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. TIAN Weidong
*(Chairman of the Board and Chief Executive Officer)*
Mr. WONG Tsz Leung *(Chief Financial Officer)*
Mr. LIU Hongbing
Mr. MAK Hon Kai Stanly
Mr. ZHENG Gang *(redesignated with effect from 4 September 2023)*

### Independent Non-executive Directors

Dr. TANG Ming Je
Mr. ZHENG Gang *(redesignated as an executive director with effect from 4 September 2023)*
Ms. XU Wei
Dr. XUE Chun *(appointed with effect from 4 December 2023)*

## BOARD COMMITTEES

### Audit Committee

Ms. XU Wei *(Chairman)*
Dr. TANG Ming Je
Dr. XUE Chun *(appointed with effect from 4 December 2023)*
Mr. ZHENG Gang *(ceased with effect from 4 September 2023)*

### Remuneration Committee

Ms. XU Wei *(Chairman, appointed with effect from 4 September 2023)*
Dr. TANG Ming Je
Mr. TIAN Weidong
Mr. ZHENG Gang *(Chairman, ceased with effect from 4 September 2023)*

### Nomination Committee

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

## COMPANY SECRETARY

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

## AUTHORISED REPRESENTATIVES

Mr. TIAN Weidong
Mr. WONG Tsz Leung

## REGISTERED OFFICE

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## AUDITOR

RSM Hong Kong
*Certified Public Accountants*
*Registered Public Interest Entity Auditors*

## LEGAL ADVISOR

As to Cayman Islands law

Maples and Calder
26th Floor, Central Plaza,
18 Harbour Road,
Wanchai,
Hong Kong

As to Hong Kong law

KS Ng Law Office
Unit 1205, 12th Floor,
Far East Consortium Building,
121 Des Voeux Road Central
Hong Kong

As to PRC law

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

# CORPORATE INFORMATION

## SHARE REGISTRARS

Hong Kong

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

Cayman Islands

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

## PRINCIPAL BANKERS

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

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

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

## STOCK CODE

2166

## COMPANY WEBSITE

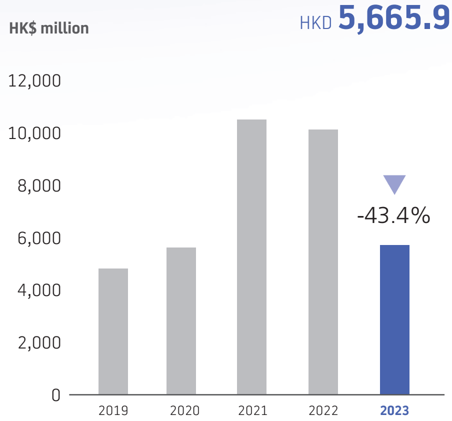
www.smart-core.com.hk

# FIVE-YEAR FINANCIAL SUMMARY

## Revenue

For the year ended 31 December

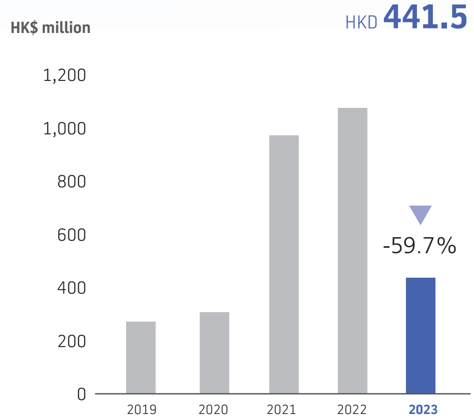
HKD **5,665.9** million




## Gross Profit

For the year ended 31 December

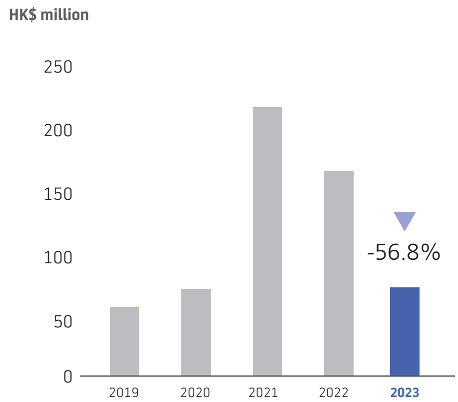
HKD **441.5** million




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

For the year ended 31 December

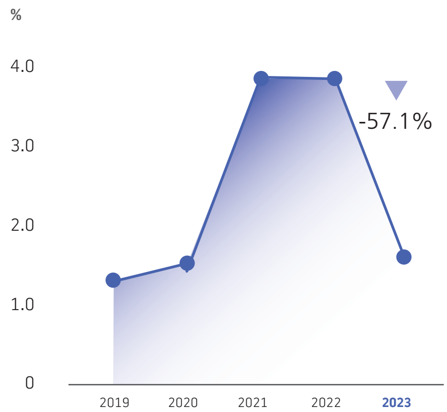
HKD **71.1** million




## Net Profit Margin

For the year ended 31 December

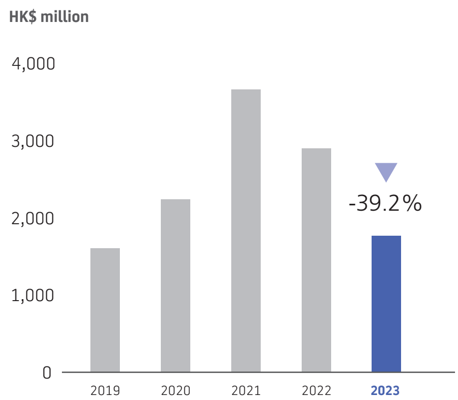
**1.6** %




## Total Asset

As at 31 December

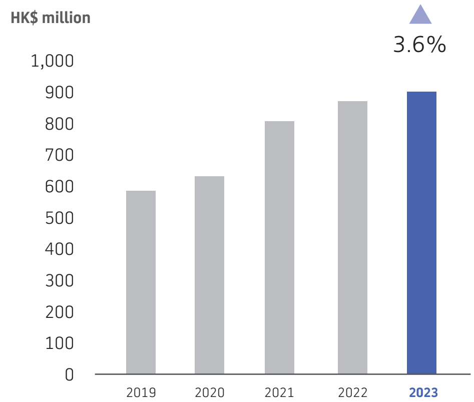
HKD **1,740.3** million




## Total equity attributable to Owners of the Company

As at 31 December

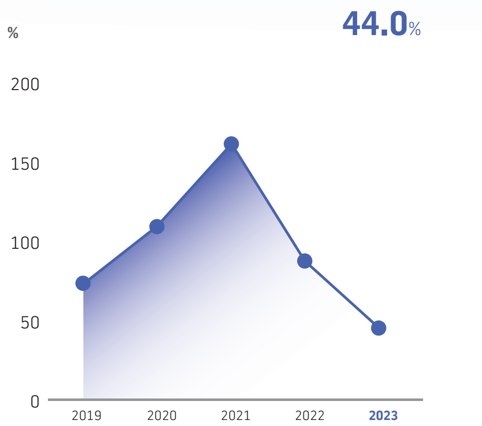
HKD **904.7** million



# FIVE-YEAR FINANCIAL SUMMARY

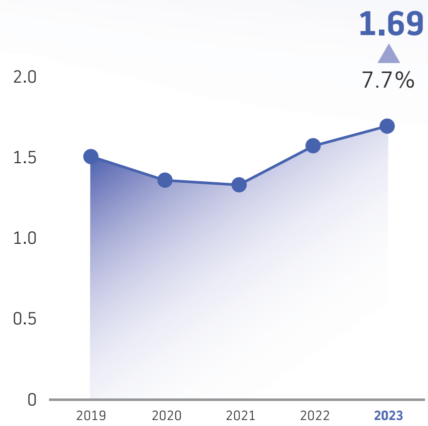
## Gearing Ratio

As at 31 December




## Current Ratio

As at 31 December

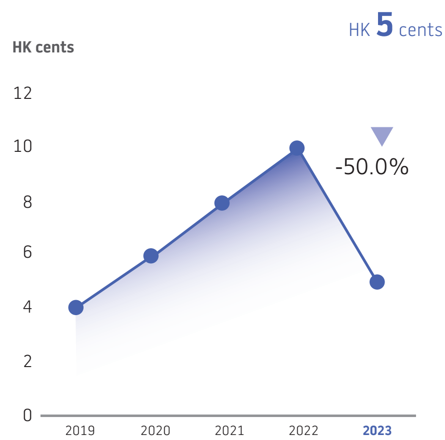



## Earnings per share (“EPS”)-Basic (HK cents)

For the year ended 31 December

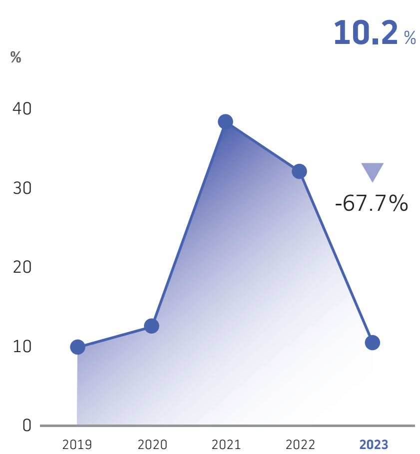

## Dividend per share (HK cents)

For the year ended 31 December




## Return on equity-%

For the year ended 31 December




## Return on assets-%

For the year ended 31 December

# CHAIRMAN'S STATEMENT

## REVIEW OF 2023

The Group is a leading all-round distributor of integrated circuit and other electronic components and technology value-added service provider in China, covering multiple business segments such as authorized distribution, independent distribution, value-added technology, e-commerce platform, and design and manufacturing of optical communication chips. Our business networks and branches cover many regions in Asia Pacific, providing customers from the electronics industry in China and the Asia Pacific region with supply chain services of semiconductor chips and various electronic components, as well as technical solutions for various segments and corresponding technical support. The Group maintains close cooperative relationships with hundreds of well-known semiconductor chip manufacturers in the upstream of the industry chain. As of the end of 2023, we have provided supply chain services of electronic components for more than 20,000 diversified commercial customers and achieved sales of HK$5,665.9 million.

In 2023, most of the economies in the world encountered challenges of slowing economic growth, high inflation and continued interest rate hikes, coupled with intensifying geopolitical conflicts and climate hazards, contributing to disruptions in the stability of the supply chain. According to the latest report of World Economic Situation and Prospects released by the United Nations, the global economic growth rate in 2023 is expected to be 2.7%, representing a decrease of 0.3 percentage point as compared to 3.0% in 2022, indicating continuous pressure on global economic development.

# CHAIRMAN'S STATEMENT

The sluggish growth and pessimistic outlook of the global economy has been restraining the consumption willingness of consumers. In 2023, the market shipment volume of various products such as smartphones, PCs, LCD TVs, tablets and smart hardware products declined at different rates. As a result, the upstream semiconductor chip industry has seen an overall decline in revenue. According to the latest data from the market research firm Gartner, the size of global semiconductor market in 2023 declined by 11.1% year-on-year from 2022 to approximately US$533 billion. Among the world's top 25 semiconductor manufacturers, the total revenue decreased by 14.1%, with the memory chip manufacturers being particularly hard hit, experiencing an overall market size decline of 37%.

The slowdown in the electronics industry in 2023 has exerted pressure on the Group's operation. The chip distribution market and the stock market experienced oversupply, leading to a significant decrease in urgent demand and spot orders due to the imbalance between supply and demand. As a result, the Group's independent distribution business unit was affected and recorded a significant drop in revenue. The authorized distribution business of the Group was also exposed. In particular, the revenue of various business units, including smart display, smart vision, optoelectronic displays, communication and memory products, declined at different rates. The results of optical communication achieved a significant growth, driven by significant increased demand for product in the AI field and the growing need for high-speed optical modules in computing power infrastructure. The integrated product segment prioritized the development of new product lines and new business ventures. With the support of incremental business, domestic brand product lines, and new customers, we recorded a significant year-on-year growth. However, as aforementioned, due to the weak macroeconomic and the downward trend of the industry, the Group's operations in 2023 showed a relatively significant decline in results.

In the face of the changes on the market side, we have made a targeted optimization effort on the internal management structure by combining the two originally independent business systems to improve the management efficiency and reduce the management costs and operational costs of the Group. For product lines and business layout, based on the incremental demand for AI-related computing infrastructure, the Group strived to capture a new round of growth opportunities in the semiconductor industry in the second half of 2023. We put much effort into and made progress in the field of optical communication and memory chip, achieving a significant growth in the performance of optical communication as well as entering into business cooperation with industry leading memory chip manufacturers. At the same time, an automotive electronic products department was established to focus on exploring the opportunities brought by the development of automobile, new energy and robot industries in the future. With the Group's existing customer base, technical teams and online and offline promotion capabilities, we maintained close cooperation with chip manufacturers to jointly meet challenges and opportunities in the market.

In terms of internal management, the Group continued to promote enterprise digitization. Based on systems and software modules such as ERP, CRM, OA, WMS, ECTS and WeCom, the Group has integrated a digital base that is more suitable for the management needs of the Group to fully support the various business forms under its different business units, with a complete coverage of the management functions in respect of authorized distribution, independent distribution, e-commerce business, matching transactions and value-added technology. This end, it provides a solid digital foundation for the Group's future multi-sector development.

# CHAIRMAN'S STATEMENT

## OUTLOOK FOR 2024:

2024 will undoubtedly be a year full of uncertainties. In the World Economic Situation and Prospects 2024 released by the United Nations, it was concluded that the global economy growth rate will further slow to 2.4%, mainly due to the sluggish economic growth of developed economies. The near-term economic growth prospects in East Asia, Western Asia, Latin America and the Caribbean are also projected to deteriorate. Earlier, multiple international institutions including the IMF (International Monetary Fund), the World Bank, the OECD have warned that the global economy may continue to slow down in 2024. China's economy will also face a number of headwinds in 2024, including the lackluster real estate sector, weakening external demand and intensified trade tensions, thus the United Nations forecasts that China's economic growth rate will slow to 4.7%.

Expectations for the semiconductor industry in 2024 are generally optimistic. According to the monthly tracking data of the Semiconductor Industry Association (SIA), the sales volume of the global semiconductor industry reached US$48 billion in November 2023, representing a year-on-year increase of 5.3% compared to November 2022, and a month-on-month increase of 2.9% compared to October 2023. Among which, China's semiconductor sales volume increased by 7.6% year-on-year, recording the largest growth rate. Statistics from the General Administration of Customs of the PRC also prove this trend of recovery. China's accumulated imports of IC products amounted to 397.7 billion units from January 2023 to October 2023, a year-on-year decrease of 13.1%, but the imports for the whole year only went down by 10.8% year-on-year, which means that China's import amount of IC chips from November 2023 to December 2023 (approximately 80.4 billion units) was basically the same as that of the same period of 2022 (approximately 81.8 billion units). According to the forecast data from several industry research firms, the semiconductor industry is expected to resume growth in 2024.

The latest forecast report by WSTS (World Semiconductor Statistics Society) shows that the global semiconductor market is expected to increase by 13.1% year-on-year in 2024, driven by strong demand for AI chips, with the total size expected to reach US$588.4 billion. The revenue of memory will increase significantly by 44.8%, mainly due to a surge of orders by major memory manufacturers driven by the AI boom. Other devices including discrete devices, sensors, analog devices, logic devices and microelectronic devices are also expected to achieve growth. In addition, the market demand and shipment volume will recover in varying degrees in 2024 according to the forecast reports issued by several research firms on personal electronic products, including mobile phones, personal computers, LCD TVs, AR/VR and other consumer electronics, which will generate confidence to the growth of the semiconductor market size in 2024.

Semiconductor chips are not only the core devices of the electronic industry, but also the cornerstone of the information society. It is also a technology-intensive and capital-intensive high-tech industry, which has become an important driving force for the global economy to get out of its current predicament. Therefore, major economies around the globe have attached great importance and investment to the development of their own semiconductor chip industry chain. It is expected that the future competition will show a multipolar pattern. Semiconductor chip distributors, as a bridge between advanced technology and quality products, as well as a link between the industrial chains of various countries, will have the opportunity to play an even more significant role in the new multi-polar industrial landscape in the future. As an all-round distributor of semiconductor chips, we will focus on the following areas in 2024 to drive our business development:

### Capitalizing on the Opportunities of the AI Industry and Achieving a Stable Growth in Business

The popularity of AI has brought about a clear demand for computing power, thus it is expected to benefit the industry chains in respect of the data centers over the next few years. Gartner, a well-known market research firm, believed that the market for chips to perform AI workloads is expected to increase by 25.6% to USD67.1 billion in 2024, with a compound annual growth rate of more than 20% in the next few years.

Benefiting from it, the Group's optical communication components business unit has already seen a remarkable growth in performance in 2023, and such business units will continue to maintain their growth in 2024. Meanwhile, in 2023, the Group has achieved breakthroughs in the product line resource reserves and clientele expansion for memory chips. It also deepened its business cooperation with leading memory chip manufacturers inside and outside the country. Leveraging the surging application of AI and recovery of consumer electronics, the Group is expected to record a significant increase in the result of its memory chip business in 2024.

# CHAIRMAN'S STATEMENT

## Intensively Cultivating in Overseas Market and Adapting to New Trends

In the past few decades, the global electronic industry has been in constant relocation, but has also witnessed increasing collaborations all over the globe. On one hand, China imported semiconductor chips of approximately USD349 billion in 2023, while its exports amounted to USD135.9 billion. On the other, as the competition in the global semiconductor industry chain and the relocation of the electronics manufacturing industry, some labor-intensive electronics manufacturing industries have moved to emerging markets where labor costs are cheaper. As a distributor of the electronics manufacturing industry, we shall plan ahead based on the market changes. The Group has been investing in overseas business recently and has already achieved results. Currently, the Company's business segments as engaged in the overseas market have generally covered the Asia-Pacific Region.

The chip self-sufficiency rate of China now is still relatively low, and it still needs to import a large number of chips. Along with the development and growth of China's semiconductor chip industry, there will be more domestic chips gradually brought to the overseas market. Such launching shall be completed by distributors with global perspectives and sound business capacity. Therefore, in 2024, we will continue to propel the development of overseas business and cultivate clientele in accordance with the characteristics of businesses with authorised and independent distribution.

## Capitalizing on Market Trends and Capturing Incremental Domestic Demand Opportunities

According to the National Bureau of Statistics, the contribution of final consumption expenditure to GDP growth still amounted to 82.5% despite the moderate recovery of household consumption spending in 2023, therefore, the move to facilitate expansion in domestic market will be an important initiative for China's economic development in the future. It is expected that there is still ample room for growth in Mainland China's market for commodity consumption in 2024 due to the continued improvement in residents' incomes and expectations, which will bring new opportunities for the development of the electronic industry.

A report released by IDC predicts that the growth in consumers' demand for large-capacity memory will drive a new replacement cycle for mobile phone products, and shipments of smartphones to the Mainland China market are expected to increase by 3.6% year-on-year to 287 million units in 2024, representing the first year-on-year growth recorded since 2021. In addition, IDC believes that the PC market in China will also witness a modest increase in 2024. The full-year shipments of PCs are expected to increase by 3.8% year-on-year as driven by demand for high-performance AI PCs as well as light and thin laptops.

With the advent of the blue ocean of AIGC applications in 2023, more possible opportunities for applications will be explored continually in 2024, while AIGC+ smart hardware is expected to be the pioneer of the development of edge intelligence in the future, which will facilitate a new round of smart upgrading for various smart home devices, smart wearable devices, and smart household appliances. Given that large-capacity memory smartphones and high-performance AI PC products and a variety of smart hardware products have the need to use a large number of memory chips and other domestic chips, it aligns with the direction of the Group's business layout.

## Summary:

In the past year, the results of the Group have underperformed as affected by macro-economy, industry environment and customers. In response, the Group proactively reduced its overheads and operating costs through the integration of internal and external resources, with a view to reducing costs and increasing efficiency. In addition, the Group took the initiative to grasp opportunities in the AI wave newly emerged in the semiconductor industry and tapped into the sectors of optical communication and memory, laying a solid foundation for business development in 2024.

Looking forward to 2024, we are well-prepared to batten down various challenges, while also being confident to achieve the established annual business target and bring more returns to our shareholders. Finally, I would like to extend my heartfelt gratitude to each shareholder, business partner, member of the board of directors, the management and all staff for their assistance and support in the development of the Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

2023 was a year filled with challenges and transformations. Global geopolitical tensions continued; developed economies kept interest rate hikes to combat inflation; and the supply chain risks arising from economic de-globalization were still lingering. The World Health Organization (WHO) declared an end to the public health emergency of international concern over the COVID-19 pandemic in May 2023, marking the official transition into the post-pandemic era. However, the recovery of the global economy was constrained by insufficient demand and inadequate investment at a global scale. According to the latest World Economic Outlook Update report released by the World Bank in January 2024, the global economic growth rate is estimated at only 2.6% in 2023. It is projected that the global economy in 2022–2024 will register the lowest growth rate since 1995, with economic weakness even worse than the subprime crisis in 2008, the Asian financial crisis around 2000 and the burst of the dot-com bubble.

Data released by the National Bureau of Statistics of China revealed that China's GDP at constant prices grew by 5.2% year-on-year in 2023, reaching RMB126 trillion, while the nominal growth rate was only 4.64%. However, the economy was on a moderate recovery path as the economic growth in 2023 was compared with the low base in 2022. There were also various challenges during its development, including insufficient market demand, shortage of corporate orders, constrained fund circulation and overcapacity, coupled with sluggish real estate and private investment sectors, generally exposing the Chinese economy growth to significant pressure in 2023.

The electronics industry also keenly suffered from the weakening demand amid economic slowdown, with declines in shipments of major consumer electronic products to various extents in 2023. According to the Worldwide Quarterly Personal Computing Device Tracker issued by research firm IDC at the end of 2023, global PC shipments are expected to decrease by 13.8% year-on-year in 2023 due to the fragile macroeconomic environment. Data from Counterpoint indicated that global smartphone shipments are expected to decrease by 5% year-on-year in 2023, reaching only approximately 1.2 billion units, the lowest shipment level in nearly a decade. A report issued by Runto Technology in 2024 revealed a significant decline in the shipments of the domestic television market in 2023, while data from TrendForce also indicated that the shipments of the global television market dropped to a near-decade low.

As there were approximately 70% of semiconductor chips used in PCs, communication products and consumer electronic products, the decline in shipments of such electronic products had a direct impact on the prosperity of the semiconductor chip market. According to the forecast data for global semiconductor market released by World Semiconductor Trade Statistics (WSTS) at the end of 2023, the global semiconductor market size is estimated to be US$520.1 billion in 2023, a year-on-year decrease of 9.4% from US$574.1 billion in 2022. Statistics from the General Administration of Customs of China showed that China's total integrated circuit imports was 479.5 billion units in 2023, a year-on-year decrease of 10.8%; the total import value was US$349.4 billion, a year-on-year decrease of 15.4%; and the average unit price of imported chips decreased by 5.6%.

In 2023, the chip market experienced a decline in terms of volume and price due to the global downturn in the consumer electronic market, the general decline in shipment of electronic products and the destocking of industrial chain. Coupled with the changes from customers, there was an inevitable impact on the business of the Group, which was reflected in a significant decline in revenue. The Group achieved accumulated sales of HK$5,665.9 million in 2023, representing a decrease of 43.4% year-on-year, and gross profit of HK$441.5 million, representing a decrease of 59.7% year-on-year. A business review for each of the Group's major business units is set out below:

# MANAGEMENT DISCUSSION AND ANALYSIS

### Smart Displays

The smart display business unit mainly provides SoC master chips for flat-panel TVs and commercial display products. According to statistics from TrendForce, a research firm, global TV shipments are expected to decrease by 2.5% year-on-year to less than 197 million units in 2023 due to the declining market sentiment, hitting the lowest level in the past ten years. In Mainland China, TV shipments also presented a significant downward trend. According to the statistics from AVC (奧維雲網), the retail sales volume of color TV in domestic market reached 31.42 million units in 2023, representing a decrease of 13.6% year-on-year. The weak demand and end-customer adjustments resulted in lower chip sales in this business unit, which, coupled with factors such as reduction in unit price of SoC chips and more intensified competition among brands, gave rise to the sales results of the business unit falling short of expectations in 2023. The aggregate sales recorded in 2023 amounted to HK$1,859.5 million, representing a significant year-on-year decrease of 35.9%.

### Optoelectronic Displays

The business unit mainly sells chips for the fields such as display, commercial display, laptop screen driver, TDDI chips for mobile phone, and power supply. In 2023, the global shipments of PCs, laptops, tablets, TVs and smartphones have declined at different degrees. According to statistics from Omdia, a research firm, the global shipments of laptop display panels and industrial display panels declined by 13% and 8.8% year-on-year, respectively, in 2023. Market information indicates that the shipments of smartphone cameras also declined by 8.9% to only 4,065 million units in 2023. As a result, the chip shipments of TCON, Driver, Power, Scaler and CMOS image sensor related to panel display decreased significantly, coupled with the decline in price, which resulted in the business unit's sales results not aligning with prior forecasts. Therefore, this business unit recorded aggregate sales of HK$794.5 million in 2023, representing a significant year-on-year decrease of 26.4%.

### Smart Vision

The business unit of smart vision mainly provides chips for security and smart home products, including chip products and solutions for signal collection, transmission, storage, display, and control, which can be widely used in such fields as security, smart home and automotive electronics. The statistics released by RUNTO, a market research agency, show that China's overall market size of consumer cameras in 2023 had slightly increased to 50 million units. According to statistics from China Public Security, the domestic security bidding projects recorded certain degrees of decline in terms of both bidding project numbers and budgets in the first half of 2023; in particular, the number of core projects valued at around RMB10 million reduced from 53 to 46, representing a year-on-year decrease of 13.2%, with a year-on-year decline of 16% in their total budgets. Another important trend in 2023 was that the market competition in SoC chips for cameras became more intense, leading to a significant decrease in the unit price of chip products compared to 2022. As such, although the chip shipment volume of this business unit increased in 2023 compared to 2022, the sales declined significantly. In 2023, the aggregate sales reached HK$923.5 million, representing a year-on-year decrease of 35.3%.

### Communication Products

This business unit mainly sells MCP memory chips, radio frequency PA chips and other electronic components for cellular Internet of Things (IoT) modules. According to the latest report on tracking global cellular IoT modules and chipset application performance released by Counterpoint, a market research agency, the shipment volume of IoT modules declined in domestic and overseas markets simultaneously due to the combined impact of factors such as weak demand, rising interest rates and cautious spending of IoT companies, and the global shipment volume of IoT cellular modules was expected to decrease by 5% year-on-year in 2023. According to statistics from another research agency, IoT Analytics, the global shipment of cellular IoT modules and their corresponding chips was expected to decrease by about 18% year-on-year in 2023, which led to a year-on-year decline of 11% in revenue of module manufacturers and device manufacturers. Due to the sluggish market sentiment, this business unit recorded aggregate sales of HK$427.0 million in 2023, representing a significant decrease of 37.5% year-on-year.

### Memory Products

This business unit mainly sells memory chips, such as NandFlash, NorFlash, and DRAM, used in various smart hardware and electronic devices. In the past two years, European countries and the US continuously raised interest rates to combat high inflation, which suppressed investment and consumption and thus caused sluggish global economic growth and weak consumption. As they are major markets of memory chips, the shipment volume of smartphones, PCs, laptops, tablets, smart audio-visual products, smart hardware, and other products all recorded a decline, resulting in a sharp fall in the demand for memory chips and a high inventory of chip manufacturers and distribution channels. The spot and futures prices were all the way down, causing huge losses to major manufacturers of storage chips. According to the forecast of WSTS, the global market size of storage chips is expected to be US$84 billion in 2023, a significant decrease of 35.2% compared to US$129.77 billion in 2022. Amid such background, this business unit recorded aggregate sales of HK$98.1 million in 2023, a significant year-on-year decrease of 67.5%.

### Integrated Products

The integrated product segment includes three product groups, namely AIoT, MCU and CE. Among them, the AIoT product group mainly focuses on WLAN, LPWAN, Bluetooth Low Energy (BLE), 2.4G and other wireless interconnection markets, the MCU product group focuses on expanding various smart hardware applications, the CE product group focuses on the consumer electronics market. This business unit gathers numerous new business directions and new product lines that are being developed by the Group. Benefiting from the introduction of new product lines and the support of incremental business, this business unit still maintained a relatively faster growth amid the industry downturn in 2023. This business unit recorded aggregate sales of HK$343.1 million in 2023, representing a significant year-on-year increase of 28.5%.

### Optical Communication

This business unit mainly distributes and sells optical communication chips. Optical communication chips are integrated circuits used to process optical signals in optical modules. The products we sell include 10G-28G DFB, 10G-50G VCSEL, 10G-50G EML chips used in telecom optical modules, and 10G-200G InGaAs PD GaAs PD InGaAs APD receiver chips used in 400G/800G optical modules in data centers. In 2023, the demand for computility from the AI big model boom reached a new height. The AI cluster upgrades required the use of a large number of high-speed optical fiber connections, making the data communication sector the fastest-growing market for optical module applications. The business unit thus benefited and achieved significant year-on-year growth in shipments and revenue in 2023, with aggregate sales of HK$167.5 million, representing a significant year-on-year increase of 14,477.5%.

### Independent Distribution

The demand for electronic products is sluggish due to the continued decline in global macroeconomics. The overall global market demand for electronic components dropped significantly with rising channel inventories had led to a buyer-driven market with supply outstripping demand. As such, the shortages caused by the supply-demand mismatch and the rush spot order demand in the previous two years have significantly reduced in 2023, which have particularly impacted the independent distribution business. As a result, this business unit has experienced a significant decline in terms of order volume, order value and profit margin. It recorded aggregate sales of HK$830.8 million, representing a significant year-on-year decrease of 73.3%.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OUTLOOK FOR 2024

In the Economic Prospects released in January, the World Bank concluded that global economy will be in downturn for the third consecutive year in 2024, with its growth rate expected to decrease from 2.6% in 2023 to 2.4%. Global economic development has been highly challenging due to the tightening monetary policy, the escalation of geopolitical conflicts, the sluggish international trade and the increasing number of climate disasters. The economic growth, for developed, developing and low-income economies alike, will slow down to varying degrees.

In 2024, Chinese economy will face various challenges. Challenges that currently prevail in China include changing external environment, non-fully-operating domestic market, low social expectations in general and material problem of overcapacity in some industries. The World Bank is therefore of view in its prospects report that the growth rate of Chinese economy will also slow down to 4.5% in 2024, however, the report issued by the Chinese Academy of Sciences Center for Forecasting Science (中國科學院預測學研究中心) states that Chinese economy will grow in a stable manner and the annual GDP thereof is expected to increase by around 5.3% year-on-year. The industry insider is of the opinion that whether the growth rate of Chinese economy can exceed 5% in 2024 rests with the extent of effective investment.

In terms of the electronics industry, according to the opinions from professional market research agencies, including IDC, Canalys and TechInsights, consumer electronic products, including cell phone, PC/notebook, television and AR/VR, will meet different levels of growth in 2024. The report issued by TechInsights indicates that there will be a technical revolution in the consumer electronics industry with the integration of innovative technologies such as AI. Under the impetus of the market of smart home and wearable devices, the scale of revenue of the global consumer electronics market will increase to over US$1 trillion in 2024 from US$947 billion in 2023, and will reach US$1.2 trillion in 2028 with a compound annual growth rate of 4%.

In terms of the semiconductor industry, forecast data issued by industry research firms, including WSTS, Gartner, IDC and TechInsights, all show optimistic, which is of view that, driven by the resurging demand of storage, AI and consumer electronics, the global semiconductor chip market will resume to grow in 2024. The latest report issued by WSTS expects that the scale of global semiconductor chip market will increase by 13.1% to US$588.4 billion. The latest World Fab Forecast issued by SEMI is of opinion that, with the stimulus of surging cutting-edged applications including LogicIC, generative AI and high-performance PC, the global capacity of semiconductor wafer on a monthly basis will increase by 6.4% in 2024, kicking off the level of 30 million wafers. The monthly capacity of semiconductor manufacturers in China, with the benefit of favorable policies, will increase by 13% to 8.6 million wafers, taking the lead of the growth of global semiconductor industry.

Information shown on market is ambivalent. As a leading all-round distributor of electronic components in China, the Group has adhered to business diversification, has aggressively invested in overseas markets and has kept close cooperative relationship with up-streams and down-streams of the industry chain over the years. Therefore, if there is an increase in the semiconductor industry in 2024 as the market expected, the Group's business will secure more development opportunities in the new round of industry resumption. Specifically, for each business line of the Group, the outlook is as follows:

### Smart Displays

TV shipments are affected by a wide range of factors, including macroeconomic conditions, housing market trends, product technological innovations, consumer willingness and sports events. Currently, the expected slowdown in global economic growth in 2024 suggests a less optimistic outlook for both the global and Chinese property markets, thereby potentially impacting the demand in the TV market. Nonetheless, 2024 is slated to be a bustling year for sporting events, with the Asian Cup kicking off the year, followed by the UEFA Euro and Copa America in the middle of the year, and culminating with the Paris Olympics in the second half, all of which are expected to bolster TV shipments. In contrast to research institution Sigmaintell's forecast that global color TV shipments could increase slightly to approximately 215 million units in 2024, halting the three years of decline, research institute TrendForce is more pessimistic. They believe that there is still a possibility of TV shipments continuing to decline in 2024 due to existing oversupply. In summary, the growth of this business unit in 2024 is prudent and its operations will be stable.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Optoelectronic Displays

According to forecast reports from IDC, Canalys, TechInsights, and other research institutions, shipments of devices featuring displays such as smartphones, PCs, smart home gadgets, TVs, AR/VR devices, and others are expected to increase at varying rates in 2024. This increase in device shipments is anticipated to drive growth in shipments of display panels, image sensors, and power supply chips. TrendForce's latest research report predicts that shipments of LCD panels in 2024 will slightly increase by 3.4% to approximately 242 million units, representing an 8.6% increase in terms of shipped area. However, since the global economy has not fundamentally improved, the expected increase in market demand is not significant. We are therefore prudent about the business growth of this business unit in 2024, and we will adjust our marketing strategy in response to changes in the market to ensure the smooth and orderly development of our business in the future.

### Smart Vision

In the global market, the demand for video security is experiencing rapid growth. Traditional single-function video monitoring and access control systems are expected to see a decline in market share, while products that integrate AI technologies such as image recognition and voice recognition are poised for new opportunities and development. According to market data from Runto Technology in October 2023, sales of 5-megapixel HD camera products increased by 11.6 percentage points to 17.6% compared to the same period in 2022. In addition, the market share of products with baby cry monitoring will increase to 23.1%, the market share of pet identification cameras will increase to 5.3%, and the market share of multi-lens cameras, represented by stereo vision cameras, will increase to 12%, indicating the growing popularity of new technology applications related to AI. The Business Unit proactively monitored the market and the changes in market demand brought about by AI algorithms, and allocated resources to integrate various algorithms in its technology solutions with a view to responding to the changes in market demand. As per a report published by market research agency The Brainy Insights, the global network camera market size is expected to grow from USD10.21 billion in 2022 to USD39.63 billion by 2032, at a CAGR of 14.5% during the forecast period. The future market outlook appears generally positive, and our focus should be on consolidating and enhancing our market share while increasing the software value-added and competitiveness of our solutions and products. In summary, we expect that the business revenue of this business unit will resume growth in 2024.

### Communication Products

According to the Global Cellular IoT Module, Chipset and Application Tracker released by Counterpoint, a market research agency, the global IoT module market will begin to recover in 2024, with significant growth in 2025 driven by the large-scale application of 5G and 5G RedCap. In the market forecast report released by Counterpoint previously, it concluded that the annual global cellular IoT module shipments will exceed 1.2 billion by 2030, with an average compound annual growth rate of 12%, and will be mainly used in smart meters, industrial, routers/CPE, automotive and POS. According to the research agency IoT Analytics, as inventory pressure decreases, the cellular IoT module shipments will begin to increase in the first quarter of 2024, and the number of connections and demand of cellular IoT is expected to grow year by year, although there are still many uncertainties in the market outlook. Looking ahead to 2024, this business unit is expected to resume growth and achieve its scheduled full-year business goals.

### Memory Products

Since the second half of 2023, as the semiconductor market gradually emerges from a downward cycle and the prices of various memory chips nearly fall to their cost prices, upstream chip manufacturers have been triggered to implement protective production and price limits. Coupled with the new demand for memory chips generated by the AI boom, the future price of memory chips was the first to bottom out in Q3 2023. Moreover, from the market side of the electronic industry, in 2024, the shipments of memory chips in main application markets including smartphones, PCs, laptops, and other smart devices will experience varying degrees of growth. According to monitoring data from the research agency Yole, memory chips will begin to recover from Q4 2023 and will enter an upward trend of both quantity and price from 2024 to 2025. WSTS believes that the revenue of semiconductor memory will increase significantly by 43.2% to US$120.3 billion in 2024. In the past year, this business unit has actively explored new opportunities in the memory chips industry, including introducing more competitive industry benchmark brands and conducting early deployment on the client side. At present, the product line, work-force, and customer base are all well-prepared, and some orders have also begun to be fulfilled. It is expected that the revenue of this business unit will achieve breakthrough growth in 2024.

### Optical Communication

The rapid development of AI has contributed to a significant increase in the shipments of high-speed optical modules. The number of 200G optical modules required for a single A100 GPU in Nvidia AI supercomputers is about 7.2, while in more advanced DGX GH200 supercomputers, each GPU chip requires 12 expensive 800G optical modules. The number of optical modules for a single set of supercomputer can be 1,920. According to the forecast of research agency Lightcounting, the total sales of optical modules used in artificial intelligence clusters will reach US$17.6 billion in the next four years, and the global optical module market is expected to exceed US$20 billion by 2027, with broad market prospects. However, due to the fact that the pace of the optical module market in 2023 is too fast, AI processors are currently undergoing rapid iteration and upgrading, and the time for corresponding optical module technology iteration has also accelerated from the original 4-5 year to about 3 years, we are cautious about the continued explosive growth of the market in 2024 given the explosive demand in 2023, although we are optimistic about the long-term development of optical modules. Therefore, it is expected that the revenue of this business unit will achieve stable growth in 2024 following its significant increase in 2023.

### Integrated Products

The industry research organizations generally believe that, as the semiconductor industry begins to bottom out at the end of 2023, it will see significant growth in 2024. The business scope of this business unit covers smart hardware, IoT, MCU application, wireless telecommunication, etc. With a wide coverage of business and customer base, there will be more opportunities to benefit from the overall rebound in demand in the electronics industry. At the same time, this business unit will continue to seek new business increments by expanding new product lines, new business areas and new customers in 2024. Therefore, we are optimistic about the continued business growth of the business unit in 2024.

### Independent Distribution

Although it is widely believed that the electronic components industry will recover significantly in 2024 and the global semiconductor market will see a double-digit growth rate, independent distribution business will see only a limited boost as the supply chain tends to be stable and the market sales growth is mainly attributable to the recovery in demand and the increase in volume and price of memory chips.

### Summary

The electronics industry, after experiencing a downturn in demand in 2023, is expected to usher in a phased recovery in 2024, which will be a boon to the development of the semiconductor chip industry. From another perspective, as an important innovation and growth engine for global economic development, the semiconductor chip industry has the opportunity to play a more positive and important role in the future global economic recovery. We are firmly optimistic about the future development of the semiconductor industry.

In 2024, we will continue to expand our authorized distribution business and keep an eye on the industrial opportunities brought by domestic semiconductor chips. In the meantime, we will actively explore overseas markets and businesses and operate our business from a global perspective to promote the growth of the Group's technology value-added team and e-commerce platform business. We will seize new opportunities in optical communication chips and memory chips markets in the time of AI. Leveraging on the Group's digital business base, we will realize the diversified and synergetic development of the Group's businesses. In 2024, we will strive to innovate while maintaining compliant and sound operations to improve the Group's operating quality and profitability, so as to bring better returns and long-term value to the shareholders of the Company ("**Shareholders**").

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2023, the Group's revenue amounted to HK$5,665.9 million (2022: HK$10,006.1 million), representing a decrease of HK$4,340.2 million (or 43.4%) as compared with the revenue for the year ended 31 December 2022.

The decrease in revenue was mainly caused by the decrease in the sales from independent distribution, our smart displays and smart vision products of approximately HK$3,828.6 million.

### Gross profit

Our gross profit for the year ended 31 December 2023 decreased by HK$653.2 million to HK$441.5 million as compared with the prior year (2022: HK$1,094.7 million). Our gross profit margin decreased by 3.1% to 7.8% for the year ended 31 December 2023 (2022: 10.9%). The decrease in gross profit margin was mainly due to a sharp decrease in the sales from the independent distribution which has a higher gross profit margin.

### Research and development expenses

Research and development expenses mainly comprise of staff costs incurred for our research and development department. For the year ended 31 December 2023, research and development expenses amounted to HK$32.5 million, decreased by 17.9% as compared with the year ended 31 December 2022 (2022: HK$39.6 million).

### Administrative and selling and distribution expenses

Administrative and selling and distribution expenses aggregated to HK$292.6 million for the year ended 31 December 2023 (2022: HK$525.2 million), which accounted for 5.2% of the revenue for the year ended 31 December 2023 as compared with 5.2% over the corresponding year in 2022. The net decrease of HK$232.6 million was mainly attributable to a decrease in staff costs and marketing expenses.

### Finance costs

The Group's interest expense on bank and other borrowings for the year ended 31 December 2023 amounted to HK$57.0 million, a decrease of HK$22.2 million as compared with that in 2022 (2022: HK$79.2 million). Interest expenses mainly represent the borrowing costs from entering into various factoring agreements with some of the principal bankers and import loans from our principal bankers. The decrease was due to the decrease in bank borrowings during the year.

### Share of result of an associate

The Group had recorded a profit on share of result of an associate for the year ended 31 December 2023 of approximately HK$3.3 million (2022: HK$0.03 million). The profit was mainly due to the amount of sharing of result of an associate, namely Galasemi (Shanghai) Co. Ltd. (GSCL). The profit on share of result of an associate is mainly due to the improvement in company operation.

### Profit for the year

For the year ended 31 December 2023, the Group's profits amounted to HK$92.5 million, representing a decrease of HK$287.2 million as compared to HK$379.7 million in 2022, representing a decrease of 75.6%. The net profit margin for the year ended 31 December 2023 was 1.6%, compared to 3.8% for the year ended 31 December 2022. The decrease in the profit for the year was mainly contributed by the decrease in gross profit.

### Net profit attributable to the owners of the Company

The net profit attributable to the owners of the Company for the year ended 31 December 2023 amounted to HK$71.1 million, representing a decrease of 56.8% as compared with the year ended 31 December 2022 (2022: HK$164.7 million).

## Use of proceeds from the global offering

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

For the year ended 31 December 2023, the Group had utilised HK$1.8 million of the net proceeds from the Listing. The Group has utilised approximately HK$181.3 million of the net proceeds as at 31 December 2023 according to the intentions set out in the prospectus of the Company dated 27 September 2016 (the "**Prospectus**"). The unutilised net proceeds in the amount of HK$24.5 million have been placed as deposits with licensed banks and are expected to be utilised as set out on the Prospectus.

| Use of Proceeds | Net proceeds (in HK$ million) | Utilised during 31 December 2023 (in HK$ million) | Utilised as at 31 December 2023 (in HK$ million) | Amount remaining (in HK$ million) | Expected timeline for utilising the remaining net proceeds (Notes 1 and 2) (in HK$ million) |
|---|---|---|---|---|---|
| 1. Hiring additional staff for sales and marketing and business development and improvement of warehouse facilities | 20.6 | 0.0 | (20.6) | 0.0 | – |
| 2. Advertising and organising marketing activities for the promotion of our e-commerce platform Smart Core Planet and our new products | 41.2 | 0.0 | (41.2) | 0.0 | – |
| 3. Enhancing, further developing and maintain our e-commerce platform and improving our technology infrastructure | 41.2 | (1.8) | (16.7) | 24.5 | Expected to be fully utilised on or before 31 December 2025 |
| 4. For research and development | 20.6 | 0.0 | (20.6) | 0.0 | – |
| 5. Funding potential acquisition of, or investment in business or companies in the e-commerce industry or electronics industry | 61.7 | 0.0 | (61.7) | 0.0 | – |
| 6. General working capital | 20.5 | 0.0 | (20.5) | 0.0 | – |
| | 205.8 | (1.8) | (181.3) | 24.5 | |

Notes:

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

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

## Liquidity and financial resources

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

The Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements. As at 31 December 2023, the Group maintained aggregate restricted and unrestricted bank balances and cash of HK$395.3 million (31 December 2022: HK$951.7 million).

As at 31 December 2023, the outstanding bank borrowings of the Group were HK$397.7 million (31 December 2022: HK$1,030.2 million). The Group's gearing ratio, which is calculated by the interest-bearing borrowings divided by total equity, decreased from 85.8% as at 31 December 2022 to 44.0% as at 31 December 2023 as a result of the decrease in bank borrowings.

As at 31 December 2023, the total and unutilised amount of the Group's banking facilities (excluding standby letter of credit) were HK$3,189.8 million and HK$2,792.0 million (31 December 2022: HK$3,097.9 million and HK$2,067.6 million) respectively.

As at 31 December 2023, the Group had current assets of HK$1,400.3 million (31 December 2022: HK$2,581.8 million) and current liabilities of HK$830.4 million (31 December 2022: HK$1,646.0 million). The current ratio was 1.69 times as at 31 December 2023 (31 December 2022: 1.57 times). The decrease in current assets is primarily due to the decrease in inventories and trade receivables as compared with 31 December 2022.

The Group's debtors' turnover period was 60 days for the year ended 31 December 2023 as compared to 58 days for the year ended 31 December 2022. The overall debtors' turnover period was within the credit period. The increase in debtors' turnover period was due to the delay in payments from certain of our small and medium enterprises customers which were more affected by the change in the economic environment.

The creditors' turnover period was 22 days for the year ended 31 December 2023 as compared with 18 days for the year ended 31 December 2022. Creditors' turnover period has been maintained at a stable level.

The inventories' turnover period was 18 days for the year ended 31 December 2023 as compared with 18 days for the year ended 31 December 2022. Inventory control was always one of the primary tasks of the Group's management team to maintain the liquidity and healthy financial position of the Group. Inventories' turnover period remained relatively stable in both years.

## Foreign currency exposure

The Group's transactions are principally denominated in US dollars and Renminbi. The Group had not experienced any material difficulties or material adverse impacts on its operation despite the fluctuations in currency exchange rates and the net foreign exchange loss of approximately HK$7.9 million for the year ended 31 December 2023 (31 December 2022: net foreign exchange loss of HK$41.0 million). As at the date of this report, the Group has not adopted any foreign currency hedging policy. However, the Group will consider the use of foreign exchange forward contracts to reduce the currency exposures in case the exposures become significant.

## Pledge of assets

As at 31 December 2023, the financial assets at fair value through profit or loss (the "**FVTPL**") amounted to HK$127.0 million (31 December 2022: HK$153.0 million), trade receivable factored amounted to HK$230.7 million (31 December 2022: HK$345.7 million) and bank deposits amounted to HK$227.5 million (31 December 2022: HK$457.3 million) had been charged as security for the bank borrowings and financing arrangement of the Group.

## Capital commitment and contingent liabilities

The Group had no material capital commitment and contingent liabilities during the years ended 31 December 2023 and 2022.

## Significant investments held

Save for the financial assets at FVTPL and FVTOCI, the Group did not hold any significant investments during the years ended 31 December 2023 and 2022.

## Material acquisition and disposal of subsidiaries and associated companies

**Deconsolidation of the Quiksol Group**

The Quiksol Group, including Quiksol International HK Pte Limited ("**Quiksol HK**") together with its wholly-owned subsidiaries, is a leading independent distributor of electronic components and also provided services and products to clients who have global branches.

With effect from 31 December 2023, one of the representatives of the Group had ceased to act as a director of Quiksol HK and a member of the board of Quiksol HK (the "**Action**"). As the Group no longer controls the majority of the board of Quiksol HK upon the resignation, Quiksol Group was deconsolidated from the consolidated financial statements of the Group (the "**Deconsolidation**"). After the completion of the Action, the number of representatives of the Group acting as a director of Quiksol HK and a member of the board of Quiksol HK had decreased from three to two, representing a decrease in voting power of the Group from 60% to 40%, based on the composition of board of Quiksol HK with five directors in total.

After the loss of control in Quiksol HK and upon the Deconsolidation, the Group will continue to hold 25% equity interests in Quiksol HK. As communicated with the auditors of the Company, the Directors are given to understand that, in accordance with the Hong Kong Financial Reporting Standards (the "**HKFRSs**"), when the Group loses control of Quiksol HK, the Group's retained interests in Quiksol Group will be accounted as an investment in an associate in the consolidated financial statements of the Group. For further details of the Action and Deconsolidation, please refer to the announcement of the Company dated 2 January 2024.

During the year ended 31 December 2023, other than the Deconsolidation, there was no major acquisition or disposal of subsidiaries and associated companies by the Group.

## Employees

As at 31 December 2023, after the Deconsolidation, the Group had 353 employees (31 December 2022: 579 employees), with a majority based in Shenzhen, Suzhou and Hong Kong. Total employee costs for the year ended 31 December 2023, excluding the remuneration of the Directors were approximately HK$182.6 million (31 December 2022: HK$331.2 million). There have been no material changes to the information disclosed in the prospectus dated 27 September 2016 in respect of the remuneration of employees, remuneration policies, share award scheme, share option scheme and staff development.

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

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

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

## EMPLOYEE INCENTIVE SCHEMES

On 19 September 2016, the Company adopted a Share Award Scheme and conditionally approved and adopted a Share Option Scheme.

During the year ended 31 December 2023, no new shares had been subscribed by the Trustee and a total of 4,450,000 shares of the Company were acquired by the Trustee pursuant to the rules and trust deed of the Share Award Scheme and no share were awarded to the employees by the Company pursuant to the Share Award Scheme. During the year, 500,000 shares previously awarded were forfeited as certain terms of the award were not achieved by the awardee. The Group recognised a total of HK$0.5 million of share-based payment expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2023 (2022: HK2.6 million). No share option had been granted or agreed to be granted by the Company pursuant to the Share Option Scheme as at 31 December 2023. Further details of the Share Award Scheme and Share Option Scheme will be set out in the section headed "Employee Incentive Schemes" in the Company's 2023 annual report to be issued in due course.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2023.

## EVENTS AFTER THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

Up to the date of this report, the Group has no significant subsequent event after 31 December 2023 which required disclosure.

# DIRECTORS AND SENIOR MANAGEMENT

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

## EXECUTIVE DIRECTORS

**Mr. Tian Weidong**, aged 57, is the chairman of the Board, an executive Director and chief executive officer of our Company. He is the founder of our Group and has been leading our Group for over 15 years. Mr. Tian was appointed as a Director of our Company on 22 October 2015. He is also the chairman of the Company's nomination committee and a member of the Company's remuneration committee. Mr. Tian is responsible for overseeing the overall business strategy, development of projects, management and operations of our Group. Further, Mr. Tian is currently serving as a director of various subsidiaries of the Company. He is also the sole director and sole shareholder of Smart IC Limited, a controlling shareholder (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") of the Company.

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

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

**Mr. Wong Tsz Leung**, aged 60, is an executive Director and chief financial officer of our Company. He was appointed as a Director of our Company on 22 October 2015. Mr. Wong joined our Group in March 2007 and subsequently promoted to the vice general manager. Mr. Wong is responsible for overseeing the overall strategy and responsible for the financial operations and management of our Group. Mr. Wong is currently serving as a director of various subsidiaries of the Company. Mr. Wong has also been the chairman of supervisor committee of Henan Jinma Energy Company Limited (stock code: 6885) and Henan Jinyuan Hydrogenated Chemicals Co., Ltd. (stock code: 2502) since July 2016 and July 2023, respectively. He is also the sole director and sole shareholder of Insight Limited, a substantial shareholder (as defined in the Listing Rules) of the Company.

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

# DIRECTORS AND SENIOR MANAGEMENT

**Mr. Liu Hongbing**, aged 57, is an executive Director of our Company. He was appointed as a Director of our Company on 22 October 2015. Mr. Liu joined Shenzhen Smart-Core Technology Co., Ltd. in February 2007 and acted as the manager of the development department and was subsequently promoted to vice general manager. Mr. Liu is responsible for overseeing the overall strategy and responsible for the research and development matters of our Group. Further, Mr. Liu is currently serving as a director of a various subsidiaries of the Company.

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

**Mr. Mak Hon Kai Stanly**, aged 62, is an executive Director of our Company. He was appointed as a Director of our Company on 6 December 2021. Mr. Mak is currently the chief marketing officer of the Group, responsible for the overall marketing strategy and marketing of the Group. Mr. Mak has more than 30 years' experience in the sales and marketing of electronic components. Mr. Mak joined the Group in December 2020. Prior to joining our Group, Mr. Mak acted as the group CEO (distribution business) and group executive director in Daiwa Associate Holdings Limited, a company listed on the Stock Exchange (stock code: 1037) from October 1988 to March 2013. Mr. Mak acted as the chief executive officer and vice chairman of Protech Century Limited from February 2013 to August 2018, Mr. Mak acted as the chief executive officer and vice chairman of V & V Technology Limited, a subsidiary of S.A.S. Dragon Holdings Limited, a company listed on the Stock Exchange (stock code: 1184) from November 2018 to August 2019.

**Mr. Zheng Gang**, aged 56, is an executive Director of our Company. He was appointed as an independent non-executive Director of our Company on 16 March 2016 and was redesignated as an executive Director on 4 September 2023. He was the executive director of Good Fellow Healthcare Holdings Limited (formerly known as Hua Xia Healthcare Holdings Limited), a company listed on the Stock Exchange (stock code: 8143) from August 2007 to 22 August 2023, a non-executive director of New Provenance Everlasting Holdings Limited, a company listed on the Stock Exchange (stock code: 2326) from May 2018 to November 2019, an independent non-executive director of Opes Asia Development Limited (currently known as China Castson 81 Finance Company Limited), a company listed on the Stock Exchange (stock code: 810) from July 2012 to May 2013, and the executive director of Yield Go Holdings Ltd., a company listed on the Stock Exchange (stock code: 1796) from October 2022 to January 2024. Mr. Zheng has extensive experience in management in the finance and investment industry. Mr. Zheng obtained a degree in Bachelor of Electronic Engineering from Xiamen University in July 1989 and a degree of Master of Business Administration from University of Wales in April 1994.

# DIRECTORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Dr. Tang Ming Je**, aged 70, is an independent non-executive Director of our Company. He was appointed as an independent non-executive Director of our Company on 16 March 2016. Dr. Tang was a tenured associate professor of the department of business administration of University of Illinois at Urbana-Champaign from August 1991 to August 1995, a visiting associate professor of Hong Kong University of Science and Technology from January 1994 to January 1995 and a professor of department of industrial administration of Chang Gung University from December 1994 to August 1996. He held various positions in National Taiwan University, including Professor of the department of international business from August 1996 to February 2019, founding executive director of the executive master of business administration program from August 1997 to July 1999, director of the division of professional development from March 1998 to July 2004 and vice president for finance from August 2007 to May 2014. Dr. Tang obtained a degree in Bachelor of Civil Engineering from National Taiwan University in June 1975 and a degree in Doctor of Philosophy from Massachusetts Institute of Technology in September 1985. Dr. Tang has been an independent director of Fubon Financial Holding Co., Ltd., a company listed on the Taiwan Stock Exchange (stock code: 2881) since June 2014. He has also been appointed as an independent director of Mediatek Inc., a company listed on the Taiwan Stock Exchange (stock code: 2454) since June 2017.

**Ms. Xu Wei**, aged 53, is an independent non-executive Director of our Company. She was appointed as an independent non-executive Director of our Company on 6 December 2021. She had been the executive director and financial controller of PT International Development Corporation Limited, a company listed on the Stock Exchange (stock code: 372) from June 2017 to August 2022. Ms. Xu obtained a Bachelor of Economics degree majoring in Accounting from Xiamen University in the PRC in July 1992. Ms. Xu is a fellow member of the Institute of Public Accountants in Australia and has extensive experience in finance and accounting.

**Dr. Xue Chun**, aged 49, is an independent non-executive Director of our Company. He was appointed as an independent non-executive Director of our Company on 4 December 2023. He has more than 25 years' of experience in the field of computer sciences and machine learning systems. Dr. Xue obtained a bachelor of science in computer science engineering in May 1997 from the University of Texas at Arlington, a master of science in computer science in December 2002 and a PhD in computer science in May 2007 from the University of Texas at Dallas. Dr. Xue is currently a professor in Mohamed bin Zayed University of Artificial Intelligence (MBZUAI), Abu Dhabi and he joined MZUAI in January 2024. He has been working at the Department of Computer Science at the City University of Hong Kong from July 2007 to January 2024 with his last position as a professor at the City University of Hong Kong.

## SENIOR MANAGEMENT

**Mr. Yau Chak Man**, aged 44, joined the Group in February 2019 as the financial controller. Mr. Yau was also appointed as the company secretary of the Company in March 2019. He has extensive experience in auditing and financial management. He obtained the degree in Bachelor of Science in Quantitative Finance from The Chinese University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

# DIRECTORS' REPORT

The Directors hereby present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2023.

## PRINCIPAL ACTIVITIES

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

## BUSINESS REVIEW

A review of the business of the Group and a discussion on the Group's future business development is set out in the Chairman's Statement on pages 6 to 9 and in the Management Discussion and Analysis on pages 10 to 20 of this annual report.

### Compliance with laws and regulations

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

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

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

### Environmental policies and performance

Environment protection is critical to the long-term development of the Group. The Group considers the importance of environmental affairs and believes business development and environmental affairs are highly related. The Group has endeavoured to comply with laws and regulations regarding environmental protection. These policies were supported by our staff and were implemented effectively. During the year ended 31 December 2023, we had not been subject to any fines or other penalties due to any non-compliance with health, safety or environmental regulations.

# DIRECTORS' REPORT

### Relationship with employees

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

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

### Relationship with suppliers, customers and other stakeholders

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

Our major suppliers are generally reputable IC and other electronic component companies, and have been in business relationships with the Group from 1 to 18 years. Our largest supplier is headquartered in Taiwan and has a diverse product portfolio of application specific ICs in various markets such as TV, set-top box and LCD monitor. Our major suppliers include IC companies that supply memory and silicon turner IC as well. The credit period from the major suppliers is 30 to 60 days.

Our major customers include leading brand-name consumer electronic product manufacturing companies, original design manufacturers ("**ODMs**") and original equipment manufacturers ("**OEMs**") in the electronic product industry in the PRC region. The years of business relationship with the Group ranged from 1 to 18 years and the credit terms granted to the major customers from 30 to 120 days.

### Principal risks and uncertainties

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

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

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

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

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

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

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2023 and the Group's financial position at that date are set out in the Group's consolidated financial statements on pages 84 to 87.

Subsequent to the end of the Reporting Period, a final dividend of HK5 cents per share (2022: HK6 cents) had been recommended by the Directors and is subject to the approval by the Shareholders in the forthcoming annual general meeting. No interim dividend (2022: HK4 cents per share) has been declared and paid during the year.

## FINANCIAL SUMMARY

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

## SEGMENT INFORMATION

Details of the segment information of the Group are set out in note 10 to the consolidated financial statements.

## NON-COMPETITION UNDERTAKING

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

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

Mr. Tian and Smart IC Limited have confirmed their compliance with the Non-Competition Undertaking during the year ended 31 December 2023. The independent non-executive Directors have also reviewed the compliance with the Deed of Non-Competition by Mr. Tian and Smart IC Limited and are satisfied that they have complied with the undertakings.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in Note 41 to the consolidated financial statements.

## RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and reserves of the Company on pages 88 to 89 and note 44 to the consolidated financial statements of this annual report respectively.

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2023, the Company had distributable reserves amounted to HK$330.0 million (2022: HK$368.9 million).

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 19 to the consolidated financial statements.

## DONATIONS

During the year, the Group made charitable and other donations in the aggregate amount of approximately HK$264,000 (2022: HK$60,000).

## BANK AND OTHER BORROWINGS

Particulars of the bank and other borrowings of the Group at 31 December 2023 are set out in note 38 to the consolidated financial statements.

## MAJOR SUPPLIERS AND CUSTOMERS

During the year, the aggregate amount of purchase from the Group's five largest suppliers was approximately 69.6% of the Group's total purchases, while the purchases from the Group's largest supplier was approximately 43.4% of the Group's total purchases.

During the year, the aggregate amount of sales to the Group's five largest customers was approximately 36.9% of the Group's total revenue, while the sales to the Group's largest customer was approximately 12.6% of the Group's total revenue.

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

# DIRECTORS' REPORT

## DIRECTORS

The Directors during the year ended 31 December 2023 and up to the date of this Directors' report were:

### Executive Directors

Mr. Tian Weidong
Mr. Wong Tsz Leung
Mr. Liu Hongbing
Mr. Mak Hon Kai Stanly
Mr. Zheng Gang *(redesignated with effect from 4 September 2023)*

### Independent non-executive Directors

Dr. Tang Ming Je
Mr. Zheng Gang *(redesignated as an executive director with effect from 4 September 2023)*
Ms. Xu Wei
Dr. Xue Chun *(appointed with effect from 4 December 2023)*

In accordance with the article 16.18 of articles of association (the "**Articles**") of the Company, one third of the Directors will retire at the forthcoming annual general meeting (the "**AGM**"), and being eligible, offer themselves for re-election at the AGM. Accordingly, Mr. Liu Hongbing , Mr. Zheng Gang and Mr. Wong Tsz Leung will retire by rotation at the forthcoming AGM of the Company and being eligible, will offer themselves for re- election at the AGM.

Dr. Xue Chun was appointed by the Board to act as the independent non-executive Director with effect from 4 December 2023 to fulfill a causal vacancy. In accordance with Article 16.2, Dr. Xue shall hold office only until the first annual general meeting of the Company after his appointment. Dr. Xue shall then be eligible for re-election at the AGM. Any Director appointed under Article 16.2 shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at the AGM.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received written confirmation from each of the independent non-executive Directors in respect of his or her independence in accordance with the independence guidelines set out in rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent.

## DIRECTORS' SERVICE CONTRACTS

### Executive Directors

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

### Independent non-executive Directors

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

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

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

As at 31 December 2023, the interests and short positions of our Directors or chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Future Ordinance ("**SFO**")) as recorded in the register required to be kept under Section 352 of the SFO; or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") as set out in Appendix C3 to the Listing Rules, to be notified to the Company and the Stock Exchange are as follows:

| Name of Director | Nature of Interest | Class of Shares | Number of Shares held | Approximate shareholding percentage[(4)] |
|---|---|---|---|---|
| Mr. Tian Weidong[(1)] | Interest in a controlled corporation | Ordinary | 262,500,000 (L) | 53.72% |
| Mr. Wong Tsz Leung[(2)] | Interest in a controlled corporation | Ordinary | 52,500,000 (L) | 10.74% |
| Mr. Liu Hongbing | Beneficial owner | Ordinary | 37,500,000 (L) | 7.67% |
| Mr. Mak Hon Kai, Stanly[(3)] | Beneficial owner | Ordinary | 1,500,000 (L) | 0.31% |

Notes:

(1) Smart IC Limited legally and beneficially owns 262,500,000 shares. As Smart IC Limited is wholly owned by Mr. Tian Weidong, Mr. Tian is deemed to be interested in all the shares held by Smart IC Limited.

(2) Insight Limited legally and beneficially owns 52,500,000 shares. As Insight Limited is wholly owned by Mr. Wong Tsz Leung, Mr. Wong is deemed to be interested in all the shares held by Insight Limited.

(3) Mr. Mak is interested in 2,500,000 shares in terms of that the Company granted him 3,000,000 shares under the Share Award Scheme, of which 1,500,000 shares have been vested, 500,000 shares were forfeited as certain terms of the award were not achieved.

(4) Based on 488,681,030 Shares in issue as at 31 December 2023.

(L) represents long positions.

Save as disclosed above, as at 31 December 2023, none of the Directors nor their associates had any interests or short positions in any share, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed under the sections headed "Connected Transaction" and "Related Party Transactions" on pages 31 and 168 of this report, no transactions, arrangements or contracts of significance, to which the Company, or its holding companies, subsidiaries or fellow subsidiaries was a party and in which the Director or the Director's connected entity had a material interest, whether directly or indirectly, subsisted at the end or at any time during the year ended 31 December 2023.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed under the section headed "Non-Competition Undertaking" on page 26 of this report, during the year ended 31 December 2023, none of the Directors has an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

## PERMITTED INDEMNITY

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

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

## EVENTS AFTER THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

Up to the date of this annual report, the Group has no significant subsequent event after 31 December 2023.

## PRINCIPAL SUBSIDIARIES

The Group's operations are conducted on a global basis through its direct or indirect subsidiaries. Details of the subsidiaries of the Company as at 31 December 2023 are set out in note 26 to the consolidated financial statements.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2023, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries.

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

As at 31 December 2023, so far as the Directors are aware, the following persons (other than a Director or a chief executive of the Company) have interests or short positions in the shares or underlying shares of the Company, as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO:

| Name of Shareholder | Nature of Interest | Number of Shares held | Approximate shareholding percentage[3] |
|---|---|---|---|
| Smart IC Limited[1] | Beneficial owner | 262,500,000 (L) | 53.72% |
| Insight Limited[2] | Beneficial owner | 52,500,000 (L) | 10.74% |
| Mr. Liu Hongbing | Beneficial owner | 37,500,000 (L) | 7.67% |

Notes:

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

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

(3) Based on 488,681,030 Shares in issue as at 31 December 2023.

(L) Represents long position.

Saved as disclosed above, as at 31 December 2023, the Company had not been notified by any persons who had any interests or short positions in the shares or underlying shares of the Company which would fall under the provisions of Division 2 and 3 of Part XV of the SFO to be disclosed to the Company, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

There were no contracts of significance (including for the provision of services) with any member of the Group as the contracting party and in which any of the Controlling Shareholders and their respective associates possessed direct or indirect substantial interests, and which was still valid on 31 December 2023 or any time during such year and related to the business of the Group.

## CONNECTED TRANSACTION

During the year ended 31 December 2023, the Company did not enter into any connected transaction.

## RELATED PARTY TRANSACTIONS

Certain related party transactions as disclosed in note 48 to the consolidated financial statements prepared under Hong Kong Financial Reporting Standards also constituted connected transactions under the Listing Rules required to be disclosed in accordance with Chapter 14A of the Listing Rule. The Company has complied with the disclosure requirements of Chapter 14A of Listing Rules in respect of the above connected transactions or continuing connected transactions.

## EMPLOYEE INCENTIVE SCHEMES

On 19 September 2016, the Company adopted a Share Award Scheme and conditionally approved and adopted a Share Option Scheme.

During the year ended 31 December 2023, no new shares had been subscribed by the Trustee and a total of 4,450,000 shares of the Company were acquired by the Trustee pursuant to the rules and trust deed of the Share Award Scheme and no share awards were granted to the employees by the Company pursuant to the Share Award Scheme. During the year, 500,000 shares previously awarded were forfeited as certain terms of the award were not achieved by the awardee. The Group recognised a total of HK$0.5 million of share-based payment expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2023 (2022: HK$2.6 million). No share option had been granted or agreed to be granted by the Company pursuant to the Share Option Scheme as at 31 December 2023.

The number of shares that may be issued in respect of options and awards granted under the Share Award Scheme and Share Option Scheme divided by the weighted average number of Shares in issue for the financial year ended 31 December 2023 is approximately 0.18.

### Share Option Scheme

The number of options available for grant under the Share Option Scheme at the beginning and the end of the year is 50,000,000 and 50,000,000 respectively, representing approximately 10.23% of the total issued shares of the Company as at the date of this annual report. No option was granted during the year and there were no movements in the number of the share options under the Share Option Scheme during the year.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**(f) Exercise Price**

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

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

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

(iii) the nominal value of the Shares.

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

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

As at the date of this annual report, the remaining life of the Share Option Scheme is approximately 2 years and 7 months.

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

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

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

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

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

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

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

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

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

## Share Award Scheme

The Share Award Scheme was adopted by the Company on 19 September 2016 (the "**Adoption Date**"). Unless it is early terminated by the board of directors of the Company in accordance with the terms therein, the Share Award Scheme shall be valid and effective for a term of ten years commencing on the Adoption Date. The number of awarded shares available for grant under Share Award Scheme at the beginning and the end of the year is 37,420,000 and 37,420,000 respectively, representing approximately 7.66% of the total issued shares of the Company as at the date of this annual report. No share was awarded under the Share Award Scheme during the year.

Details of the Share Award Scheme are set out as follows:

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

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

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

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

As at the date of this annual report, the remaining life of the Share Award Scheme is approximately 2 years and 6 months.

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

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

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

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

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

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

**(f) Acceptance and/or Vesting Period**

A letter shall be issued to Selected Participants specifying the date of grant, the number of awarded shares, the vesting dates (if any, as may be imposed by the Board at its absolute discretion) (the "**Award Letter**").

An Award is accepted by the Selected Participants when our Company receives from the relevant Selected Participant a duly completed and executed duplicate of the Award Letter, or an agreement in such electronic form, and a remittance of the sum of HK$1.00 consideration for the grant of the Award within the time period stipulated in the Award Letter and in the absence of such provisions, within 7 days of the grant of the Award. Such remittance is not refundable under any circumstances.

**(g) Appointment of Trustee and Maintenance of Trust**

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

Pursuant to the Share Award Scheme, the Award Shares may be (i) acquired by the Trustee at the cost of the Company at the prevailing market price and held on trust for the Selected Participants; or (ii) allotted and issued as new shares of the Company to the Trustee under general mandates granted or to be granted by the shareholders at general meetings of the Company from time to time and held on Trust for the Selected Participants.

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

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

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

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

**(i) Movement of the Award Shares**

Details of movement of shares awarded under the Share Award Scheme during the year ended 31 December 2023 were as follows:

| | | Number of share awards | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Grantee | Date of grant | Unvested as at 1 January 2023 | Granted during the period | Vested during the period | Cancelled/ Lapsed during the period | Forfeited during the period | Unvested as at 31 December 2023 | Closing price of the awarded share immediately before the grant date | Weighted average closing price of the awarded shares immediately before the vesting date |
| **Directors** | | | | | | | | | |
| Mak Hon Kai Stanly | 1 April 2022(1) | 2,000,000 | – | 500,000 | – | 500,000(2) | 1,000,000 | HK$1.35 | HK$2.01 |

Notes:

(1) On 1 April 2022, a total of 3,000,000 awarded shares were granted to Mr. Mak Hon Kai Stanly, an executive Director. Subject to the terms of the Share Award Scheme and the fulfilment of the vesting conditions specified by the Board, the awarded shares shall be vested in three batches with each 1,000,000 awarded shares by 30 June 2022, 2023 and 2024, respectively. Details such as the exercise period and exercise/purchase price of the Share Award Scheme are as outlined under the section headed "Share Awards Scheme".

(2) During the year ended 31 December 2023, 500,000 awarded shares were forfeited as the certain terms of the award were not achieved and as such, such awards were not vested.

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

## RETIREMENT BENEFIT PLANS

Details of retirement benefit plans of the Group during the year are set out in note 15 to the consolidated financial statements.

## REMUNERATION POLICY

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

## CHANGE OF INFORMATION IN RESPECT OF DIRECTORS

Save as disclosed in the section headed "Directors and Senior Management" in this annual report, there was no change to any of the information required to be disclosed in relation to any Director pursuant to rule 13.51B(1) of the Listing Rules since the date of the interim report of the Company for the period ended 30 June 2023.

## PRE-EMPTIVE RIGHTS

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

## EQUITY-LINKED AGREEMENTS

Save for the share-based payment transactions under note 42 to the consolidated financial statements, the Company has not entered into any equity-linked agreements for the year ended 31 December 2023.

## SUFFICIENCY IN PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, were held by the public during the year ended 31 December 2023 and up to the date of this report.

## PROFESSIONAL TAX ADVICE RECOMMENDED

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

## AUDIT COMMITTEE

The audited consolidated financial statements for the year ended 31 December 2023 have been reviewed by the audit committee (the "**Audit Committee**") of the Company.

## AUDITORS

RSM Hong Kong ("**RSM**") was appointed as the auditors of the Company following the resignation of Deloitte Touche Tohmatsu on 13 November 2023.

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

On behalf of the Board

**Tian Weidong**
*Chairman*
Hong Kong, 22 March 2024

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THE REPORT

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

## REPORTING GUIDELINES

This report is prepared in line with the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guidelines**") set out in Appendix C2 of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited ("**HKEX**") and taking into account the actual situation of the Group. This report is prepared in accordance with disclosure principles recommended by the ESG Reporting Guidelines, including:

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

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

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

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

## REPORTING PERIOD AND BOUNDARY

This report describes the sustainability initiatives of the Group at locations of its major operations, including most of the Group's environmental and social impacts, for the 2023 financial year (1 January to 31 December 2023). The reporting boundary covers over 90% of the Group's revenue streams, including the operations of Smart-Core Holdings Limited in Hong Kong and Shenzhen, and the operations of its subsidiaries Quiksol International HK Pte Limited and Suzhou Kuke Electronics Co., Ltd. in Hong Kong and Suzhou (collectively, "**Reporting Boundary**").

## FEEDBACK

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

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## SUSTAINABLE DEVELOPMENT MANAGEMENT

### Board Statement

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

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

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

### Stakeholder Engagement

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

### Materiality Assessment

The Group regularly conducts materiality assessment and identifies material issues that are closely related to its operations and are of high concern to stakeholders with reference to the HKEX ESG Reporting Guide and the Global Reporting Initiative (GRI) Sustainability Reporting Standards. Materiality assessment during the year is based on the survey on stakeholders and the materiality map provided by well-known external agencies.

**Identification**

34 potential material issues were identified with reference to the GRI Sustainability Reporting Standards and other guidelines

**Prioritisation**

According to the survey, the priority of material issues is decided based on the two dimensions of "the importance of impacts on economy, environment and society" and "the impact on stakeholders' assessment and decision making"

**Validation and Review**

The management of the Group reviews and confirms the material issues and reviews the scope for improvement in the future

Based on the assessment results, the Group identified 10 major material issues. After review by the Board, the results are shown as follows.

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## AWARDS AND MEMBERSHIP

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

| Achievement and membership | Companies with awards | Issuing authority |
|---|---|---|
| 2023 "Top 10 Best Chinese Brand Distributors" | Shenzhen Smart-Core Technology Co., Ltd. | Electronics Supply and Manufacturing-China |
| National High-tech Enterprise | Shenzhen Smart-Core Technology Co., Ltd. | Shenzhen Science and Technology Innovation Committee; Shenzhen Finance Bureau; Shenzhen Tax Service, State Taxation Administration |
| National High-tech Enterprise | Corelink (Xiamen) Technology Co., Ltd | Xiamen Municipal Bureau of Science and Technology; Xiamen Finance Bureau; Xiamen Tax Service, State Taxation Administration |
| Shenzhen "Specialised, Refined, Differentiated and Innovative" small and medium-sized enterprises | Shenzhen Smart-Core Technology Co., Ltd. | Industry and Information Technology Bureau of Shenzhen Municipality |
| ISO 9001-2015 Quality System Certification | Shenzhen Smart-Core Cloud Information Technology Co., Ltd | ACM-CCAS Limited |
| ISO14001:2015 Environmental Management System Certification | Shenzhen Smart-Core Cloud Information Technology Co., Ltd | ACM-CCAS Limited |
| ISO45001:2018 Occupational Health Management System Certification | Shenzhen Smart-Core Cloud Information Technology Co., Ltd | ACM-CCAS Limited |
| ISO28000: 2007 Supply Chain Security Management System Certification | Shenzhen Smart-Core Cloud Information Technology Co., Ltd | Shenzhen Huayang Certification Co., Ltd. (深圳華陽認證有限公司) |
| HDMI® adopter | Smart-Core International Company Limited | HDMI®Licensing Administrator Inc. |
| Nanshan District "Green Channel" Enterprise | Shenzhen Smart-Core Technology Co., Ltd. | People's Government of Nanshan District, Shenzhen |
| HDCP Reseller | Smart-Core International Company Limited | Digital Content Protection LLC |
| Member Palace of Shenzhen High-tech Industry Association | Shenzhen Smart-Core Technology Co., Ltd. | Shenzhen High-tech Industry Association |
| Member Palace of China Information Industry Trade Association | Smart-Core Holdings Limited | China Information Industry Trade Association |
| Member Palace of Electronics Reseller Association International Incorporated (ERAI) | Smart-Core Cloud International Company Limited | Electronics Reseller Association International Incorporated (ERAI) |
| National Science and Technology Small and Medium-sized Enterprises | Shenzhen Smart-Core Link Technology Limited | Shenzhen Science and Technology Innovation Commission |

*Awards, achievements and membership received by the Group during the reporting period*

## ENVIRONMENTAL MANAGEMENT

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

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

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

1 Please refer to the section headed Laws and Regulations for environmental related laws and regulations.

## Resources Consumption

The Group's resource consumption mainly includes purchased electricity, gasoline, water resources and packaging paper for finished products. We continue to monitor the use of various resources and review measures to reduce energy consumption and emissions. In order to reduce resource consumption, we take measures to improve energy efficiency and save energy, and encourage employees to reduce the use of resources. The Group did not record any issue in sourcing water that was fit for purpose during the reporting period.

| **Resource Consumption** | **Consumption** | | **Consumption per employee[i]** | | **Year-on-year** |
|---|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 | **(%)** |
| Electricity (kWh) | **440,476.00** | 455,607.00 | **943.20** | 786.89 | -3.32 |
| Gasoline (litres) | **11,580.65** | 12,402.10 | **24.80** | 21.42 | -6.62 |
| Water ($m^3$) | **2,645.00** | 2,609.00 | **5.66** | 4.51 | +1.38 |
| Paper (tonnes) | **2.71** | 3.08 | **0.006** | 0.005 | -12.01 |

(i) Consumption per employee represents consumption per employee within the Reporting Boundary.

*Total resource consumption during the reporting period*

## Greenhouse Gas and Air Emissions

The Group is not an energy-intensive enterprise and thus greenhouse gas and air emissions are relatively low. Direct carbon emissions (Scope 1) are mainly generated from the consumption of motor fuels, indirect carbon emissions (Scope 2) are generated from purchased electricity, and other indirect carbon emissions (Scope 3) are generated from business travel by employees, water processing and paper waste disposed at landfills. During the reporting period, the total greenhouse gas emissions recorded were 322.56 $tCO_2e$. We will continue to monitor greenhouse gas emissions to reduce emissions and intensity.

| **Greenhouse Gas Emissions** | **Emissions ($tCO_2e$)** | | **Emission per employee ($tCO_2e$/employee)[i]** | | **Emission Percentage (%)** | |
|---|---|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 |
| **Scope 1** | | | | | | |
| Direct emissions | **28.41** | 30.47 | **0.06** | 0.05 | **8.81** | 10.58 |
| **Scope 2** | | | | | | |
| Indirect emissions | **217.56** | 224.31 | **0.46** | 0.39 | **67.45** | 77.93 |
| **Scope 3** | | | | | | |
| Other indirect emissions | **76.59** | 33.08 | **0.16** | 0.06 | **23.74** | 11.49 |
| **Total** | **322.56** | 287.86 | **0.68** | 0.50 | **100** | 100 |

(i) Emission per employee represents emission per employee within the Reporting Boundary.

*Total greenhouse gas emissions during the reporting period*

Air pollutants generated from combustion of motor fuels include nitrogen oxides ($NO_X$), sulphur oxides ($SO_X$) and particulate matter (PM). During the reporting period, the Group emitted a total of 13.36 kg of nitrogen oxides ($NO_X$), 0.17 kg of sulphur oxides ($SO_X$) and 1.14 kg of particulate matter.

| **Air Emissions** | **Emissions (kg)** | | **Emission per employee (kg/employee)[(i)]** | | **Year-on-year** |
|---|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 | **(%)** |
| Nitrogen oxides ($NO_x$) | **13.36** | 8.20 | **0.03** | 0.01 | +62.93 |
| Sulphur oxides ($SO_x$) | **0.17** | 0.18 | **0.0004** | 0.0003 | –5.56 |
| Particulate matter | **1.14** | 0.65 | **0.0024** | 0.0011 | +75.38 |

(i) Emission per employee represents emission per employee within the Reporting Boundary.

*Total air emissions during the reporting period*

### Waste Management

Waste generated during the Group's operations is mainly general waste, wood products and kitchen waste. In order to reduce the impact on the environment, the Group implements various waste reduction measures, including encouraging a paperless office, encouraging employees to bring meals instead of ordering takeaway, and reusing packaging and wooden pallets used for transportation. The hazardous waste generated by the Group was processed by qualified third-parties. During the reporting period, the Group generated a total of approximately 260 tonnes of non-hazardous waste, which was processed by local municipal authorities.

| **Waste[2]** | **Generation** | | **Generation per employee (tonnes/employee)[(i)]** | | **Year-on-year** |
|---|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 | **(%)** |
| Non-hazardous waste (tonnes) | **260** | 254 | **0.546** | 0.439 | +2.36 |

(i) Generation per employee represents generation per employee within the Reporting Boundary.

*Total waste produced during the reporting period*

2 Non-hazardous waste includes general waste, wood products and kitchen waste.

## The Environment and Natural Resources

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

### Green office

- Encourage paperless office and store documents in the central server
- Adopt advanced computer system to achieve office automation
- Carry out double-sided printing to reduce paper use and strengthen printing management
- Remind employees to turn off idle electrical appliances and equipment, and inspect office areas after work

### Energy saving and emission reduction

- Use LED lighting system to reduce lighting in non operating areas
- Reuse packaging cartons and fillers
- Put up water-saving signs in the bathroom

### Work closely with business partners

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

### Green supply chain

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

## Climate Change

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

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

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

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

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

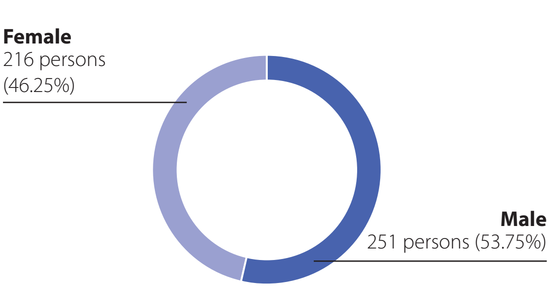
*Description of the Group's potential climate change-related risks*

## TALENT MANAGEMENT

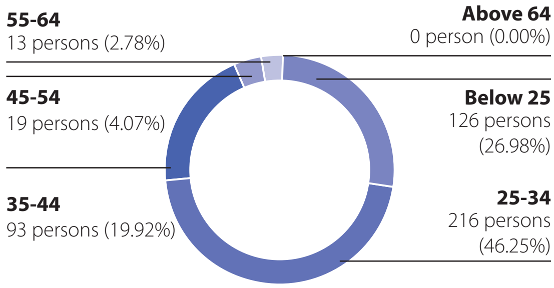
The Group insists on the "people-oriented" principle and attaches great importance to talent development and management, so as to achieve the goal of stable, efficient, and long-term development of the Group itself and of its employees.

As of 31 December 2023, the Group had 467 employees[i], of which 121 were employees of Quiksol HK, with a total male-to-female ratio of approximately 54:46. Among them, the highest number is in age group 25-34 years old (46.25%) and less than 25 years old (26.98%). About 65.31% of the Group's employees hold a bachelor's degree or above. Among all employees, 57 are middle and senior management, 48 are supervisors, and 362 are general employees, of which 89.08% are based in Mainland China and the rest are based in Hong Kong and other areas. There were 140 new employees, with a total male-to-female ratio of approximately 51:49.

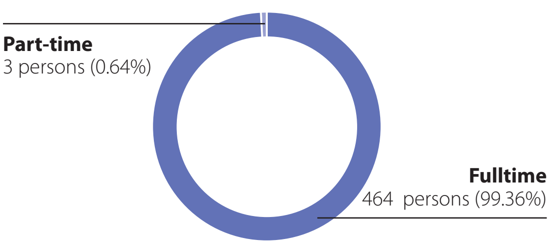
**Employee gender distribution**



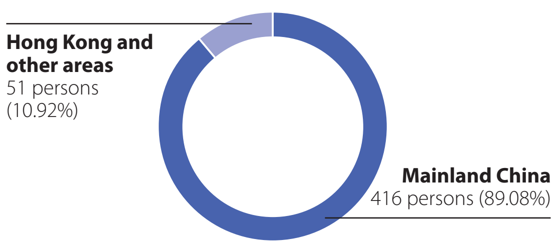

**Employee age distribution**



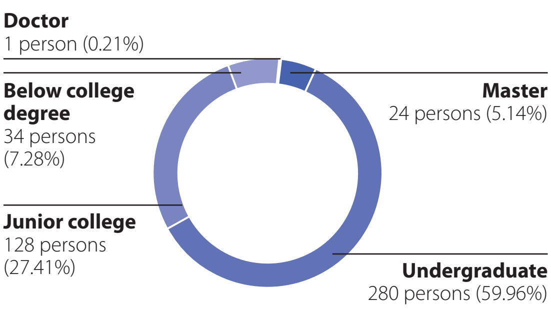

**Employee employment type distribution**



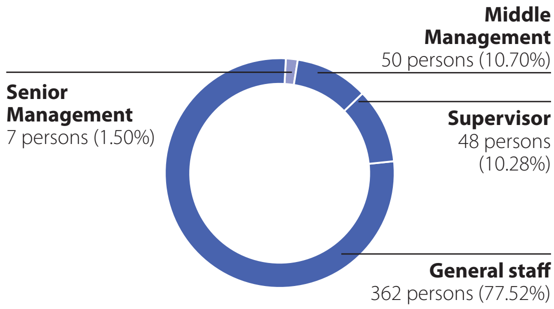

**Employee geographical distribution**




**Employee education distribution**




**Employee function distribution**




(i) Covering employees within the Reporting Boundary.

## Employment and Labour Practices

In order to improve labour management, the Group's personnel management system clearly sets out the procedures for induction, promotion and resignation. The Group's Code of Conduct for Employees' Work and Behaviour clearly regulates the work and behaviour of employees, ensuring that employees are treated fairly when rewards and punishments are applied. We strictly comply with all employment regulations, relevant policies and guidelines applicable where we operate. During the reporting period, there were no cases of non-compliance with relevant employment laws and regulations[3], and no cases of recruitment-related complaints were recorded.

### Remuneration System

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

### Employee Benefits

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

**Employee Benefit Policy**

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

**"Share Award Scheme"**

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

[3] Please refer to the section headed Laws and Regulations for health and safety-related laws and regulations.

**Equal Opportunity Policy**

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

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

## Occupational Health and Safety

In order to implement the safety management policy of "safety first, prevention-oriented and comprehensive management", the Group has implemented a series of occupational health and safety measures to safeguard employees' health and safety. During the year, the Group has carried out a series of activities associated with occupational physical and mental health and fire safety with an aim to enhance employees' awareness of healthy lifestyle and occupational safety.

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

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

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

*The Group's occupational health and safety measures*

**Safety Training**

In order to improve the employees' awareness of fire safety, the Group actively carried out fire safety education and fire drills to ensure that each employee is equipped with fundamental fire skills. We attached great importance to the safety training of employees to strengthen inspection work and eliminate fire safety hazards in a timely manner. During the reporting period, the Group held 3 regular fire safety training sessions, covering the operation of fire extinguishers, use of fire hydrants, common knowledge of fire escape, disposal methods of LPG fire, and disposal methods of LPG leakage, with an aim to improve employees' ability to prevent fire and emergency response, allowing them to respond promptly and calmly in case of fire. During the year, 134 employees participated in the training, with a total of 69 training hours.

We are committed to fostering and maintaining a safe and healthy working culture which encourages employees to proactively participate in safety management by giving advice and feedback and timely eliminating potential safety dangers and hazards. During the reporting period, the Group did not notice any cases of non-compliance with laws and regulations regarding occupational safety and health[4] or relevant complaints. There were no work-related fatalities in the past three years.

In order to secure the occupational health of employees and ensure the health and safety of the working space, the Group attached great importance to safeguarding the health of employees and maintaining environmental hygiene and adopted a series of management measures. The Group formulated a corporate guideline, which covers 11 scenarios such as office entry, business visits, and dining in canteens. The Group guided employees to follow various measures to build a healthy and safe working environment together.

4 Please refer to the section headed Laws and Regulations for health and safety-related laws and regulations.


**Care of physical and mental health of employees**

The Group always prioritized the health and safety of employees and continuously promoted the improvement of the healthy lifestyle of employees. We believe that only an employee with a healthy body and a positive mindset can be devoted to work in an energetic manner while enjoying the beauty of work and life.

Therefore, save for the above safety measures and training, the Group arranges regular body checks annually at the cost of the Group to care about the healthy development of employees. The body check comprehensively assesses the shape, function and quality of the body, including height, weight, blood lipid, blood pressure, lung capacity, medicine-related items, surgery-related items, cardiopulmonary and thyroid function, tumor markers and other indicators. Through such check-ups, employees are able to timely identify, prevent and seek treatment for their health issues so that they can stay healthy and fully engage in their work, enjoying their jobs and lives free of sadness and illness.

In order to popularize the knowledge on healthy living and raise employees' awareness of healthy lifestyles, we publish articles on physical and mental health in our corporate mailboxes from time to time, and popularize the knowledge on mental health. Such initiatives enable employees to gain a comprehensive understanding of the importance of a healthy lifestyle, and at the same time raise their awareness of disease prevention and control, and let them learn about the methods and techniques to develop healthy eating habits.

In addition, we have successively set up clubs of sports such as badminton, hiking and swimming within the Company, aiming to promote the normalization of healthy work and active life among our employees. We have also organized a number of highly participatory and effective competitions to stimulate the enthusiasm of our employees to be fit and healthy, so that every employee can have a strong body and a good mental outlook.

## Development and Training

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

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

According to the business needs and aptitudes of individuals and recommendations of their departments, the human resources department determines training activities. External professional training institutions or information companies are commissioned for employees, where necessary, to enhance their overall job qualifications and capabilities. During the reporting period, a total of 462 employees[i] of the Group completed training, with a total of 3,203 training hours. During the reporting period, the employee training rate by gender and function is as follows:

**Average training hours**

| | **2023** | 2022 | **Year-on-year (%)** |
|---|---|---|---|
| **By gender** | | | |
| Male | **8.04** | 9.14 | -12.04 |
| Female | **5.48** | 7.50 | -26.93 |
| **By Function** | | | |
| Senior Management | **5.86** | 6.89 | -14.95 |
| Middle Management | **6.16** | 8.29 | -25.69 |
| Supervisor | **10.29** | 11.80 | -12.80 |
| General staff | **6.55** | 8.10 | -19.14 |
| **Total** | **6.86** | 8.37 | -18.04 |

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

(i) Covering employees within the Reporting Boundary.

**Percentage of employees[(i)] trained**

| | **2023** | 2022 | **Year-on-year (%)** |
|---|---|---|---|
| **By gender** | | | |
| Male | **98.02%** | 80.84% | +21.25% |
| Female | **100%** | 76.01% | +31.56% |
| **By Function** | | | |
| Senior Management | **100%** | 100% | 0% |
| Middle Management | **96.00%** | 94.74% | +1.33% |
| Supervisor | **93.75%** | 93.18% | +0.61% |
| General staff | **100%** | 75.61% | +32.26% |
| **Total** | **98.93%** | 78.58% | +25.90% |

(i) Covering employees within the Reporting Boundary.

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

The Group has set up a book corner "any books". By creating a comfortable reading space, employees get interested in self-learning. Employees can not only enhance their knowledge but also foster communication between them.

## Labour Standards

**Prohibition of child labour and forced labour**

The Group resolutely resists the employment of child labour and forced labour. In the process of selecting candidates, recruitment interviews, and entry, relevant departments strictly follow the internal work process to avoid the employment of child labour and forced labour. The Group's standard recruitment process includes checking identity documents to verify age information, ensuring that new employees sign employment contracts voluntarily, etc. If child labour or forced labour is reported, we will terminate employment immediately, conduct an investigation to identify loopholes in the system and implement remedial measures to prevent a recurrence. The Group has established a whistle-blowing mechanism for identifying any accidental employment of child labour and forced labour. Employees can report anonymously and truthfully through a dedicated channel. The Group respects and complies with all laws and regulations relating to the prevention of child and forced labour in places where it operates. During the reporting period, the Group was not aware of any cases of non-compliance with relevant laws and regulations[5] in this context.

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

## OPERATIONAL EXCELLENCE

### Supply Chain Management

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

The Group proactively takes effective measures to regularly assess, control and supervise suppliers. During the reporting period, we maintained cooperation and mutual trust with 1,455 suppliers, including 461 in Hong Kong, 755 in Mainland China and 239 in other regions. The Group selects high-quality suppliers based on multi-dimensional performance, including on-site visits to shortlisted suppliers, online and telephone communications to ensure that they meet the Group's requirements. The scope of review covers production capacity, technical abilities, product quality, quality assurance capability, supply capacity, safety and environmental management qualifications, etc. In order to encourage suppliers to use more environmentally friendly products and services, suppliers with relevant green policies in reducing waste and protecting the environment are given priority in the assessment.

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

### Product Responsibility

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

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

*Product after-sales and maintenance process*

If it is necessary to recall the goods, the Group deals with the goods according to the chip-maker's judgment and the signed agency agreement, and provides assistance to the customer and the chip-maker. During the reporting period, 0% of total products sold or shipped had been subject to recalls for safety and health reasons, and the Group received a total of 11 complaints related to product quality, all of which have been followed up and resolved satisfactorily.

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

For intellectual property rights, in order to enhance employees' awareness of the importance of intellectual property rights, and prevent them from using unauthorised products inadvertently, the Group's monitoring system led by the Information Management Department regularly inspects the use of software within the Group to ensure that all purchased softwares are genuine. The Group is also actively expanding the ownership of intellectual property rights to support the interests of stakeholders. During the reporting period, the Group owned a total of 444 intellectual property rights. In view of this, the Group has not slackened its ethical requirements in the supply chain and only selects legally compliant manufacturers or suppliers to avoid being a sales channel for pirated goods.

The Group attaches great importance to the security and privacy of customer data and has set up a complete internal privacy protection mechanism to eliminate customer concerns and win customer trust, so that customers can complete the sales and purchase safely. Customer orders and personal information are processed and stored by a designated department, and unauthorised staff is not allowed to access or steal customer information. At the same time, the Group strictly complies with the laws and regulations[6] related to personal data privacy, and is not aware of any violation of privacy matters related to products and services.

### Integrity

As a leading chip distributor in China, Smart-Core Holdings is committed to creating a trading environment with fair competition and win-win cooperation. We believe that a transparent and ethical management system can help the Company enhance its operational conditions and play a critical role in long-term development in the future. To foster a fair and harmonious corporate culture, we have formulated a compliance management manual and established a whistle-blowing system to prevent insider trading and corruption within the Group. This enhances our risk management and integrity system, ensuring that all employees can maintain integrity and honesty both internally and publicly. The Group also informs employees via internal notices as necessary to avoid activities involving bribery and improper acceptance of advantages. Additionally, the Group clearly stipulates conducts that violate the rules and regulations. Individuals who use their position to take bribes or seek personal benefit and create economic losses to the Group of more than RMB1,000 are immediately reported to the appropriate authorities and held liable. Other conducts that violate rules include: using their positions to engage in the operation, share subscriptions, part-time activities of suppliers and customers (including relatives and their spouses) without permission; soliciting various types of advantages from customers and suppliers; accepting rebates, commissions, and other types of advantages from customers and suppliers, such as but not limited to gifts, monetary gifts, marketable securities, valuables, rebates, handling fees, gratitude fees, and other property, etc; failure to report and submit the advantages to the Group; and violation of the Group's Commitment of Integrity and self-discipline. Any act that violates the Group's usual procedures and is proven to be for personal gain is documented. If the total number of violations exceeds three times, it is considered a serious violation of the Group's management system and is severely punished. To maintain fairness and integrity at the organizational and individual levels, all corporate actions within the Group are carefully in alignment with legal requirements and social codes. During the reporting period, we provided anti-corruption awareness to our new recruits, so that they could understand the Group's commitment to integrity and related policies and sign a statement of commitment to provide integrity.

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

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[6] Please refer to the section headed "Laws and Regulations" for product responsibility-related laws and regulations.

During the reporting period, the Group was not aware of any non-compliance with laws and regulations[7] that have a significant impact on the Group relating to bribery, extortion, fraud and money laundering and was not involved in any corruption cases.

### Community Engagement

The development of Smart-Core Holdings is inseparable from the support of the local community. The Group focuses on creating a good community atmosphere, promoting the healthy development of the community, and making donations to the disadvantaged groups in the society to the extent of its ability. During the reporting period, the Group invested a total of HK$65,000 in social welfare agencies to support community investment and actively participated in public welfare activities, such as making donations to the Rehabilitation Centre of The Hong Kong Society for the Blind and supporting traditional Chinese medicine charity and golf tournament, etc. At the same time, the Group continued to focus on and vigorously promoted rehabilitation services and youth community services.

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

## APPLICABLE LAWS AND REGULATIONS

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

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

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

## PERFORMANCE DATA SUMMARY

| | | 2023 | 2022 |
|---|---|---|---|
| | **Resource Consumption** | | |
| | **Electricity (MWh)** | **440** | 456 |
| | Intensity (MWh/employee)[i] | **0.94** | 0.79 |
| | **Gasoline (Litre)** | **11,580.65** | 12,402.10 |
| | Intensity (Litre/employee)[i] | **24.80** | 21.42 |
| | **Water ($m^3$)** | **2.645.00** | 2,609.00 |
| | Intensity ($m^3$/employee)[i] | **5.66** | 4.51 |
| | **Packaging materials (tonnes)[8]** | **13.95** | 20.27 |
| | Intensity (tonnes/employee)[i] | **0.03** | 0.04 |
| | **Emissions** | | |
| | **Greenhouse Gas[9]** | | |
| | **Scope 1: Direct carbon emissions ($tCO_2e$)** | **28.41** | 30.47 |
| | Emission per capita ($tCO_2e$/employee)[i] | **0.06** | 0.05 |
| | Emission Percentage (%) | **8.81%** | 10.58% |
| | **Scope 2: Indirect carbon emissions ($tCO_2e$)** | **217.56** | 224.31 |
| | Emission per capita ($tCO_2e$/employee)[i] | **0.46** | 0.39 |
| **Environment performance** | Emission Percentage (%) | **67.45%** | 77.93% |
| | **Scope 3: Other indirect carbon emissions ($tCO_2e$)[10]** | **76.59** | 33.08 |
| | Emission per capita ($tCO_2e$/employee)[i] | **0.16** | 0.06 |
| | Emission Percentage (%) | **23.74%** | 11.49% |
| | **Total ($tCO_2e$)** | **322.56** | 287.86 |
| | **Exhaust gas** | | |
| | **Nitrogen oxides ($NO_x$) (kg)** | **13.36** | 8.20 |
| | Emission per capita (kg/employee)[i] | **0.03** | 0.01 |
| | **Sulphur oxides ($SO_x$) (kg)** | **0.17** | 0.18 |
| | Emission per capita (kg/employee)[i] | **0.0004** | 0.0003 |
| | **Particulate matter (kg)** | **1.14** | 0.65 |
| | Emission per capita (kg/employee)[i] | **0.0024** | 0.0011 |
| | **Waste** | | |
| | **Hazardous waste (tonnes)[11]** | **0.04** | 0.05 |
| | Per capita generation (tonnes/employee)[i] | **0.0001** | 0.00 |
| | **Non hazardous waste (tonnes)[12]** | **260** | 254 |
| | Per capita generation (tonnes/employee)[i] | **0.546** | 0.439 |

(i) Consumption, emission and generation per employee represents consumption, emission and generation per employee within the Reporting Boundary.

8 Packaging materials include plastic, paper and paper products.

9 Computation method of carbon emission adopts
- the "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong" formulated by Environmental Protection Department and Electrical and Mechanical Services Department
- 2019 Supplementary Template for Carbon Emission Reporting issued by the Ministry of Ecology and Environment of the PRC

10 Scope 3 Greenhouse Gas: Other indirect greenhouse gas emissions from companies include those from business air travel by employees, water treatment, and paper waste disposal. Carbon emissions from employee's business air travels are calculated in accordance with the International Civil Aviation Organisation (ICAO) Carbon Emission Calculator; carbon emissions from water treatment are calculated in accordance with "Research on Energy Consumption of China's Urban Water Supply System" issued by Tsinghua University and "Statistical analysis and quantitative identification of the law of energy consumption in urban sewage treatment plants in China" published by Tsinghua University and National Urban Water and Drainage Engineering Technology Research Center; carbon emissions from paper waste disposal are calculated in accordance with the Appendix II "Reporting Guidance on Environmental KPIs" published by the Hong Kong Stock Exchange.

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

12 Non hazardous waste includes general waste, wood products and kitchen waste.

| | | 2023 | 2022 |
|---|---|---|---|
| Staff[i] Distribution | **Total number of employees** | **467** | 579 |
| | **By gender** | | |
| | Male | **251 (53.75%)** | 308 (53.20%) |
| | Female | **216 (46.25%)** | 271 (46.80%) |
| | **By age** | | |
| | <25 | **126 (26.98%)** | 47 (8.12%) |
| | 25-34 | **216 (46.25%)** | 306 (52.85%) |
| | 35-44 | **93 (19.92%)** | 169 (29.19%) |
| | 45-54 | **19 (4.07%)** | 40 (6.91%) |
| | 55-64 | **13 (2.78%)** | 17 (2.94%) |
| | >64 | **0 (0.00%)** | 0 (0.00%) |
| | **By region** | | |
| | Hong Kong and other regions | **51 (10.92%)** | 42 (7.25%) |
| | Mainland China | **416 (89.08%)** | 537 (92.75%) |
| | **By employment category** | | |
| | Full Time | **464 (99.36%)** | 575 (99.31%) |
| | Part Time | **3 (0.64%)** | 4 (0.69%) |
| | **By education level** | | |
| | Doctor | **1 (0.21%)** | 0 (0.00%) |
| | Master | **24 (5.14%)** | 27 (4.66%) |
| | Undergraduate | **280 (59.96%)** | 339 (58.55%) |
| | Non-tertiary qualification | **128 (27.41%)** | 169 (29.19%) |
| | Non-tertiary qualification and below | **34 (7.28%)** | 44 (7.60%) |
| | **By function** | | |
| | Senior management | **7 (1.50%)** | 9 (1.56%) |
| | Middle management | **50 (10.70%)** | 38 (6.56%) |
| | Supervisor | **48 (10.28%)** | 44 (7.60%) |
| | General staff | **362 (77.52%)** | 488 (84.28%) |

(i) Covering employees within the Reporting Boundary.

| | | 2023 | 2022 |
|---|---|---|---|
| | **Employee Turnover Rate** | **53.96%** | 27.63% |
| | **By gender** | | |
| | Male | **51.59%** | 31.49% |
| | Female | **56.74%** | 23.25% |
| | **By age** | | |
| | <25 | **26.19%** | 46.81% |
| | 25-34 | **67.59%** | 32.35% |
| | 35-44 | **63.44%** | 20.71% |
| | 45-54 | **42.11%** | 7.50% |
| | 55-64 | **46.15%** | 5.88% |
| | >64 | **0.00%** | 0.00% |
| | **By region** | | |
| | Hong Kong and other regions | **60.78%** | 26.19% |
| | Mainland China | **53.13%** | 27.75% |
| **Staff[(i)] Distribution** | | | |
| | **New Hire Rate** | **29.98%** | 36.96% |
| | **By gender** | | |
| | Male | **29.37%** | 31.82% |
| | Female | **30.70%** | 42.80% |
| | **By age** | | |
| | <25 | **26.98%** | 87.23% |
| | 25-34 | **31.02%** | 43.46% |
| | 35-44 | **33.33%** | 21.30% |
| | 45-54 | **31.58%** | 5.00% |
| | 55-64 | **15.38%** | 11.76% |
| | >64 | **0.00%** | 0.00% |
| | **By region** | | |
| | Hong Kong and other regions | **31.37%** | 33.33% |
| | Mainland China | **29.81%** | 37.24% |

(i) Covering employees within the Reporting Boundary.

| | | 2023 | 2022 |
|---|---|---|---|
| Staff[i] Distribution | **Number of employees trained** | **462** | 455 |
| | **By gender** | | |
| | Male | **247** | 249 |
| | Female | **215** | 206 |
| | **By function** | | |
| | Senior management | **7** | 9 |
| | Middle management | **48** | 36 |
| | Supervisor | **45** | 41 |
| | General staff | **362** | 369 |
| | **Total training hours of employees (hours)** | **3,203** | 4,847 |
| Health and Safety | **Occupational Safety and Health Performance** | | |
| | Number of industrial accidents | **1** | 1 |
| | Lost days due to work injury | **117** | 98 |
| | Number of work related fatalities | **0** | 0 |
| | Total number of employees trained in occupational safety | **134** | 155 |
| | Total hours of occupational safety training | **69** | 80 |

(i) Covering employees within the Reporting Boundary.

## CONTENT INDEX

| KPIs | HKEX ESG Reporting Guide Requirements | | Section/Remarks |
|---|---|---|---|
| **A. Environmental** | | | |
| **Aspect A1: Emissions** | | | |
| **General Disclosure** | Information relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste:<br>(a) the policy; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer. | | Environmental Management |
| | **KPI A1.1** | The types of emissions and respective emissions data. | Greenhouse Gas and Air Emissions |
| | **KPI A1.2** | Direct (Scope 1) and energy Indirect (Scope 2) greenhouse gas emissions in total and, where appropriate, intensity. | Greenhouse Gas and Air Emissions |
| | **KPI A1.3** | Total hazardous waste generated and, where appropriate, intensity. | Performance Data Summary |
| | **KPI A1.4** | Total non-hazardous waste generated and, where appropriate, intensity. | Waste Management |
| | **KPI A1.5** | Description of emissions target(s) set and steps taken to achieve them. | Environmental Management; Waste Management |
| | **KPI A1.6** | Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them. | Environmental Management; Waste Management |

| KPIs | HKEX ESG Reporting Guide Requirements | | Section/Remarks |
|---|---|---|---|
| **Aspect A2: Use of Resources** | | | |
| **General Disclosure** | Policies on the efficient use of resources, including energy, water and other raw materials. | | Resources Consumption, The Environment and Natural Resources |
| | **KPI A2.1** | Direct and/or indirect energy consumption by type in total and intensity. | Resource Consumption |
| | **KPI A2.2** | Water consumption in total and intensity. | Resource Consumption |
| | **KPI A2.3** | Description of energy use efficiency target(s) set and steps taken to achieve them. | Environmental Management; The Environment and Natural Resources |
| | **KPI A2.4** | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them. | Environmental Management; Resource Consumption |
| | **KPI A2.5** | Total packaging materials used for finished products and, if applicable, with reference to per unit produced. | Resource Consumption |
| **Aspect A3: The Environment and Natural Resources** | | | |
| **General Disclosure** | Policies on minimising the issuers' significant impact on the environment and natural resources. | | The Environment and Natural Resources |
| | **KPI A3.1** | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | The Environment and Natural Resources |
| **Aspect A4: Climate Change** | | | |
| **General Disclosure** | Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer. | | Climate Change |
| | **KPI A4.1** | Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them. | Climate Change |

| KPIs | HKEX ESG Reporting Guide Requirements | | Section/Remarks |
|---|---|---|---|
| **B. Social** | | | |
| **Aspect B1: Employment** | | | |
| **General Disclosure** | Information relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare:<br>(a) the policy; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer. | | Talent Management, Employment and Labour Practices |
| | **KPI B1.1** | Total workforce by gender, employment type (e.g. full-time or part-time), age group and geographical region. | Talent Management |
| | **KPI B1.2** | Employee turnover rate by gender, age group and geographical region. | Performance Data Summary |
| **Aspect B2: Health and Safety** | | | |
| **General Disclosure** | Relating to providing a safe working environment and protecting employees from occupational hazards:<br>(a) the policy; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer. | | Occupational Health and Safety |
| | **KPI B2.1** | Number and rate of work-related fatalities occurred in each of the past three years including the reporting year. | Occupational Health and Safety |
| | **KPI B2.2** | Lost days due to work injury. | Performance Data Summary |
| | **KPI B2.3** | Description of occupational health and safety measures adopted, how they are implemented and monitored. | Occupational Health and Safety |
| **Aspect B3: Development and Training** | | | |
| **General Disclosure** | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | | Development and Training |
| | **KPI B3.1** | The percentage of employees trained by gender and employee category (e.g. senior management, middle management). | Development and Training |
| | **KPI B3.2** | The average training hours completed per employee by gender and employee category. | Development and Training |

| KPIs | HKEX ESG Reporting Guide Requirements | | Section/Remarks |
|---|---|---|---|
| **Aspect B4: Labour Standards** | | | |
| **General Disclosure** | For prevention of child or forced labour:<br>(a) the policy; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer. | | Labour Standards |
| | **KPI B4.1** | Description of measures to review employment practices to avoid child and forced labour. | Labour Standards |
| | **KPI B4.2** | Description of steps taken to eliminate such practices when discovered. | Labour Standards |
| **Aspect B5: Supply Chain Management** | | | |
| **General Disclosure** | Policies on managing environmental and social risks of the supply chain. | | Supply Chain Management |
| | **KPI B5.1** | Number of suppliers by geographical region. | Supply Chain Management |
| | **KPI B5.2** | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored. | Supply Chain Management |
| | **KPI B5.3** | Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored. | Supply Chain Management |
| | **KPI B5.4** | Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored. | Supply Chain Management |

| KPIs | HKEX ESG Reporting Guide Requirements | | Section/Remarks |
|---|---|---|---|
| **Aspect B6: Product Responsibility** | | | |
| **General Disclosure** | Relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress:<br>(a) the policy; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer. | | Product Responsibility |
| | **KPI B6.1** | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | Product Responsibility |
| | **KPI B6.2** | Number of products and service related complaints received and how they are dealt with. | Product Responsibility |
| | **KPI B6.3** | Description of practices relating to observing and protecting intellectual property rights. | Product Responsibility |
| | **KPI B6.4** | Description of quality assurance process and recall procedures. | Product Responsibility |
| | **KPI B6.5** | Description of consumer data protection and privacy policies, how they are implemented and monitored. | Product Responsibility |
| **Aspect B7: Anti-corruption** | | | |
| **General Disclosure** | In relation to prevention of bribery, extortion, fraud and money laundering:<br>(a) the policy; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer. | | Integrity |
| | **KPI B7.1** | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | Integrity |
| | **KPI B7.2** | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored. | Integrity |
| | **KPI B7.3** | Description of anti-corruption training provided to directors and staff. | Integrity |

| KPIs | HKEX ESG Reporting Guide Requirements | | Section/Remarks |
|---|---|---|---|
| **Aspect B8: Community Investment** | | | |
| **General Disclosure** | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | | Community Engagement |
| | **KPI B8.1** | Focus areas of contribution. | Community Engagement |
| | **KPI B8.2** | Resources contributed to the focus areas. | Community Engagement |

# CORPORATE GOVERNANCE REPORT

## CORPORATE CULTURE AND STRATEGY

### Corporate Culture

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

### Corporate Strategy

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

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix C1 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code of corporate governance. Except for code provision C.2.1 as disclosed below in this report, the Company has complied with the applicable code provisions of the CG Code during the year ended 31 December 2023. The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code.

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

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

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix C3 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiry of the Directors, and all Directors confirmed that they had fully complied with the Model Code during the year ended 31 December 2023.

## THE BOARD OF DIRECTORS

### Board Composition

As at the date of this report, the Board comprises eight members, of whom five are executive Directors and three are independent non-executive Directors. Directors who held office during the year ended 31 December 2023 and up to the date of this report are:

### Executive Directors

Mr. TIAN Weidong *(Chairman and Chief Executive Officer)*
Mr. WONG Tsz Leung *(Chief Financial Officer)*
Mr. LIU Hongbing
Mr. MAK Hon Kai Stanly
Mr. ZHENG Gang *(redesignated with effect from 4 September 2023)*

### Independent non-executive Directors

Dr. Tang Ming Je
Mr. ZHENG Gang *(redesignated as an executive director with effect from 4 September 2023)*
Ms. XU Wei
Dr. Xue Chun *(appointed with effect from 4 December 2023)*

The list of Directors and their roles and functions are posted on the websites of the Company and the Stock Exchange. The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 21 to 23 of this report. None of the Directors has any family, financial or business relations with each other.

During the year ended 31 December 2023 and up to the latest practicable date prior to the issue of this annual report, save for the period from 4 September to 3 December 2023 (both days inclusive) that the Board had only two independent non-executive Directors due to redesignation of an independent non-executive Director to an executive Director and the Board required time to identify a new independent non-executive Director, the Board has complied with rules 3.10(1) and 3.10(2) of the Listing Rules to have not less than three independent non-executive Directors and at least one of the independent non-executive Directors has the requisite professional qualification in accounting or relevant financial management experience. Save and except for the above disclosure, the Company has complied with rule 3.10A of the Listing Rules which stipulates that the number of independent non-executive Directors appointed by a listed company shall not be less than one-third of the Board.

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

### Board meetings

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

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

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

The attendance records of the Directors at the Board meeting held during the year ended 31 December 2023 are set out below:

| Name of Directors | Board Meetings attended | General Meeting attended |
|---|---|---|
| ***Executive Directors*** | | |
| Mr. Tian Weidong | 6/6 | 1/1 |
| Mr. Wong Tsz Leung | 6/6 | 1/1 |
| Mr. Liu Hongbing | 6/6 | 1/1 |
| Mr. Mak Hon Kai Stanly | 6/6 | 1/1 |
| Mr. Zheng Gang *(redesignated with effect from 4 September 2023)* | 2/2 | 0/0 |
| ***Independent non-executive Directors*** | | |
| Dr. Tang Ming Je | 6/6 | 1/1 |
| Mr. Zheng Gang *(redesignated as an executive director with effect from 4 September 2023)* | 4/4 | 1/1 |
| Ms. Xu Wei | 6/6 | 1/1 |
| Dr. Xue Chun *(appointed with effect from 4 December 2023)* | 0/0 | 0/0 |

### Chairman and Chief Executive Officer

Pursuant to code provision C.2.1 of the CG Code set out in Appendix C1 to the Listing Rules, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual.

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

### Appointment, Re-election and Removal

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

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

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

### Independent non-executive Director

The independent non-executive Directors are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, computer technology and business. Their skills, expertise and number in the Board ensure that strong independent views and judgment are brought in the Board's deliberation and that such views and judgment carry weight in the Board's decision-making process. Their presence and participation also enable the Board to maintain high standards of compliance in financial and other mandatory reporting requirements and provide adequate checks and balances to safeguard the interests of the Company and the shareholders of the Company.

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

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

### Directors' training and development

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

| Name of Director | Type(s) of training |
|---|---|
| Mr. TIAN Weidong | A&B |
| Mr. WONG Tsz Leung | A&B |
| Mr. LIU Hongbing | A&B |
| Mr. MAK Hon Kai, Stanly | A&B |
| Mr. ZHENG Gang | A&B |
| Dr. TANG Ming Je | A&B |
| Ms. XU Wei | A&B |
| Dr. XUE Chun | A&B |

A: attended seminars/conferences/forums

B: read newspapers, journals and updates relating to the economy, general business, corporate governance and directors' duties and responsibilities

All the Directors named above confirmed that they have complied with the Code Provision C.1.4 of the CG Code on Directors' continuous professional development during the year end 31 December 2023 by participating in appropriate continuous professional development activities, and reading materials relating to regulatory updates and handouts or reviewing the papers and circulars sent by the Company.

### Board diversity policy

The Board has a board diversity policy and the Company believes that the diversity will support the attainment of the Company's objective and enhance the value of the Company. The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural, educational background, professional experience, skills, knowledge and other qualities. The Nomination Committee of the Company will review the board diversity policy regularly to ensure its continued effectiveness. Pursuant to the amended Rule 13.92 of the Listing Rules (effective from 1 January 2023), the Stock Exchange will not regard a single gender board of directors as achieving member diversity. During the year ended 31 December 2023, the Board reviewed and discussed the above measurable objectives, including but not limited to skills, knowledge, professional experience and cultural and educational background, and agreed that these measurable objectives were achieved for the diversity of the Board which contributed to the corporate strategy and the business development of the Company.

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

## DIVERSITY AT WORKFORCE LEVEL

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

The gender ratio in the workforce of the Group, including senior management, as of 31 December 2023 is set out below:

| | As of 31 December 2023 | |
|---|---|---|
| **Indicator** | **Number of persons (note)** | **Percentage of total number of employees** |
| Male employees | **216** | **61%** |
| Female employees | **137** | **39%** |

Note: The number of employees of the Group as of 31 December 2023 did not include the employees of the Quiksol Group which was deconsolidated as at 31 December 2023. For details please refer to paragraph headed "Material acquisition and disposal of subsidiaries and associated companies" in the section headed "MANAGEMENT DISCUSSION AND ANALYSIS" above.

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

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

## Nomination policy

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

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

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

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

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

### Dividend policy

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

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

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

## CORPORATE GOVERNANCE DUTIES

The Board is responsible for performing the corporate governance duties according to the code provision A.2.1 of the CG Code, which includes:

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

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

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

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

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

## BOARD COMMITTEES

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

### Audit Committee

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

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

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

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

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

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

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

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

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

During the year ended 31 December 2023, individual attendance of each member of the Audit Committee is set out below:

| **Audit Committee member** | **Attended/Held** |
|---|---|
| Mr. Zheng Gang *(redesignated to an executive director with effect from 4 September 2023)* | 2/2 |
| Dr. Tang Ming Je | 3/3 |
| Ms. Xu Wei *(Chairlady)* | 3/3 |
| Dr. Xue Chun *(appointed on 4 December 2023)* | 0/0 |

### Remuneration committee

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

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

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

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

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

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

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

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

During the year ended 31 December 2023, individual attendance of each member of the Remuneration Committee is set out below:

| **Remuneration Committee member** | **Attended/Held** |
|---|---|
| Mr. Zheng Gang *(Chairman, redesignated to an executive director with effect from 4 September 2023)* | 1/1 |
| Mr. Tian Weidong | 3/3 |
| Dr. Tang Ming Je | 3/3 |
| Ms. Xu Wei *(Chairlady)* | 3/3 |

During the Reporting Period, no share option was granted under the Share Option Scheme and no awarded share was granted under the Share Award Scheme. Hence the Remuneration Committee was not required to review or approve any of the matters relating to the aforesaid share schemes.

### Nomination Committee

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

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

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

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

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

During the year ended 31 December 2023, individual attendance of each member of the Nomination Committee is set out below:

| **Nomination Committee member** | **Attended/Held** |
|---|---|
| Mr. Tian Weidong *(Chairman)* | 3/3 |
| Dr. Tang Ming Je | 3/3 |
| Ms. Xu Wei | 3/3 |

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended 31 December 2023 to ensure that the financial statements give a true and fair view of the Group's financial position and other financial disclosures. The Company provided all members of the Board with monthly updates on the Group's performance, financial positions and prospects to enable the Board to carry out an informed assessment of the Company's financial statements. The statement by the auditors of the Company regarding their responsibilities on the consolidated financial statements of the Company is set out on the Independence Auditor's Report on pages 80 to 83 of this annual report.

## Auditor's Remuneration

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

For the year ended 31 December 2023, the fees in respect of the audit and non-audit services provided to the Group by RSM Hong Kong and Messrs. Deloitte Touche Tohmatsu, is set out as follows:

| | **Fee** HK$'000 |
|---|---|
| Audit services | 1,680 |
| Non-audit services: | |
| Review of interim results | 475 |
| Tax advisory | 70 |
| Others | 100 |
| | 2,325 |

## Risk management and internal control

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

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

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

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

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

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

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

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

## COMPANY SECRETARY

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

Mr. Yau Chak Man was appointed as the company secretary of the Company on 15 March 2019. The biographical details of Mr. Yau is set out in the paragraph headed "Directors and Senior Management" on page 23 of this annual report.

During the year ended 31 December 2023, Mr. Yau took no less than 15 hours of relevant professional training.

## ARTICLES OF ASSOCIATION OF THE COMPANY

The second amended and restated Articles was adopted by the Company on 25 May 2023. The Articles has no change since the second amendment to the year ended 31 December 2023.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

The Company has established a number of channels for maintaining an on-going dialogue with its shareholders as follows:

(a) corporate communications such as annual report, interim reports and circulars are available on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.smartcore.com.hk.

(b) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;

(c) corporate information is made available on the Company's website;

(d) annual and extraordinary general meetings provide a forum for the shareholders to make comments and exchange views with the Directors and senior management; and

(e) the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, serves the shareholders in respect of share registration, dividend payment, change of shareholders' particulars and related matters.

Having considered the multiple channels of communication and engagement in place, the Board is satisfied that the shareholders' communication policy has been properly in place during the Year and is effective.

The Company continues to promoting investor relations and enhancing communication with the existing shareholders and potential investors. The Company welcomes suggestions from investors, stakeholders and the public. Enquiries to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong.

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

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT

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

## OPINION

We have audited the consolidated financial statements of Smart-Core Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 84 to 168, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss, 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 material accounting policy information.

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

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. 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. The key audit matter we identified is:

1. Impairment assessment of trade receivables

## KEY AUDIT MATTERS (Continued)

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| ***Impairment assessment of trade receivables*** | |
| We identified impairment of assessment of trade receivables as a key audit matter as the assessment of expected credit loss ("**ECL**") is highly subjective and requires significant management judgements and assumptions.<br><br>As disclosed in note 29 to the consolidated financial statements, the Group's carrying amount of trade receivables was approximately HK$645,755,000, with allowance for credit loss of approximately HK$14,255,000 as at 31 December 2023.<br><br>The Group's management engaged an independent qualified professional valuer to assist them to determine the ECL of the trade receivables.<br><br>As disclosed in note 6(c) to the consolidated financial statements, trade receivables with significant balances and credit-impaired are assessed for ECL individually and ECL on remaining trade receivables are assessed by using provision matrix which is based on aging of debtors as groupings of various debtors taking into consideration of the Group's historical default rates and forward-looking information that is reasonable and supportable available without under cost or effort. | Our procedures in relation to management's impairment assessment of the trade receivables included:<br><br>— Understanding and evaluating the management's internal control and process of impairment assessment of trade receivables, assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors;<br><br>— Evaluating the outcome of prior period assessment of impairment of trade receivables to assess the effectiveness of management's estimation process;<br><br>— Testing the integrity of information used by management to develop the provision matrix, including trade receivables aging analysis as at 31 December 2023, on a sample basis, by comparing individual items in the analysis with the relevant sales invoices and other supporting documents;<br><br>— Evaluating the competence, capabilities and objectivity of the independent qualified professional valuer and obtaining an understanding of their scope of work and terms of engagement; and<br><br>— Challenging the valuation technique and reasonableness of the significant inputs used by the management and the valuer in the valuations, including their identification of significant balances and credit-impaired receivables and, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix with reference to historical default rates and forward-looking information. |

## OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all 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 AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors 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 disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit Committee assists the directors in discharging their responsibilities 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. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

(Continued)

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

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

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

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

We communicate with the Audit Committee, 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, 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 Yam Tak Fai, Ronald.

**RSM Hong Kong**
*Certified Public Accountants*
29th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong
22 March 2024

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2023

| | Note | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|---|
| **Revenue** | 8 | **5,665,885** | 10,006,078 |
| Cost of sales | | **(5,224,423)** | (8,911,337) |
| **Gross profit** | | **441,462** | 1,094,741 |
| Other income | 9 | **43,679** | 21,289 |
| Other gains or losses, net | 11 | **(1,936)** | (44,142) |
| Reversals of impairment losses on trade receivables | | **4,951** | 30,305 |
| Research and development expenses | | **(32,514)** | (39,562) |
| Administrative expenses | | **(116,007)** | (144,732) |
| Selling and distribution expenses | | **(176,622)** | (380,454) |
| Share of result of an associate | 27 | **3,260** | 32 |
| Finance costs | 12 | **(57,032)** | (79,179) |
| **Profit before tax** | | **109,241** | 458,298 |
| Income tax expenses | 13 | **(16,736)** | (78,553) |
| **Profit for the year** | 14 | **92,505** | 379,745 |
| **Attributable to:** | | | |
| Owners of the Company | | **71,130** | 164,736 |
| Non-controlling interests | | **21,375** | 215,009 |
| | | **92,505** | 379,745 |
| **Earnings per share** | 18 | **HK$** | HK$ |
| Basic | | **15.08 cents** | 34.03 cents |
| Diluted | | **15.05 cents** | 33.89 cents |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| **Profit for the year** | **92,505** | 379,745 |
| **Other comprehensive income:** | | |
| *Items that may be reclassified to profit or loss:* | | |
| Exchange differences on translating foreign operations | **(2,857)** | (10,824) |
| Share of other comprehensive income of an associate | **(694)** | (2,022) |
| *Item that will not be reclassified to profit or loss:* | | |
| Fair value loss on financial asset through other comprehensive income (FVTOCI) | **(546)** | – |
| **Other comprehensive income for the year, net of tax** | **(4,097)** | (12,846) |
| **Total comprehensive income for the year** | **88,408** | 366,899 |
| **Attributable to:** | | |
| Owners of the Company | **67,200** | 152,119 |
| Non-controlling interests | **21,208** | 214,780 |
| | **88,408** | 366,899 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

| | Note | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 19 | **7,289** | 15,118 |
| Right-of-use assets | 20 | **8,143** | 21,728 |
| Goodwill | 21 | **20,159** | 29,894 |
| Intangible asset | 22 | **6,316** | 9,888 |
| Club debentures | 23 | **6,019** | 5,932 |
| Financial assets at FVTOCI | 24 | **41,378** | – |
| Financial assets at fair value through profit or loss (FVTPL) | 25 | **131,439** | 157,547 |
| Investment in associates | 27 | **113,881** | 30,668 |
| Deposits | 32 | **2,315** | 2,376 |
| Deferred tax assets | 40 | **3,033** | 5,882 |
| | | **339,972** | 279,033 |
| **Current assets** | | | |
| Inventories | 28 | **220,564** | 288,388 |
| Trade and bills receivables | 29 | **656,543** | 1,212,520 |
| Amount due from an associate | 30 | **39,090** | 118 |
| Deposits, prepayments and other receivables | 32 | **86,531** | 129,114 |
| Current tax assets | | **2,320** | – |
| Pledged bank deposits | 33 | **227,472** | 457,286 |
| Bank and cash balances | 33 | **167,805** | 494,405 |
| | | **1,400,325** | 2,581,831 |
| **Current liabilities** | | | |
| Trade payables | 34 | **265,560** | 350,674 |
| Contract liabilities | 35 | **18,978** | 33,575 |
| Loan from an associate | 31 | **78,039** | – |
| Amounts due to an associate | 30 | **3,514** | – |
| Amounts due to non-controlling shareholders of a subsidiary | 30 | **–** | 33,053 |
| Other payables and accrued charges | 36 | **63,368** | 167,130 |
| Lease liabilities | 37 | **6,817** | 14,100 |
| Bank and other borrowings | 38 | **394,141** | 1,025,519 |
| Current tax liabilities | | **–** | 21,917 |
| | | **830,417** | 1,645,968 |
| **Net current assets** | | **569,908** | 935,863 |
| **Total assets less current liabilities** | | **909,880** | 1,214,896 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

| | Note | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Lease liabilities | 37 | **1,872** | 8,937 |
| Bank and other borrowings | 38 | **3,595** | 4,707 |
| Deferred tax liabilities | 40 | **–** | 329 |
| | | **5,467** | 13,973 |
| **NET ASSETS** | | **904,413** | 1,200,923 |
| **Capital and reserves** | | | |
| Share capital | 41 | **38** | 38 |
| Reserves | 44(a) | **904,700** | 873,328 |
| Equity attributable to owners of the Company | | **904,738** | 873,366 |
| Non-controlling interests | | **(325)** | 327,557 |
| **TOTAL EQUITY** | | **904,413** | 1,200,923 |

Approved by the Board of Directors on 22 March 2024 and are signed on its behalf by:

**Tian Weidong**
*DIRECTOR*

**Wong Tsz Leung**
*DIRECTOR*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 (Note 41) | Share premium HK$'000 (Note 44(c)(i)) | Other reserve HK$'000 (Note 44(c)(ii)) | Statutory reserve HK$'000 (Note 44(c)(iii)) | Foreign currency translation reserve HK$'000 (Note 44(c)(vi)) | Treasury share reserve HK$'000 (Note 44(c)(iv)) | Share award reserves HK$'000 (Note 44(c)(v)) | Capital redemption reserves HK$'000 | Retained profits HK$'000 | Sub-total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| **At 1 January 2022** | 38 | 211,541 | 14,051 | 9,919 | 7,261 | (381) | – | 1 | 563,557 | 805,987 | 236,888 | 1,042,875 |
| Profit for the year | – | – | – | – | – | – | – | – | 164,736 | 164,736 | 215,009 | 379,745 |
| Other comprehensive income | – | – | – | – | (12,617) | – | – | – | – | (12,617) | (229) | (12,846) |
| Total comprehensive income for the year | – | – | – | – | (12,617) | – | – | – | 164,736 | 152,119 | 214,780 | 366,899 |
| Transfer to statutory reserves | – | – | – | 3,893 | – | – | – | – | (3,893) | – | – | – |
| Shares repurchased and not yet cancelled (note 41) | – | – | – | – | – | (28,418) | – | – | – | (28,418) | – | (28,418) |
| Dividend recognised as distribution (note 17) | – | (58,143) | – | – | – | – | – | – | – | (58,143) | – | (58,143) |
| Dividend declared to non-controlling interests | – | – | – | – | – | – | – | – | – | – | (122,850) | (122,850) |
| Recognised of equity-settled share-based expense (note 42) | – | – | – | – | – | – | 2,649 | – | – | 2,649 | – | 2,649 |
| Share vested under share award scheme | – | – | – | – | – | 1,632 | (1,370) | – | (262) | – | – | – |
| Acquisition of equity interest in a subsidiary | – | – | – | – | – | – | – | – | (828) | (828) | (1,261) | (2,089) |
| Changes in equity for the year | – | (58,143) | – | 3,893 | (12,617) | (26,786) | 1,279 | – | 159,753 | 67,379 | 90,669 | 158,048 |
| **At 31 December 2022** | 38 | 153,398 | 14,051 | 13,812 | (5,356) | (27,167) | 1,279 | 1 | 723,310 | 873,366 | 327,557 | 1,200,923 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

| | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 (Note 41) | Share premium HK$'000 (Note 44(c)(i)) | Other reserve HK$'000 (Note 44(c)(ii)) | Statutory reserve HK$'000 (Note 44(c)(iii)) | Foreign currency translation reserve HK$'000 (Note 44(c)(vi)) | Treasury share reserve HK$'000 (Note 44(c)(iv)) | Share award reserves HK$'000 (Note 44(c)(v)) | Capital redemption reserves HK$'000 | Financial assets at FVTOCI reserve HK$'000 | Retained profits HK$'000 | Sub-total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| **At 1 January 2023** | 38 | 153,398 | 14,051 | 13,812 | (5,356) | (27,167) | 1,279 | 1 | - | 723,310 | 873,366 | 327,557 | 1,200,923 |
| Profit for the year | - | - | - | - | - | - | - | - | - | 71,130 | 71,130 | 21,375 | 92,505 |
| Other comprehensive income | - | - | - | - | (3,384) | - | - | - | (546) | - | (3,930) | (167) | (4,097) |
| Total comprehensive income for the year | - | - | - | - | (3,384) | - | - | - | (546) | 71,130 | 67,200 | 21,208 | 88,408 |
| Transfer to statutory reserves | - | - | - | (74) | - | - | - | - | - | 74 | - | - | - |
| Shares repurchased and not yet cancelled (note 41) | - | - | - | - | - | (8,102) | - | - | - | - | (8,102) | - | (8,102) |
| Dividend recognised as distribution (note 17) | - | (28,262) | - | - | - | - | - | - | - | - | (28,262) | - | (28,262) |
| Dividend declared to non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | (145,349) | (145,349) |
| Recognised of equity-settled share-based expense (note 42) | - | - | - | - | - | - | 472 | - | - | - | 472 | - | 472 |
| Share vested under share award scheme | - | - | - | - | - | 918 | (685) | - | - | (233) | - | - | - |
| Disposal of partial interest in a subsidiary | - | - | - | - | 1 | - | - | - | - | 63 | 64 | 418 | 482 |
| Deconsolidation of a subsidiary (Note 45(a)) | - | - | - | - | - | - | - | - | - | - | - | (204,159) | (204,159) |
| Changes in equity for the year | - | (28,262) | - | (74) | (3,383) | (7,184) | (213) | - | (546) | 71,034 | 31,372 | (327,882) | (296,510) |
| **At 31 December 2023** | 38 | 125,136 | 14,051 | 13,738 | (8,739) | (34,351) | 1,066 | 1 | (546) | 794,344 | 904,738 | (325) | 904,413 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

| | Note | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **109,241** | 458,298 |
| Adjustments for: | | | |
| Finance costs | | **57,032** | 79,179 |
| Share of profit of an associate | | **(3,260)** | (32) |
| Interest income | | **(25,209)** | (4,221) |
| Depreciation of property, plant and equipment | | **4,222** | 3,449 |
| Depreciation of right-of-use assets | | **15,236** | 14,729 |
| Amortisation of intangible asset | | **3,572** | 2,392 |
| Gains on disposals of property, plant and equipment | | **(49)** | (295) |
| Gain on deconsolidation of a subsidiary | | **(2,859)** | – |
| Equity-settled share-based expense | | **472** | – |
| (Reversal of)/allowances for inventories | | **(30,205)** | 62,705 |
| Reversal of impairment losses on trade receivables, net | | **(4,951)** | (30,305) |
| Unrealised exchange loss, net | | **–** | (12,245) |
| Fair value changes on financial assets at fair value through profit or loss | | **(3,006)** | 3,438 |
| Gain on early termination of lease | | **–** | (33) |
| Operating profit before working capital changes | | **120,236** | 577,059 |
| Decrease in inventories | | **47,767** | 266,257 |
| Decrease in trade and bills receivables | | **379,278** | 507,658 |
| Decrease/(increase) in deposits, prepayments and other receivables | | **16,504** | (30,417) |
| Decrease/(increase) in amount due from an associate | | **118** | (118) |
| Decrease in trade payables | | **(77,704)** | (199,686) |
| Decrease in contract liabilities | | **(9,454)** | (674) |
| Decrease in accruals and other payables | | **(84,487)** | (116,033) |
| Increase in amounts due to an associate | | **3,514** | – |
| Cash generated from operations | | **395,772** | 1,004,046 |
| Income taxes paid | | **(34,123)** | (134,294) |
| Net cash generated from operating activities | | **361,649** | 869,752 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

| | Note | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | **25,209** | 6,390 |
| Net cash outflow on acquisition of subsidiaries | | **–** | (31,871) |
| Acquisition of additional equity interest in subsidiaries | | **–** | (2,089) |
| Purchase of financial assets at fair value through profit or loss | | **(11,115)** | – |
| Proceeds from disposals of financial assets at fair value through profit or loss | | **40,136** | – |
| Purchase of financial assets at fair value through other comprehensive income | | **(41,924)** | – |
| Purchases of property, plant and equipment | | **(5,820)** | (10,509) |
| Proceeds from disposals of property, plant and equipment | | **455** | 332 |
| Purchase of a club debenture | | **–** | (499) |
| Decrease/(increase) in pledged bank deposits | | **177,356** | (36,456) |
| Deconsolidation of a subsidiary | 45(a) | **(156,371)** | – |
| Net cash generated from/(used in) investing activities | | **27,926** | (74,702) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Bank and other borrowings raised | 45(c) | **4,503,666** | 10,331,962 |
| Repayment of bank and other borrowings | 45(c) | **(5,104,933)** | (10,925,920) |
| Payment on repurchase of shares | | **(8,102)** | (28,418) |
| Proceeds from disposal of partial interest in a subsidiary | | **482** | – |
| Dividend paid | | **(28,262)** | (58,143) |
| Dividend paid to non-controlling interests | | **(61,133)** | (89,797) |
| Repayment to a non-controlling shareholder of a subsidiary | | **–** | (4,363) |
| Principal elements of lease payment | 45(c) | **(15,697)** | (15,620) |
| Interest paid | | **(56,254)** | (78,151) |
| Interest on lease liabilities | | **(778)** | (1,028) |
| Proceeds from bills discounted | | **59,503** | 276,698 |
| Net cash used in financing activities | | **(771,508)** | (592,780) |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | | **(321,933)** | 202,270 |
| Effect of foreign exchange rate changes | | **(4,667)** | 1,204 |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | | **494,405** | 290,931 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | | **167,805** | 494,405 |

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company and registered in the Cayman Islands with limited liability under the Companies Act, Cap. 22 (Law 3 of 1961, as combined and revised) of the Cayman Islands. The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Its parent is Smart IC Limited, a private company incorporated in the British Virgin Islands and its ultimate controlling party is Mr. Tian Weidong ("**Mr. Tian**"). The addresses of registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries are engaged in the trading of electronic components.

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

## 2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). HKFRSs comprise Hong Kong Financial Reporting Standards ("**HKFRS**"); Hong Kong Accounting Standards ("**HKAS**"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

### (a) Application of new and revised HKFRSs

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2023 for the preparation of the consolidated financial statements:

| | |
|---|---|
| HKFRS 17 | Insurance Contracts |
| Amendments to HKAS 8 | Definition of Accounting Estimates |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction |
| Amendments to HKAS 12 | International Tax Reform — Pillar Two Model Rules — Amendments to HKAS 12 |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies |

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

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

### (a) Application of new and revised HKFRSs (Continued)

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

The Group has adopted Amendments to HKAS 1 and HKFRS Practice Statement 2 "Disclosure of Accounting Policies" for the first time in the current year. HKAS 1 "Presentation of Financial Statements" is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

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

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

The application of the amendments has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies set out in the consolidated financial statements.

**Impact on application of Amendments to HKAS 12 "International Tax Reform — Pillar Two Model Rules"**

The Group has adopted Amendments to HKAS 12 "International Tax Reform — Pillar Two Model Rules" for the first time in the current year. HKAS 12 is amended to add the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (the "**Pillar Two legislation**"). The amendments require that entities apply the amendments immediately upon issuance and retrospectively. The amendments also require that entities to disclose separately its current tax expense/income related to Pillar Two income taxes in periods which the Pillar Two legislation is in effect, and the qualitative and quantitative information about its exposure to Pillar Two income taxes in periods in which the Pillar Two legislation is enacted or substantially enacted but not yet in effect in annual reporting periods beginning on or after 1 January 2023.

The Group is yet to apply the temporary exception during the current year because the Group's entities are operating in jurisdictions where the Pillar Two legislation has not yet been enacted or substantially enacted. The Group will disclose known or reasonably estimated information that helps users of financial statements to understand the Group's exposure to Pillar Two income taxes in the Group's consolidated financial statements when the Pillar Two legislation is enacted or substantially enacted and will disclose separately current tax expense/income related to Pillar Two income taxes when it is in effect.

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

### (b) New and revised HKFRSs in issue but not yet effective

The Group has not applied any new standard, amendments to standards and interpretation that have been issued but are not yet effective:

| | **Effective for accounting periods beginning on or after** |
|---|---|
| Amendments to HKAS 1 — Classification of Liabilities as Current or Non-current | 1 January 2024 |
| Amendments to HKAS 1 — Non-current Liabilities with Covenants | 1 January 2024 |
| Amendments to HKFRS 16 — Lease Liability in a Sales and Leaseback | 1 January 2024 |
| Hong Kong Interpretation 5 (Revised) Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ("**HK Int 5 (Revised)**") | 1 January 2024 |
| Amendments to HKAS 7 and HKFRS 7 — Supplier Finance Arrangements | 1 January 2024 |
| Amendments to HKAS 21 — Lack of Exchangeability | 1 January 2025 |
| Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined by the HKICPA |

Except for the amendments to standards mentioned below, the directors of the Company anticipate that the application of all other amendments to HKFRSs will not have material impact on the consolidated financial statements in the foreseeable future.

**Amendments to HKAS 1 "Classification of Liabilities as Current or Non-current" and related amendments to Hong Kong Interpretation 5 (the "2020 Amendments") and Amendments to HKAS 1 "Non-current Liabilities with Covenants" (the "2022 Amendments")**

The 2020 Amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

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

(ii) Specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that the classification should not be affected by management intentions or expectations to settle the liability within 12 months.

For rights to defer settlement for at least twelve months from reporting date which are conditional on the compliance with covenants, the requirements introduced by the 2020 Amendments have been modified by the 2022 Amendments. The 2022 Amendments specify that only covenants with which an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date. Covenants which are required to comply with only after the reporting period do not affect whether that right exists at the end of the reporting period.

In addition, the 2022 Amendments specify the disclosure requirements about information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period, if an entity classifies liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting period.

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

### (b) New and revised HKFRSs in issue but not yet effective (Continued)

**Amendments to HKAS 1 "Classification of Liabilities as Current or Non-current" and related amendments to Hong Kong Interpretation 5 (the "2020 Amendments") and Amendments to HKAS 1 "Non-current Liabilities with Covenants" (the "2022 Amendments")** (Continued)

The 2022 Amendments also defer the effective date of applying the 2020 Amendments to annual reporting periods beginning on or after 1 January 2024. The 2022 Amendments, together with the 2020 Amendments, are effective for annual reporting periods beginning on or after 1 January 2024, with early application permitted. If an entity applies the 2020 Amendments for an earlier period after the issue of the 2022 Amendments, the entity should also apply the 2022 Amendments for that period.

Based on the Group's outstanding liabilities as at 31 December 2023, the application of the 2020 and 2022 Amendments will not result in reclassification of the Group's liabilities.

**Amendments to HKAS 7 and HKFRS 7 "Supplier Finance Arrangements"**

The amendments add a disclosure objective to HKAS 7 Cash flow statements stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, HKFRS 7 Financial Instruments: Disclosures was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk.

The term "supplier finance arrangements" is not defined. Instead, the amendments describe the characteristics of an arrangement for which an entity would be required to provide the information.

To meet the disclosure objective, an entity will be required to disclose in aggregate for its supplier finance arrangements:

(i) The terms and conditions of the arrangements;

(ii) The carrying amount and associated line items presented in the entity's statement of financial position, of the liabilities that are part of the arrangements, and the non-cash changes in the carrying amounts of these financial liabilities;

(iii) The carrying amount, and associated line items for which the suppliers have already received payment from the finance providers;

(iv) Ranges of payment due dates for both those financial liabilities that are part of a supplier finance arrangement and comparable trade payables that are not part of a supplier finance arrangement; and liquidity risk information.

The amendments, which contain specific transition reliefs for the first annual reporting period in which an entity applies the amendments, are applicable for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted.

The application of the amendments is not expected to have impact on the financial position or performance of the Group but may affect the disclosures of liabilities, cash flows and the Group's exposure to liquidity risk related to the supplier finance arrangements entered into by the Group. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. certain financial instruments that are measured at fair value).

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The material accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated foreign currency translation reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

### (a) Consolidation (Continued)

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

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment loss, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale). Cost includes direct attributable costs of investments. The results of subsidiaries are accounted for by the Company on the basis of dividend received or receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### (b) Goodwill

Goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

### (c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill which is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

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

The Group's share of an associate's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's entire carrying amount of that associate (including goodwill) and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

### (d) Foreign currency translation

#### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is also the Company's presentation currency. The functional currencies of the Group's principal operating subsidiaries are United States dollars ("**US$**") and Renminbi ("**RMB**") respectively.

#### (ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

#### (iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

— Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities and of borrowings are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

### (e) Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

| | |
|---|---|
| Leasehold improvements | Over the lease term |
| Furniture and fixtures | 3–5 years |
| Motor vehicles | 5 years |

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

### (f) Intangible assets

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Amortisation is calculated on a straight-line basis over their estimated useful lives of 5 years.

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

### (g) Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

### (g) Leases (Continued)

**The Group as lessee**

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. Lease payments to be made under reasonably certain extension options are also included in the measurement of the lease liability. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held, which does not have recent third-party financing, and

- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

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

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

## 4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

### (g) Leases (Continued)

**The Group as lessee** (Continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("**lease modification**") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

### (h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The costs of purchased inventory are determined after deducting purchase discounts. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

### (i) Recognition and derecognition of financial instruments

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

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

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

### (j) 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 measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

**Debt investments**

Debt investments held by the Group are classified into one of the following measurement categories:

— amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

— FVTOCI — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

— FVTPL if the investment does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

**Equity investments**

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVTOCI, are recognised in profit or loss as other income.

### (k) Trade and other receivables

A receivable is recognised when the group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method less allowance for credit losses.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

### (l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL.

### (m) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

### (n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### (o) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (p) Equity instruments

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

### (q) Shares held for employee share scheme

Where the Group purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Company as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Company.

Shares held by the Trustee are disclosed as treasury shares and deducted from contributed equity.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

### (r) Revenue and other income

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue from the sales of electronic components is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

Dividend income is recognised when the shareholders' rights to receive payment are established.

### (s) Employee benefits

#### (i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

The Group operates various post-employment schemes, including defined contribution pension plans.

#### (ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

#### (iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

### (t) Share-based payments

The Group issues equity-settled share-based payments to certain directors and employees. Equity-settled share-based payments are measured at the fair value (excluding the effect of non-market based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

### (u) Borrowing costs

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

### (v) Taxation

Income tax represents the sum of the current tax and deferred tax.

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated 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 and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of transaction does not give rise to equal taxable and deductible temporary differences.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

### (v) Taxation (Continued)

The measurement of deferred tax assets and liabilities 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.

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.

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 and the Group intends to settle its current tax assets and liabilities on a net basis, or to realise the asset and settle the liability simultaneously.

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

### (w) Research and development expenditure

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

### (x) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating units to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating units.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating units. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/CGUs whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating units. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

### (y) 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 or at FVTOCI, trade and bills receivables, other receivables, pledged bank deposits and bank and cash balances. 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 ECL for trade and bills 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 recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

**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 at the reporting date with the risk of a default occurring on the financial instrument 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, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information where appropriate 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;

— significant deterioration in external market indicators of credit risk for a particular financial instrument;

— 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;

## 4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

### (y) Impairment of financial assets (Continued)

**Significant increase in credit risk** (Continued)

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

— 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 90 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 financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(i) the financial instrument has a low risk of default,

(ii) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

(iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset 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.

**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 counterparty; 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).

## 4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

### (y) Impairment of financial assets (Continued)

**Definition of default** (Continued)

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

**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 counterparty;

— a breach of contract, such as a default or past due event;

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

— it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or

— the disappearance of an active market for that financial asset because of financial difficulties.

**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, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

**Measurement and recognition of ECL**

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.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

### (y) Impairment of financial assets (Continued)

**Measurement and recognition of ECL** (Continued)

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, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

### (z) Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

(B) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

### (aa) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

### (bb) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

In applying the Group's accounting policies, which are described in note 4, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make 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.

### Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgement that has the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

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

**(a) Lost of control over Quiksol International HK Pte Limited and its subsidiaries**

During the year ended 31 December 2018, the Group acquired a 25% ownership stake in Quiksol International HK Pte Limited ("**Quiksol HK**"). As part of the acquisition, a shareholders' agreement was established among the Group, Quiksol HK, and the other shareholders (the "**Shareholders agreement**"). This Shareholders agreement granted the Group certain rights, including the ability to appoint a majority of representatives on the board of directors of Quiksol HK, as well as veto rights concerning specific decisions and actions made by the board and shareholders that pertain to the activities of Quiksol HK.

The management concluded that although the Group had only 25% ownership interest in Quiksol HK, the Group had the rights and the unilateral ability to direct the relevant activities of Quiksol HK and therefore concluded that the Group obtained control over Quiksol HK and its subsidiaries ("**Quiksol Group**").

On 31 December 2023, following (i) the resignation of one of the representatives of the Group in Quiksol HK and a new director was appointed by the other Quiksol HK shareholders, the Group lost the majority representatives in the board of Quiksol HK, and (ii) the amendments of the Shareholders Agreement and articles of association of Quiksol HK (collectively, the "**Amended Documents**"), pursuant to which, the Group no longer had the Veto Rights, the directors advise that the Group had lost control of Quiksol Group.

Hence, based on the fact that the Group only holds 25% equity interest in Quiksol HK and the Group did not have board control nor had any Veto Rights, the Group decided to deconsolidate the financial statements of the Quiksol Group from the Group's consolidated financial statements with effect from 31 December 2023 in accordance with HKFRS. From 31 December 2023 onward, the Quiksol Group will be accounts for as an associate of the Group.

### Key sources of estimation uncertainty

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, are discussed below.

**(a) Impairment assessment of trade receivables**

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

The Group uses practical expedient in estimating ECL on remaining trade receivables using a provision matrix. The provision rates are based on aging of debtors as groupings of various debtors taking into consideration the Group's historical default rates and forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 6(c).

**(b) Allowance for slow-moving inventories**

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed. Reversal of allowance for slow-moving inventories of HK$30,205,000 (2022: allowance of HK$62,705,000) was made for the year ended 31 December 2023.

## 6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### (a) Foreign currency risk

The group entities have foreign currency denominated monetary assets and monetary liabilities which expose the Group to foreign currency risk. The directors of the Company believe the Group does not have significant foreign exchange exposures and will consider the use of foreign exchange forward contracts to reduce the currency exposures in case the foreign exchange exposures become significant.

The carrying amounts of the foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

| **The Group** | **Assets** | | **Liabilities** | |
|---|---|---|---|---|
| | **2023 HK$'000** | 2022 HK$'000 | **2023 HK$'000** | 2022 HK$'000 |
| HK$ | **4,522** | 13,676 | **4,503** | 2,171 |
| RMB | **1,691** | 1,525 | **–** | – |
| Japanese Yen ("**JPY**") | **4,407** | – | **–** | – |

| **Inter-company balances** | **Assets** | | **Liabilities** | |
|---|---|---|---|---|
| | **2023 HK$'000** | 2022 HK$'000 | **2023 HK$'000** | 2022 HK$'000 |
| US$ | **88,089** | 53,862 | **3,197** | 87,363 |
| HK$ | **34,665** | – | **74,503** | – |
| RMB | **511** | 42,800 | **48,486** | 50,510 |
| JPY | **5,097** | 13,769 | **–** | – |
| Taiwan New Dollars ("**TWD**") | **690** | 12,592 | **5,610** | 2,065 |

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

The following table details the Group's sensitivity to a 5% (2022: 5%) increase and decrease in US$ against RMB. 5% (2022: 5%) is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items including the bank balances and pledged bank deposits and inter-company balances and adjusts their translation at the end of the reporting period for a 5% (2022: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where US$ weakens 5% (2022: 5%) against RMB, JPY and TWD or increase in post-tax profit where RMB (i.e. functional currency of certain subsidiaries) weakens 5% against US$. For a 5% (2022: 5%) strengthening of US$ against the relevant currencies or a 5% strengthening of RMB against US$, there would be an equal and opposite impact on the profit.

## 6. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Foreign currency risk (Continued)

| The Group | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| RMB | **71** | 64 |
| JPY | **184** | – |

| Inter-company balances | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| US$ | **3,545** | (1,398) |
| RMB | **(2,018)** | (163) |
| JPY | **213** | 575 |
| TWD | **(205)** | 440 |

The directors of the Company considered the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

### (b) Price risk

The Group is exposed to price risk through its investments in life insurance policies, unlisted unit trust funds, unlisted limited partnerships and unlisted equity securities. The directors of the Company manage this exposure by maintaining a portfolio of investments with different risks. The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

If the prices of the respective investments in life insurance policies had been 5% (2022: 5%) higher/lower, profit for the year ended 31 December 2023 would increase/decrease by HK$5,303,000 (2022: HK$4,748,000) as a result of the changes in fair value of investments in life insurance policies.

No sensitivity analysis is presented for the investments in unlisted limited partnerships and unlisted equity securities as the management considers that the Group's exposure to other price risk from investments in unlisted limited partnerships and unlisted equity securities is insignificant.

In the opinion of directors of the Company, the sensitivity analysis is not representative of the Group's price risk as it only reflects the impact of price changes to investments in life insurance policies at the end of the year but not the exposure during the year.

## 6. FINANCIAL RISK MANAGEMENT (Continued)

### (c) Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade and bills receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

**Trade and bills receivables**

Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

In addition, management of the Group engaged an independent qualified professional valuer to assist them to determine the impairment assessment under ECL model on trade balances and bills receivables individually or based on provision matrix. Except for debtors with significant outstanding balances and credit-impaired, which are assessed for impairment individually, the remaining trade and bills receivables are grouped under a provision matrix based on shared credit-risk characteristics by reference to repayment histories for recurring customers and current past due exposure for the new customers. Reversal of impairment losses of HK$4,951,000 (2022: HK$30,305,000) is recognised during the year. Details of the quantitative disclosures are set out below in this note.

The Group has concentration of credit risk as 46.0% (2022: 49.8%) of the total trade and bills receivables was due from the Group's top five outstanding balances. The major customers of the Group are mainly leading brand-name consumer electronic product manufacturing companies in the PRC and electronic product trading companies in Hong Kong. In order to minimise the credit risk of trade receivables, the management of the Group delegated a team responsible for determination of credit limits and credit approvals.

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

## 6. FINANCIAL RISK MANAGEMENT (Continued)

### (c) Credit risk (Continued)

**Trade and bills receivables** (Continued)

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relations to its operation. The following table provides information about the exposure to credit risk for trade and bills receivables which assessed based on provision matrix within lifetime ECL (not credit-impaired). Debtors with significant outstanding balances or credit-impaired with gross carrying amounts of HK$415,245,000 and HK$11,289,000 respectively as at 31 December 2023 (31 December 2022: HK$787,325,000 and HK$14,276,000) were assessed individually.

| Gross carrying amount | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| Internal credit rating | Average loss rate % | Trade and bills receivables HK$'000 | Credit loss allowance HK$'000 | Average loss rate % | Trade and bills receivables HK$'000 | Credit loss allowance HK$'000 |
| **A. Provision matrix** | | | | | | |
| — Current (not past due) | **0.12** | **203,473** | **246** | 1.38 | 273,539 | 3,787 |
| —1–30 days | **0.08** | **27,868** | **23** | 1.40 | 93,071 | 1,304 |
| —31–60 days | **0.22** | **8,938** | **19** | 1.75 | 30,712 | 539 |
| — 61–90 days | **0.07** | **750** | **1** | 3.01 | 24,765 | 745 |
| — More than 90 days | **53.59** | **3,325** | **1,782** | 4.81 | 12,560 | 603 |
| **B. Individual assessment** | **0.24** | **415,245** | **985** | 0.31 | 787,325 | 2,474 |
| **C. Credit impaired** | **100.00** | **11,289** | **11,289** | 100.00 | 14,276 | 14,276 |
| | | **670,888** | **14,345** | | 1,236,248 | 23,728 |

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

During the year ended 31 December 2023, the Group reversed HK$2,359,000 (2022: HK$4,972,000) net impairment allowance for trade receivables based on provision matrix. Net reversal of impairment allowance of HK$2,592,000 (2022: HK$25,333,000) were made on debtors with significant balances and credit-impaired debtors respectively.

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

## 6. FINANCIAL RISK MANAGEMENT (Continued)

### (c) Credit risk (Continued)

**Trade and bills receivables** (Continued)

| | Lifetime ECL (not credit-impaired) HK$'000 | Lifetime ECL (credit-impaired) HK$'000 | Total HK$'000 |
|---|---|---|---|
| **At 1 January 2022** | 49,614 | 3,900 | 53,514 |
| Changes due to trade and bills receivables recognized at 1 January 2022: | | | |
| — Impairment losses reversed | (49,005) | – | (49,005) |
| Newly originated trade and bills receivables | 8,324 | 10,376 | 18,700 |
| Exchange adjustments | 519 | – | 519 |
| **At 31 December 2022** | **9,452** | **14,276** | **23,728** |
| Changes due to trade and bills receivables recognized at 1 January 2022: | | | |
| — Impairment losses reversed | **(9,347)** | **(1,990)** | **(11,442)** |
| Newly originated trade and bills receivables | **5,501** | **885** | **6,491** |
| Written off of bad debts | **(1,168)** | **(795)** | **(1,963)** |
| Deconsolidation of a subsidiary | **(1,343)** | **(885)** | **(2,228)** |
| Exchange adjustments | **(39)** | **(202)** | **(241)** |
| **At 31 December 2023** | **3,056** | **11,289** | **14,345** |

**Deposits and other receivables**

For deposits and other receivables, the directors of the Company make periodic individual assessment on the recoverability of deposits and other receivables based on quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12 months ECL. The Group performs impairment assessment under ECL model on outstanding balances individually. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

No ECL has been recognised for deposits and other receivables as at 31 December 2023 and 31 December 2022.

**Pledged bank deposits/bank balances**

The credit risks on bank balances and pledged bank deposits are limited because the counterparties are reputable banks and financial institutions with high credit ratings assigned by international credit-rating agencies in the PRC and Hong Kong. The Group assessed 12 months ECL for bank balances and pledged bank deposits by reference to information relating to average loss rate of respective credit rating grades published by external credit rating agencies.

Based on the average loss rates, the ECL on bank balances and pledged bank deposits is considered to be insignificant.

## 6. FINANCIAL RISK MANAGEMENT (Continued)

### (c) Credit risk (Continued)

**Amount due from an associate**

The Group assessed lifetime ECL for an amount due from an associate by reference to repayment history. The directors of the Company consider that the ECL on an amount due from an associate to be insignificant.

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

| Internal credit rating | Description | Trade and bills receivables/amount due from an associate | Other financial assets |
|---|---|---|---|
| Low risk | The counterparty has a low risk of default and does not have any past-due amounts | Lifetime ECL — not credit-impaired | 12m ECL |
| Watch list | Debtor frequently repays after due dates but usually settle in full | Lifetime ECL — not credit-impaired | 12m ECL |
| Doubtful | There have been significant increases in credit risk since initial recognition through information developed internally | Lifetime ECL — not credit-impaired | Lifetime ECL — not credit-impaired |
| Loss | There is evidence indicating the asset is credit-impaired | Lifetime ECL — credit-impaired | Lifetime ECL — credit-impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written off | Amount is written off |

## 6. FINANCIAL RISK MANAGEMENT (Continued)

### (c) Credit risk (Continued)

The table below details the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

| | Notes | External credit rating | Internal credit rating | 12m or lifetime ECL | 2023 Gross carrying amount HK$'000 | HK$'000 | 2022 Gross carrying amount HK$'000 | HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Financial assets at amortised cost** | | | | | | | | |
| Trade and bills receivables | 29 | N/A | Low risk | Lifetime ECL (provision matrix) | **244,354** | | 434,647 | |
| | | | Low risk | Lifetime ECL (individual assessment) | **415,245** | | 787,325 | |
| | | | Loss | Credit-impaired | **11,289** | | 14,276 | |
| | | | | | | **670,888** | | 1,236,248 |
| Deposits and other receivables | 32 | N/A | Low risk | 12m ECL | | **3,101** | | 4,865 |
| Amount due from an associate | 30(a) | N/A | Low risk | Lifetime ECL — not credit-impaired | | **39,090** | | 118 |
| Pledged bank deposits | 33 | Aa3 to B2 | N/A | 12m ECL | | **227,472** | | 457,286 |
| Cash and cash equivalents | 33 | Aa3 to B2 | N/A | 12m ECL | | **167,805** | | 494,405 |
| | | | | | | **1,108,356** | | 2,192,922 |

For the purpose of internal credit risk management, the Group uses the repayment history or other relevant information to assess whether credit risk has increased significantly since initial recognition. At 31 December 2023, the balance of other receivables, refundable deposits and amount due from an associate are not past due and based on the historical default rates of these balances are considered as low risk.

## 6. FINANCIAL RISK MANAGEMENT (Continued)

### (d) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents as well as undrawn banking facilities deemed adequate by the directors of the Company to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The directors of the Company monitors the utilisation of bank borrowing and ensure compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2023, the Group has available unutilised short-term bank loan facilities (excluding stand by letter of credit) of HK$2,792,000,000 (2022: HK$2,067,600,000).

The following table details the Group's remaining contractual maturity for its financial liabilities which has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are variable rates, the undiscounted amount is derived from weighted average interest rate at the end of the reporting period.

| | Weighted average effective interest rate | Repayable on demand or less than 3 months | 3 months to 1 year | 1 year to 2 years | 2 years to 5 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **At 31 December 2023** | | | | | | | |
| Trade payables | **–** | **265,560** | **–** | **–** | **–** | **265,560** | **265,560** |
| Other payables | **–** | **1,287** | **–** | **–** | **–** | **1,287** | **1,287** |
| Bank and other borrowings | | | | | | | |
| — variable rates | **6.53** | **345,128** | **776** | **1,117** | **2,796** | **349,817** | **343,916** |
| — fixed rates | **4.45** | **29,319** | **25,192** | **–** | **–** | **54,511** | **53,820** |
| Loan from an associate | **6.00** | **79,209** | **–** | **–** | **–** | **79,209** | **78,039** |
| Amount due to an associate | **–** | **3,514** | **–** | **–** | **–** | **3,514** | **3,514** |
| | | **724,017** | **25,968** | **1,117** | **2,796** | **753,898** | **746,136** |
| Lease liabilities | **3.94** | **2,792** | **4,198** | **1,892** | **–** | **8,882** | **8,689** |
| **At 31 December 2022** | | | | | | | |
| Trade payables | – | 350,674 | – | – | – | 350,674 | 350,674 |
| Other payables | – | 10,269 | – | – | – | 10,269 | 10,269 |
| Bank and other borrowings | | | | | | | |
| — variable rates | 3.28 | 964,230 | 19,689 | – | – | 983,919 | 975,681 |
| — fixed rates | 4.37 | 13,433 | 37,548 | 3,252 | 1,909 | 56,142 | 54,545 |
| Amounts due to non-controlling shareholders of a subsidiary | – | 33,053 | – | – | – | 33,053 | 33,053 |
| | | 1,371,659 | 57,237 | 3,252 | 1,909 | 1,434,057 | 1,424,222 |
| Lease liabilities | 4.17 | 3,745 | 10,599 | 7,013 | 2,511 | 23,868 | 23,037 |

## 6. FINANCIAL RISK MANAGEMENT (Continued)

### (d) Liquidity risk (Continued)

Bank and other borrowings with a repayment on demand clause is included in the "repayable on demand or less than 3 months" time band in the above maturity analysis. At 31 December 2023, the aggregate carrying amount of these bank and other borrowings amounted to approximately HK$368,304,000 (2022: HK$973,006,000). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the bank will exercise their discretionary right to demand immediate repayment. The directors of the Company believe that such bank and other borrowings of the Group will be repaid after the end of reporting period in accordance with the scheduled repayment dates set out in the borrowing agreements.

For the purpose of managing liquidity risk, the directors of the Company reviews the expected cash flows information of the Group's bank and other borrowings with a repayment on demand clause based on the scheduled repayment dates set out in the borrowing agreements as set out in the table below:

| | Weighted average effective interest rate | Less than 3 months | 3 months to 1 year | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Bank and other borrowings** | | | | | |
| **At 31 December 2023** | **6.13** | **366,496** | **5,657** | **372,153** | **368,304** |
| At 31 December 2022 | 3.23 | 883,110 | 97,752 | 980,862 | 973,006 |

### (e) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank and other borrowings.

The Group is also exposed to cash flow interest rate risk in relation to life insurance policies, bank balances, variable-rate pledged bank deposits, unlisted unit trust funds and bank borrowings.

The management has considered the Group's exposure to cash flow interest rate risk in relation to variable-rate pledged bank deposits and bank balances to be limited because the current market interest rates on general deposits are relatively low and stable.

The Group's exposure to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate is mainly concentrated on the fluctuation of HIBOR, SOFR, and LPR arising from the Group's bank borrowings. The Group currently does not have interest rate risk hedging policy. However, the directors of the Company closely monitor the exposure to future cash flow interest rate risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

The sensitivity analyses below have been determined based on the exposure to interest rates for investments of life insurance policies, unlisted unit trust funds and bank borrowings for the years ended 31 December 2023 and 2022. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2022: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents directors' assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points (2022: 50 basis points) higher and other variables were held constant, profit of the year would be affected as follows. For a 50 basis points (2022: 50 basis points) lower, there would be an equal and opposite impact on the profit.

## 6. FINANCIAL RISK MANAGEMENT (Continued)

### (e) Interest rate risk (Continued)

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Decrease in profit for the year | **(1,108)** | (3,442) |

The directors of the Company considered the sensitivity analysis is unrepresentative of the interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

### (f) Categories of financial instruments at 31 December

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| **Financial assets:** | | |
| Financial assets measured at FVTPL | **131,439** | 157,547 |
| Financial assets measured at FVTOCI | **41,378** | – |
| Financial assets measured at amortised cost | **1,096,328** | 2,169,194 |
| **Financial liabilities:** | | |
| Financial liabilities at amortised cost | **808,217** | 1,424,222 |
| Lease liabilities | **8,689** | 23,037 |

### (g) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

### (h) Transfer of financial assets

The following were the Group's trade receivables as at 31 December 2023 that were transferred to banks and a financial institution by discounting those trade bills received on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the trade and bills receivables and has recognised the cash received on the transfer as bank and other borrowings amounting to HK$235,334,000 (2022: HK$361,491,000) and HK$6,129,000 (2022: HK$6,945,000) respectively (Note 29).

## 6. FINANCIAL RISK MANAGEMENT (Continued)

### (h) Transfer of financial assets (Continued)

| **As at 31 December 2023** | **Trade receivables discounted to banks with full recourse HK$'000** | **Trade receivables discounted to a financial institution with full recourse HK$'000** | **Bills receivables discounted to banks with full recourse HK$'000** | **Total HK$'000** |
|---|---|---|---|---|
| Carrying amount of transferred assets | **224,566** | **6,129** | **10,768** | **241,463** |
| Carrying amount of associated liabilities | **(224,566)** | **(6,129)** | **(10,768)** | **(241,463)** |

| As at 31 December 2022 | Trade receivables discounted to banks with full recourse HK$'000 | Trade receivables discounted to a financial institution with full recourse HK$'000 | Bills receivables discounted to banks with full recourse HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Carrying amount of transferred assets | 338,769 | 6,945 | 22,722 | 368,436 |
| Carrying amount of associated liabilities | (338,769) | (6,945) | (22,722) | (368,436) |

## 7. FAIR VALUE MEASUREMENTS

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. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: fair value measurements are based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

## 7. FAIR VALUE MEASUREMENTS (Continued)

**(a)** Disclosures of level in fair value hierarchy at 31 December 2023:

| Description | Fair value measurements using Level 2 HK$'000 | Level 3 HK$'000 | Total 2023 HK$'000 |
|---|---|---|---|
| **Recurring fair value measurements:** | | | |
| **Financial assets:** | | | |
| Financial assets at FVTPL | | | |
| Unlisted Limited partnership | **3,310** | **–** | **3,310** |
| Unlisted equity securities | **1,103** | **–** | **1,103** |
| Life insurance policies | **–** | **127,026** | **127,026** |
| Financial assets at FVTOCI | | | |
| Unlisted equity securities | **41,378** | **–** | **41,378** |
| **Total** | **45,791** | **127,026** | **172,817** |

Disclosures of level in fair value hierarchy at 31 December 2022:

| Description | Fair value measurements using Level 2 HK$'000 | Level 3 HK$'000 | Total 2022 HK$'000 |
|---|---|---|---|
| **Recurring fair value measurements:** | | | |
| **Financial assets:** | | | |
| Financial assets at FVTPL | | | |
| Unlisted trust funds | 39,318 | – | 39,318 |
| Unlisted Limited partnership | 3,380 | – | 3,380 |
| Unlisted equity securities | 1,128 | – | 1,128 |
| Life insurance policies | – | 113,721 | 113,721 |
| **Total** | 43,826 | 113,721 | 157,547 |

There were no transfers between Level 1, 2 and 3 during both years.

## 7. FAIR VALUE MEASUREMENTS (Continued)

**(b)** Reconciliation of financial assets measured at fair value based on level 3:

| Life insurance policies | Financial assets at FVTPL 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| At 1 January | **113,721** | 99,788 |
| Purchase | **11,115** | – |
| Acquired on acquisition of a subsidiary | **–** | 11,410 |
| Total gains recognised in profit or loss (#) | **2,190** | 2,523 |
| At 31 December | **127,026** | 113,721 |
| (#) Include gains for assets held at the end of reporting period | **2,190** | 2,523 |

The total gains recognised in profit or loss including those for assets held at end of reporting period are included in other gains and losses in the consolidated statement of profit or loss.

**(c)** Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2023:

The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used):

| Financial assets | Fair value as at 31.12.2023 | 31.12.2022 | Fair value hierarchy | Valuation techniques and key inputs |
|---|---|---|---|---|
| Financial assets at FVTPL (note 25) | **N/A** | Unlisted trust funds HK$39,318,000 | Level 2 | Based on the net asset values of the funds, determined with reference to the observable (quoted) prices of underlying investment portfolio and adjustments of related expenses. |
| | **Unlisted limited partnership HK$3,310,000** | Unlisted limited partnership HK$3,380,000 | Level 2 | The fair values of unlisted limited partnership are determined with reference to the recent transaction price of the investments. |
| | **Unlisted equity securities HK$1,103,000** | Unlisted equity securities HK$1,128,000 | Level 2 | The fair values of unlisted equity securities are determined with reference to the recent transaction price of the investments. |
| | **Life insurance policies HK$127,026,000** | Life insurance policies HK$113,721,000 | Level 3 | Based on account value of the policies which represent the premium paid to the policies adjusted by net yield with reference to the expected return rate (Note). |
| Financial assets at FVTOCI (note 24) | **Unlisted equity securities HK$41,378,000** | N/A | Level 2 | The fair values of unlisted equity securities are determined with reference to the recent transaction price of the investments. |

Note: The significant unobservable input is expected return rate and assuming other inputs were held constant, if the expected return rate increases, the fair value of the policies increase and vice versa. In the opinion of the directors of the Company, the change of expected return rate of the policies is insignificant based on historical record.

## 8. REVENUE

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

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| **Types of goods or service** | | |
| Sales of electronic components | **5,665,885** | 10,006,078 |
| **Timing of revenue recognition** | | |
| A point in time | **5,665,885** | 10,006,078 |
| **Sales channel/product lines** | | |
| *Authorised distribution* | | |
| — Optoelectronic displays | **794,525** | 1,080,031 |
| — Memory products | **98,139** | 301,608 |
| — Communication products | **426,960** | 683,334 |
| — Smart vision | **923,459** | 1,428,147 |
| — Smart display | **1,859,460** | 2,899,524 |
| — Integrated products | **343,143** | 266,953 |
| — Optical communication | **167,496** | 1,149 |
| — Others | **221,868** | 230,673 |
| | **4,835,050** | 6,891,419 |
| Independent distribution | **830,835** | 3,114,659 |
| | **5,665,885** | 10,006,078 |

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

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

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

As at 31 December 2023 and 2022, all outstanding sales contracts are expected to be fulfilled within 12 months after the end of the reporting period.

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

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

## 9. OTHER INCOME

| | **2023** | 2022 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Bank interest income | **25,209** | 4,221 |
| Technical support services income | **7,762** | 11,091 |
| Write back of provision for taxation | **4,024** | – |
| Government grant (Note) | **2,083** | 3,080 |
| Covid-19 related rent concession | **–** | 927 |
| Others | **4,601** | 1,970 |
| | **43,679** | 21,289 |

Note: During the year ended 31 December 2023, the government grant represents subsidies received from the relevant PRC government for improvement of working capital and incentive subsidies received in relation to activities carried out by the Group.

During the year ended 31 December 2022, the Group received government grants of HK$435,000 in respect of the Employment Support Scheme from the Government of Hong Kong Special Administrative Region for subsidising the salary costs incurred from July to August 2022 and October 2022. The remaining represents subsidies received from the relevant PRC government for improvement of working capital and incentive subsidies received in relation to activities carried out by the Group.

## 10. SEGMENT INFORMATION

The chief operating decision maker has been identified as the directors of the Company. The directors review the Group's internal reporting for the purposes of resource allocation and assessment of segment performance which focused on types of goods delivered. The Group has identified two reportable segments as follows:

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

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

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

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of unallocated expenses, share of result of an associate, fair value loss on financial assets at FVTPL, and gain on deconsolidation of a subsidiary. This is the measure reported to the directors for the purposes of resource allocation and performance assessment.

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

## 10. SEGMENT INFORMATION (Continued)

### Information about reportable segment profit or loss:

| | Authorised distribution HK$'000 | Independent distribution HK$'000 | Segment total HK$'000 | Elimination HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| **Year ended 31 December 2023** | | | | | |
| Revenue from external customers | **4,835,050** | **830,835** | **5,665,885** | **–** | **5,665,885** |
| Inter-segment sales* | **2,704** | **10,936** | **13,640** | **(13,640)** | **–** |
| | **4,837,754** | **841,771** | **5,679,525** | **(13,640)** | **5,665,885** |
| Segment profit | **58,696** | **27,982** | **86,678** | **–** | **86,678** |
| **Year ended 31 December 2022** | | | | | |
| Revenue from external customers | 6,891,419 | 3,114,659 | 10,006,078 | – | 10,006,078 |
| Inter-segment sales* | 39,058 | 58,239 | 97,297 | (97,297) | – |
| | 6,930,477 | 3,172,898 | 10,103,375 | (97,297) | 10,006,078 |
| Segment profit | 89,051 | 299,469 | 388,520 | – | 388,520 |

* Inter-segment sales are charged at cost

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

### Reconciliations of reportable segment profit or loss:

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| **Profit or loss** | | |
| Total profit of reportable segments | **86,678** | 388,520 |
| Unallocated amounts: | | |
| Unallocated expenses | **(3,298)** | (5,369) |
| Fair value gain/(loss) on financial assets at FVTPL | **3,006** | (3,438) |
| Share of result of an associate | **3,260** | 32 |
| Gain on deconsolidation of a subsidiary | **2,859** | – |
| Consolidated profit for the year | **92,505** | 379,745 |

## 10. SEGMENT INFORMATION (Continued)

### Geographical information:

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

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

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

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Hong Kong | **4,242,407** | 7,323,814 |
| The PRC | **1,264,470** | 1,906,177 |
| Singapore | **127,859** | 584,600 |
| Japan | **7,139** | 161,527 |
| Others | **24,010** | 29,960 |
| Consolidated total | **5,665,885** | 10,006,078 |

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

**Non-current assets**

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Hong Kong | **116,158** | 46,785 |
| The PRC | **43,589** | 59,492 |
| Singapore | **–** | 3,128 |
| Japan | **1,721** | 1,981 |
| Others | **339** | 1,842 |
| Consolidated total | **161,807** | 113,228 |

Note: Non-current assets excluded those relating to financial assets at FVTPL, financial assets at FVTOCI, deposits and deferred tax assets.

## 10. SEGMENT INFORMATION (Continued)

### Information about major customers:

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

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| **Authorised distribution segment** | | |
| Customer 1 | **698,120** | 1,302,755 |
| Customer 2 | **714,141** | 1,074,323 |

## 11. OTHER GAINS OR LOSSES, NET

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Foreign exchange losses, net | **(7,850)** | (41,032) |
| Fair value gain/(loss) on financial assets at FVTPL | **3,006** | (3,438) |
| Gain on disposal of property, plant and equipment | **49** | 295 |
| Gain on early termination of lease | **–** | 33 |
| Gain on deconsolidation of a subsidiary (Note 45(a)) | **2,859** | – |
| | **(1,936)** | (44,142) |

## 12. FINANCE COSTS

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Interest on bank and other borrowings | **56,254** | 78,151 |
| Interest on lease liabilities | **778** | 1,028 |
| | **57,032** | 79,179 |

## 13. INCOME TAX EXPENSES

| | **2023**<br>**HK$'000** | 2022<br>HK$'000 |
|---|---|---|
| Current tax | | |
| Hong Kong Profits Tax | **12,297** | 56,084 |
| PRC Enterprise Income Tax ("**PRC EIT**") | **1,630** | 6,384 |
| Singapore Corporate Tax ("**CIT**") | **560** | 13,351 |
| Others | **173** | – |
| | **14,660** | 75,819 |
| Deferred tax (note 40) | **2,076** | 2,734 |
| | **16,736** | 78,553 |

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

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

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of The EIT Law, the tax rate of entities established in the PRC is 25% for both years. As 深圳市芯智科技有限公司 ("**SMC Technology SZ**") has been accredited as a "High and New Technology Enterprise" by the relevant authorities in Shenzhen for a term of three years from year 2020 to 2023 and was extended for other 3 years which will be expired in 2026, it is entitled to a reduced tax rate of 15%. Accordingly, the PRC EIT is calculated at 15% on the assessable profit of SMC Technology SZ for both years.

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

Withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. At 31 December 2023, the aggregate amount of distributable earnings for the Group's PRC subsidiaries in respect of which the Group has not provided for dividend withholding tax amounted to HK$63,193,000 (2022: HK$46,966,000). No deferred tax liability has been recognised in respect of these amounts because the Group is in a position in control of the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## 13. INCOME TAX EXPENSES (Continued)

The reconciliation between the income tax expense and the product of profit before tax multiplied by the PRC enterprise income tax rate is as follows:

| | **2023 HK$'000** | 2022 HK$'000 |
|---|---|---|
| Profit before tax | **109,241** | 458,298 |
| Tax at Hong Kong Profits Tax Rate of 16.5% (2022: 16.5%) | **18,025** | 75,619 |
| Tax effect of income that is not taxable | **(5,408)** | (6,432) |
| Tax effect of expenses that are not deductible | **2,695** | 7,652 |
| Tax effect of tax losses not recognised | **3,634** | 3,842 |
| Utilisation of tax losses previously not recognised | **(2,744)** | (2,193) |
| Effect of different tax rates of subsidiaries | **812** | 1,182 |
| Income tax at concessionary rate | **(165)** | (749) |
| Others | **(113)** | (368) |
| Income tax expense | **16,736** | 78,553 |

## 14. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging/(crediting) the following:

| | **2023 HK$'000** | 2022 HK$'000 |
|---|---|---|
| Directors' emoluments (note 16) | **7,549** | 6,417 |
| Staff costs (excluding directors' emoluments): | | |
| Salaries, wages and other allowances | **137,596** | 178,495 |
| Discretionary bonuses | **20,921** | 127,986 |
| Retirement benefit scheme contributions | **24,058** | 24,720 |
| Total staff costs | **190,124** | 337,618 |
| Amortisation of an intangible asset (included in selling and distribution expenses) | **3,572** | 2,392 |
| Depreciation on property, plant and equipment | **4,222** | 3,449 |
| Depreciation on right-of-use assets | **15,236** | 14,729 |
| Auditor's remuneration | | |
| — Annual audit services | **1,680** | 2,670 |
| — Other audit services | **363** | 357 |
| — Non-audit services | **645** | 920 |
| Cost of inventories recognised as an expense (excluding allowance for inventories) | **5,254,628** | 8,848,632 |
| (Reversal of)/allowance for inventories (included in cost of sales) | **(30,205)** | 62,705 |

## 15. EMPLOYEE BENEFITS EXPENSE

| | **2023**<br>**HK$'000** | 2022<br>HK$'000 |
|---|---|---|
| Employee benefits expense (including directors' emoluments): | | |
| Salaries and other allowances | **142,573** | 182,944 |
| Discretionary bonus | **23,394** | 129,882 |
| Retirement benefit scheme contributions | **24,157** | 24,792 |
| | **190,124** | 337,618 |

### (a) Pensions — defined contribution plans

The Group contributes to defined contribution retirement plans which are available for eligible employees in Hong Kong, the PRC, Singapore and Taiwan.

**Hong Kong**

The Group operates a Mandatory Provident Fund scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the laws of Hong Kong) for employees employed under the jurisdiction of Hong Kong Employment Ordinance (Chapter 57 of the laws of Hong Kong). The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and the employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the MPF Scheme vest immediately.

**The PRC**

Pursuant to the relevant laws and regulations in the People's Republic of China, the Group has joined defined contribution retirement schemes for the employees arranged by local government labour and security authorities (the "**PRC Retirement Schemes**"). The Group makes contributions to the PRC Retirement Schemes at the applicable rates based on the amounts stipulated by the local government organisations. Upon retirement, the local government labour and security authorities are responsible for the payment of the retirement benefits to the retired employees. Contributed to the PRC Retirement Schemes vest immediately.

**Singapore**

The Group is required to make contributions to state pension scheme, the Central Provident Fund, based on certain percentages of the monthly salaries of the employees of the Company's subsidiaries operating in Singapore. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

**Taiwan**

The Company participates in an employee's pension fund for all its employees in Taiwan. Starting from 1 July 2005, employees may choose a scheme where the rate of contribution by an employer should not be less than 6% of the employees' monthly salaries and the employees may also voluntarily contribute up to 6% of the monthly salaries to the provision fund account under the Labour Pension Act of Taiwan. Contribution to the pension fund vest immediately.

The scheme is a defined contribution scheme and is established under trust with the assets of the funds held separately from those of the Group by independent trustees.

During the years ended 31 December 2023 and 2022, the Group had no forfeited contributions under the above schemes and which may be used by the Group to reduce the existing level of contributions. There were also no forfeited contributions available at 31 December 2023 and 2022 under the above schemes which may be used by the Group to reduce the contribution payable in future years.

## 15. EMPLOYEE BENEFITS EXPENSE (Continued)

### (b) Five highest paid individuals

The five highest paid individuals in the Group for both years have not include any of the director. The emoluments of the five highest paid employees are set out below:

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Salaries and other allowances | **5,122** | 1,248 |
| Discretionary bonus | **9,018** | 29,082 |
| Retirement benefits scheme contributions | **301** | 1,073 |
| | **14,441** | 31,403 |

The emoluments of the five highest paid employees fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2023** | 2022 |
| HK$2,000,001 to HK$2,500,000 | **1** | – |
| HK$2,500,001 to HK$3,000,000 | **2** | – |
| HK$3,000,001 to HK$3,500,000 | **2** | – |
| HK$4,000,001 to HK$4,500,000 | **–** | 1 |
| HK$4,500,001 to HK$5,000,000 | **–** | 1 |
| HK$5,000,001 to HK$5,500,000 | **–** | 1 |
| HK$5,500,001 to HK$6,000,000 | **–** | 1 |
| HK$11,500,001 to HK$12,000,000 | **–** | 1 |

## 16. BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' emoluments

The emoluments of every director are set out below:

| | Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking | | | | |
|---|---|---|---|---|---|
| | Fees | Salaries and allowances | Discretionary bonus | Retirement benefits scheme contributions | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Executive directors** | | | | | |
| Mr. Tian Weidong (note a) | **–** | **1,411** | **394** | **31** | **1,836** |
| Mr. Wong Tsz Leung | **–** | **826** | **319** | **26** | **1,171** |
| Mr. Liu Hongbing | **–** | **817** | **368** | **18** | **1,203** |
| Mr. Mak Hon Kai, Stanly | **–** | **780** | **1,165** | **18** | **1,963** |
| Mr. Zheng Gang (note b) | **–** | **320** | **227** | **6** | **553** |
| | **–** | **4,154** | **2,473** | **99** | **6,726** |
| **Independent non-executive directors** | | | | | |
| Mr. Zheng Gang (note b) | **200** | **–** | **–** | **–** | **200** |
| Mr. Tang Ming Je | **300** | **–** | **–** | **–** | **300** |
| Ms. Xu Wei | **300** | **–** | **–** | **–** | **300** |
| Ms. Xue Chun (note c) | **23** | **–** | **–** | **–** | **23** |
| | **823** | **–** | **–** | **–** | **823** |
| Total for 2023 | **823** | **4,154** | **2,473** | **99** | **7,549** |
| **Executive directors** | | | | | |
| Mr. Tian Weidong (note a) | – | 1,154 | 496 | 18 | 1,668 |
| Mr. Wong Tsz Leung | – | 780 | 465 | 18 | 1,263 |
| Mr. Liu Hongbing | – | 835 | 470 | 18 | 1,323 |
| Mr. Mak Hon Kai, Stanly | – | 780 | 465 | 18 | 1,263 |
| | – | 3,549 | 1,896 | 72 | 5,517 |
| **Independent non-executive directors** | | | | | |
| Mr. Zheng Gang (note b) | 300 | – | – | – | 300 |
| Mr. Tang Ming Je | 300 | – | – | – | 300 |
| Ms. Xu Wei | 300 | – | – | – | 300 |
| | 900 | – | – | – | 900 |
| Total for 2022 | 900 | 3,549 | 1,896 | 72 | 6,417 |

## 16. BENEFITS AND INTERESTS OF DIRECTORS (Continued)

### (a) Directors' emoluments (Continued)

Notes:

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

(b) Mr. Zheng Gang has been redesignated from being an independent non-executive director to an executive director on 4 September 2023.

(c) Ms. Xue Chun was appointed as independent non-executive director on 4 December 2023.

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

### (b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## 17. DIVIDENDS

| | **2023**<br>**HK$'000** | 2022<br>HK$'000 |
|---|---|---|
| 2022 final dividend of HK$0.06 per ordinary share (2022: 2021 final dividend of HK$0.08 per ordinary share) | **28,262** | 38,944 |
| 2022 interim dividend of HK$0.04 per ordinary share | **–** | 19,199 |
| | **28,262** | 58,143 |

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2023 of HK5 cents (2022: final dividend in respect of the year ended 31 December 2022 of HK$6 cents) per ordinary share, in an aggregate amount of approximately HK$24,434,000 (2022: HK$28,262,000), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

## 18. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| **Earnings** | | |
| Earnings for the purpose of calculating basic and diluted earnings per share | **71,130** | 164,736 |

| | 2023 | 2022 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | **471,543,222** | 484,045,140 |
| Effect of dilutive potential ordinary shares arising from restricted share units ("**RSU**") | **1,000,000** | 2,000,000 |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | **472,543,222** | 486,045,140 |

For the years ended 31 December 2023 and 2022, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share has taken into account the ordinary shares purchased by the Trustee from the market pursuant to the share award scheme of the Company for those unvested awarded shares and ungranted shares, adjusted by the ordinary shares vested under the share award scheme of the Company.

Basic earnings per share attributable to owners of the Company is calculated by dividing the profit for the year attributable to owners of the Company by the weighted average number of the ordinary shares in issue during the year.

## 19. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements HK$'000 | Furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2022 | 1,419 | 14,000 | 6,621 | 22,040 |
| Additions | 162 | 8,823 | 1,524 | 10,509 |
| Acquired on acquisition of a subsidiary | – | 112 | – | 112 |
| Disposals | – | (27) | (512) | (539) |
| Exchange realignment | (26) | (977) | (291) | (1,294) |
| At 31 December 2022 and 1 January 2023 | **1,555** | **21,931** | **7,342** | **30,828** |
| Additions | **–** | **5,369** | **451** | **5,820** |
| Disposals | **–** | **(864)** | **(988)** | **(1,852)** |
| Deconsolidation of a subsidiary (Note 45(a)) | **(231)** | **(9,835)** | **(2,244)** | **(12,310)** |
| Exchange realignment | **–** | **(295)** | **(81)** | **(376)** |
| At 31 December 2023 | **1,324** | **16,306** | **4,480** | **22,110** |
| **Accumulated depreciation** | | | | |
| At 1 January 2022 | 1,367 | 7,587 | 4,678 | 13,632 |
| Charge for the year | 63 | 2,089 | 1,297 | 3,449 |
| Disposals | – | (16) | (486) | (502) |
| Exchange realignment | (22) | (761) | (86) | (869) |
| At 31 December 2022 and 1 January 2023 | **1,408** | **8,899** | **5,403** | **15,710** |
| Charge for the year | **–** | **3,452** | **770** | **4,222** |
| Disposals | **–** | **(557)** | **(889)** | **(1,446)** |
| Deconsolidation of a subsidiary (Note 45(a)) | **(85)** | **(2,575)** | **(846)** | **(3,506)** |
| Exchange realignment | **1** | **(131)** | **(29)** | **(159)** |
| At 31 December 2023 | **1,324** | **9,088** | **4,409** | **14,821** |
| **Carrying amount** | | | | |
| At 31 December 2023 | **–** | **7,218** | **71** | **7,289** |
| At 31 December 2022 | 147 | 13,032 | 1,939 | 15,118 |

At 31 December 2023 and 2022, there is no property, plant and equipment was pledged as security.

## 20. RIGHT-OF-USE ASSETS

| | Leased properties HK$'000 |
|---|---|
| At 1 January 2022 | 26,689 |
| Additions | 11,383 |
| Decrease in early termination | (294) |
| Depreciation | (14,729) |
| Exchange difference | (1,321) |
| At 31 December 2022 and 1 January 2023 | **21,728** |
| Additions | **13,875** |
| Deconsolidation of a subsidiary (Note 45(a)) | **(11,753)** |
| Depreciation | **(15,236)** |
| Exchange difference | **(471)** |
| At 31 December 2023 | **8,143** |

Lease liabilities of HK$8,689,000 (2022: HK$23,037,000) are recognised with related right-of-use assets of HK$8,143,000 as at 31 December 2023 (2022: HK$21,728,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

| | **2023 HK$'000** | 2022 HK$'000 |
|---|---|---|
| Depreciation expenses on right-of-use assets | **15,236** | 14,729 |
| Interest expense on lease liabilities (included in finance cost) | **778** | 1,028 |
| Expenses relating to short-term lease (included in administrative expense) | **2,782** | 569 |

Details of total cash outflow for leases is set out in note 45(d).

For both years, the Group leases various offices and warehouses premises for its operations. Lease contracts are entered into for fixed term of 1 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for office premises and staff quarters. As at 31 December 2023 and 2022, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in above.

During the year, the Group entered into new lease agreements for the use of office premises for 1 to 3 years. On the lease commencement, the Group recognised HK$13,875,000 right-of-use assets and HK$13,875,000 lease liabilities (2021: HK$11,383,000 right- of-use assets and HK$11,383,000 lease liabilities).

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

## 21. GOODWILL

| | HK$'000 |
|---|---|
| **Cost and carrying amount** | |
| At 1 January 2022 | 9,735 |
| Arising on acquisition of a subsidiary | 20,159 |
| At 31 December 2022 and 1 January 2023 | **29,894** |
| Deconsolidation of a subsidiary (Note 45(a)) | **(9,735)** |
| At 31 December 2023 | **20,159** |

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("**CGUs**") that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

| | **2023 HK$'000** | 2022 HK$'000 |
|---|---|---|
| Quiksol Group | – | 9,735 |
| Wisdom Fortune Corporation Limited ("**Wisdom Fortune**") | **20,159** | 20,159 |
| At 31 December | **20,159** | 29,894 |

For the purpose of impairment assessment, the recoverable amount of Wisdom Fortune has been determined based on value in use calculation which uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 16.60% (2022: 14.73%) per annum calculated by using weighted average cost of capital. The key assumptions used by management in setting the financial budgets for the initial five-year period were as follows:

(a) Budgeted sales and gross margin which estimation is based on Wisdom Fortune's past performance and management's expectations for the market development;

(b) Operating profits is based on historical experience of operating margins;

(c) Cash conversion was based on the historical ratio of operating cash flow to operating profit;

(d) Cash flow beyond five-year period have been extrapolated using a steady 2% (2022: 2%) per annum growth rate, which is estimated by the directors of the Company based on past performance of Wisdom Fortune and their expectations of market development and the rate does not exceed the average long-term growth rate for the relevant markets.

The recoverable amount calculated based on value in use is significantly above the respective carrying amount. The directors believe that any reasonably possible change in the key assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of Wisdom Fortune.

## 22. INTANGIBLE ASSET

| | Customer relationship HK$'000 |
|---|---|
| **Cost** | |
| At 1 January 2022 | 11,959 |
| Acquired on acquisition of a subsidiary | 7,896 |
| At 31 December 2022 and 1 January 2023 and 31 December 2023 | **19,855** |
| Deconsolidation of a subsidiary (Note 45(a)) | **(11,959)** |
| At 31 December 2023 | **7,896** |
| **Accumulated amortisation** | |
| At 1 January 2022 | 7,575 |
| Amortisation for the year | 2,392 |
| At 31 December 2022 and 1 January 2023 | **9,967** |
| Amortisation for the year | **3,572** |
| Deconsolidation of a subsidiary (Note 45(a)) | **(11,959)** |
| At 31 December 2023 | **1,580** |
| **Carrying amount** | |
| At 31 December 2023 | **6,316** |
| At 31 December 2022 | 9,888 |

Intangible asset represents customer relationship recognised in business combinations. The remaining amortisation period of the intangible asset is 3 years (2022: 4 years).

## 23. CLUB DEBENTURES

| | **2023 HK$'000** | 2022 HK$'000 |
|---|---|---|
| **Cost** | | |
| At 31 December | **6,019** | 5,932 |

The amount represents investments in club debentures in Hong Kong and the PRC and Japan, which have no limit of their term. The investment in club debentures are tested for impairment whenever there is an indication that they may be impaired.

As at 31 December 2023 and 2022, the directors of the Company conducted impairment review on the investment in club debentures. The recoverable amounts of investment in club debentures have been determined based on the market prices of similar club debentures. Based on the assessment, the directors of the Company expect the carrying amount of the investments in club debentures to be recoverable and there is no impairment loss of the investments in club debentures during the years ended 31 December 2023 and 2022.

## 24. FINANCIAL ASSETS AT FVTOCI

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Unlisted investment, at fair value | | |
| Equity securities | **41,378** | – |

Financial assets at FVTOCI are denominated in RMB.

Equity securities which are not held for trading and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant.

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

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Unlisted investment, at fair value | | |
| Life insurance policies (note a) | **127,026** | 113,721 |
| Unlisted unit trust funds (note b) | **–** | 39,318 |
| Unlisted limited partnership (note c) | **3,310** | 3,380 |
| Unlisted equity securities (note d) | **1,103** | 1,128 |
| | **131,439** | 157,547 |
| Analysed as: | | |
| Current assets | **–** | – |
| Non-current assets | **131,439** | 157,547 |
| | **131,439** | 157,547 |

Notes:

(a) As at 31 December 2023, the Group has a total of ten (2022: nine) life insurance policies with three (2022: three) insurance companies to insure certain directors of the Company. Under these policies, the Group is the beneficiary and policy holder. The total insured sum is US$38,000,000 (equivalent to approximately HK$296,400,000) (2022: US$36,500,000 (equivalent to approximately HK$284,700,000)) in aggregate. The Group is required to pay a single premium totalling US$13,458,000 (equivalent to approximately HK$104,972,000) for eight life insurance policies at inception and the remaining two life insurance policies amounting to US$1,463,000 (equivalent to approximately HK$11,410,000) were acquired on acquisition of subsidiaries during the year ended 31 December 2022. The Group can, at any time, withdraw cash based on the account value of the policies ("**Account Value**") at the date of withdrawal, which is determined by the gross premium paid plus accumulated guaranteed interest earned and minus any charges (including surrender charge if applicable) made in accordance with the terms and conditions of the policy. The insurance companies will pay the Group a guaranteed interest for the first year and a variable return per annum afterwards with minimum guaranteed interest rate ranged from 2% to 3% per annum during the effective period of the policies.

(b) Unlisted unit trust funds invest primarily in Asian bonds, United States treasury bonds, United States mortgage-backed securities and other debt securities. The investment in unlisted unit trust funds were fully disposed during the year ended 31 December 2023.

(c) The amount represents investments in 2 (2022: 2) unlisted limited partnerships established in the PRC.

(d) The amount represent investments in unlisted equity securities issued by a private entity established in the PRC.

## 26. INVESTMENT IN SUBSIDIARIES

Particulars of the Group's major subsidiaries as at 31 December 2023 are as follows:

| Name | Place of incorporation/ establishment and operations | Issued and fully paid share capital/ registered capital | Percentage of ownership interest/ voting power/ profit sharing | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Smart-Core International Company Limited | Hong Kong | Ordinary shares HK$10,000,000 | – | 100% | Trading of electronic components |
| Smart-Core Technology Investment Limited | Hong Kong | Ordinary shares HK$1,000,000 | – | 100% | Trading of electronic components |
| 深圳市芯智科技有限公司 (note a) | The PRC | Registered capital RMB51,384,369 | – | 100% | Trading of electronic components |
| 深圳市芯雲信息科技有限公司 (note a) | The PRC | Registered capital RMB8,500,000 | – | 100% | Trading of electronic components |
| 深圳市芯智雲信息技術有限公司 (note a) | The PRC | Registered capital RMB8,500,000 | – | 100% | Trading of electronic components |
| 芯聯(廈門)科技有限公司 (note b) | The PRC | Registered capital RMB4,000,000 | – | 100% | Provision of technical value-added services |
| UDStore Solution Limited | Hong Kong/ Taiwan | Ordinary shares US$1,000,000 | – | 75% | Trading of electronic components |
| Smart-Core Kabushiki Kaisha | Japan | Registered capital JPY93,100,000 | – | 90% | Trading of electronic components |
| Wisdom Fortune | Hong Kong | Ordinary shares HK$10,000,000 | – | 100% | Trading of electronic components |

Notes:

(a) The companies are registered in the form of wholly owned foreign enterprises.

(b) The company is sino-foreign equity joint ventures with limited liability.

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

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

## 26. INVESTMENT IN SUBSIDIARIES (Continued)

The table below shows details of a non-wholly owned subsidiary of the Group that has material non-controlling interests:

| Name of subsidiary | Place of incorporation/ principal place of business | Proportion of ownership interest and held by non-controlling interests during the year | | Profit/(loss) allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | **2023** | 2022 | **2023 HK$'000** | 2022 HK$'000 | **2023 HK$'000** | 2022 HK$'000 |
| Quiksol Group (Note a) | Hong Kong/ Hong Kong and the PRC/ Singapore | **75%** | 75% | **22,003** | 216,859 | **N/A** | 327,693 |
| Individually immaterial subsidiaries with non-controlling interests | | | | **(628)** | (1,850) | **(325)** | (136) |
| | | | | **21,375** | 215,009 | **(325)** | 327,557 |

Note:

(a) Refer to notes 5(a) and 45(a), Quiksol Group has been deconsolidated from the Group's consolidated financial statements with effect from 31 December 2023.

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

| | **2023 HK$'000** | 2022 HK$'000 |
|---|---|---|
| Current assets | **446,327** | 609,970 |
| Non-current assets | **20,925** | 17,658 |
| Current liabilities | **186,656** | 180,773 |
| Non-current liabilities | **8,384** | 9,933 |
| Equity attributable to owners of the Company | **N/A** | 109,230 |
| Non-controlling interests | **N/A** | 327,692 |

## 26. INVESTMENT IN SUBSIDIARIES (Continued)

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

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Revenue | **763,782** | 2,790,408 |
| Expenses | **(734,445)** | (2,501,263) |
| Profit for the year | **29,337** | 289,145 |
| Profit attributable to owners of the Company | **7,334** | 72,286 |
| Profit attributable to non-controlling interests | **22,003** | 216,859 |
| Profit for the year | **29,337** | 289,145 |
| Other comprehensive income attributable to owners of the Company | **(63)** | (5) |
| Other comprehensive income attributable to non-controlling interests | **(188)** | (16) |
| Other comprehensive income for the year | **(251)** | (21) |
| Total comprehensive income attributable to owners of the Company | **7,271** | 72,281 |
| Total comprehensive income attributable to non-controlling interests | **21,815** | 216,843 |
| Total comprehensive income for the year | **29,086** | 289,124 |
| Dividends declared to non-controlling interests | **145,349** | 122,850 |
| Net cash from operating activities | **62,613** | 391,563 |
| Net cash used in investing activities | **(1,529)** | (4,532) |
| Net cash used in financing activities | **(152,097)** | (209,349) |
| Effect of foreign exchange rate changes | **(1,276)** | 1,086 |
| Net cash flow | **(92,289)** | 178,768 |

## 27. INVESTMENT IN ASSOCIATES

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Share of net assets | **101,287** | 30,668 |
| Fair value adjustments | **12,594** | – |
| | **113,881** | 30,668 |

Details of the Group's associates at 31 December 2023 are as follows:

| Name | Place of incorporation/ establishment and operations | Issued and fully paid share capital/ registered capital | Percentage of ownership interest/voting power/profit sharing Direct | Percentage of ownership interest/voting power/profit sharing Indirect | Principal activities |
|---|---|---|---|---|---|
| 上海宙鎵光電有限公司 Galasemi (Shanghai) Co., Ltd ("**GSCL**") (note a) | The PRC | Registered capital US$10,450,000 | – | 46% | Trading of electronic components |
| Quiksol Group (note b) | Hong Kong | Ordinary shares HK$7,800,000 | – | 25% | Trading of electronic components |

Notes:

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

(b) The Group has 25% ownership and voting rights in Quiksol Group. By considering that the Group has no sufficiently dominant voting rights to direct the relevant activities of Quiksol Group unilaterally, the directors of the Company conclude that the Group only has significant influence over Quiksol Group and therefore it is classified as an associate of the Group.

Summarised financial information in respect of Quiksol Group is set out in note 26. Summarised financial information in respect of GSCL is set out below. The summarised financial information below represents amounts shown in GSCL's financial statements prepared in accordance with HKFRSs.

## 27. INVESTMENT IN ASSOCIATES (Continued)

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Current assets | **65,011** | 52,865 |
| Non-current assets | **40,701** | 42,269 |
| Current liabilities | **19,121** | 12,691 |
| Non-current liabilities | **14,343** | 15,774 |
| Revenue | **47,119** | 24,037 |
| Profit for the year | **7,087** | 70 |
| Other comprehensive income for the year | **(1,509)** | (5,776) |
| Total comprehensive income for the year | **5,578** | (5,706) |

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

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| **GSCL** | | |
| Net assets of GSCL | **72,248** | 66,669 |
| Proportion of the Group's ownership interest in GSCL | **46%** | 46% |
| Carrying amount of the Group's interest in GSCL | **33,234** | 30,668 |
| **Quiksol Group** | | |
| Net assets of Quiksol Group | **272,212** | N/A |
| Proportion of the Group's ownership interest in Quiksol Group | **25%** | N/A |
| The Group's share of net assets of Quiksol Group | **68,053** | N/A |
| Fair value adjustments | **12,594** | N/A |
| Carrying amount of the Group's interest in Quiksol Group | **80,647** | N/A |

## 28. INVENTORIES

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Electronic components held for resale | **259,567** | 368,753 |
| Allowance for inventories | **(39,003)** | (80,365) |
| | **220,564** | 288,388 |

The movements in the allowance of inventories are as follows:

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| At 1 January | **80,365** | 17,726 |
| (Reversal of)/allowance recognised in profit or loss | **(30,205)** | 62,705 |
| Deconsolidation of a subsidiary | **(11,157)** | – |
| Written off | **–** | (66) |
| At 31 December | **39,003** | 80,365 |

## 29. TRADE AND BILLS RECEIVABLES

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Trade receivables | **660,030** | 1,212,970 |
| Allowance for credit losses | **(14,255)** | (23,172) |
| | **645,775** | 1,189,798 |
| Bills receivables | **10,858** | 23,278 |
| Allowance for credit losses | **(90)** | (556) |
| | **656,543** | 1,212,520 |

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 0 to 120 days (2022: 0 to 120 days). The bills receivables have a general maturity period ranging from 30 to 180 days (2022: 30 to 180 days). The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by the directors.

## 29. TRADE AND BILLS RECEIVABLES (Continued)

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

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Trade receivables | | |
| 0 to 60 days | **635,356** | 823,528 |
| 61 to 120 days | **6,169** | 321,450 |
| Over 120 days | **4,250** | 44,820 |
| | **645,775** | 1,189,798 |
| Bills receivables | | |
| 0 to 60 days | **10,768** | 22,722 |

At 31 December 2023, trade and bill receivables of HK$224,566,000 (2022: HK$338,769,000) and HK$10,768,000 (2022: HK$22,722,000) were further discounted to banks with full recourse respectively, and trade receivables of HK$6,129,000 (2022: HK$6,945,000) were discounted to a financial institution with full recourse. The Group continues to recognise their full carrying amounts at the end of the reporting period and details are disclosed below.

As at 31 December 2023, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$68,434,000 (2022: HK$426,533,000) which are past due as at the reporting date. Out of the past due balances, HK$16,049,000 (2022: HK$27,124,000) has been past due 90 days or above, for which the Group does not consider the balances in default as there has not been a significant change in the credit quality and amounts are still considered recoverable based on historical experience.

As at 31 December 2023, other than bills received amounting to HK$10,768,000 (2022: HK$22,722,000), the Group does not hold any collateral or other credit enhancements over these balances nor does it has a legal right of offset against any amounts owed by the Group to the counterparty.

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

### (a) Amount due from an associate

As at 31 December 2023, the amount due represents dividend receivable from an associate which is unsecured, interest-free and has no fixed repayment term. As at 31 December 2022, the balance was trade nature with credit period of 60 days, unsecured and interest-free.

### (b) Amounts due to an associate

As at 31 December 2023, the amount due is trade nature with credit period of 60 days, unsecured and interest-free.

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

As at 31 December 2022, the amount due represented dividend payables to two non-controlling shareholders of a subsidiary, which were unsecured, interest-free and had no fixed repayment term.

## 31. LOAN FROM AN ASSOCIATE

The amount due is unsecured, repayable in 3 months from the drawdown date with interest of 6% per annum.

## 32. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | **2023 HK$'000** | 2022 HK$'000 |
|---|---|---|
| Deposits | | |
| — refundable | **3,130** | 5,350 |
| — non-refundable | **63,056** | 112,130 |
| Prepayments | **5,866** | 7,498 |
| Other receivables | **2,287** | 1,891 |
| Value-added tax recoverable | **14,507** | 4,621 |
| | **88,846** | 131,490 |
| Analysed as: | | |
| Current assets | **86,531** | 129,114 |
| Non-current assets | **2,315** | 2,376 |
| | **88,846** | 131,490 |

## 33. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group as set out in note 39 to the consolidated financial statements. These deposits are subject to regulatory restrictions and are therefore not available for general use by the Group.

As at 31 December 2023, the bank and cash balances of the Group denominated in Renminbi ("**RMB**") amounted to HK$56,782,000 (2022: HK$62,073,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

The carrying amounts of the Group's pledged bank deposits and bank and cash balances are denominated in the following currencies:

| | **2023<br>HK$'000** | 2022<br>HK$'000 |
|---|---|---|
| RMB | **56,782** | 62,073 |
| HK$ | **2,413** | 12,813 |
| US$ | **326,409** | 863,334 |
| Others | **9,673** | 13,471 |
| | **395,277** | 951,691 |

## 34. TRADE PAYABLES

| | **2023<br>HK$'000** | 2022<br>HK$'000 |
|---|---|---|
| Trade payables | **265,560** | 350,674 |

The credit period for trade payables ranging from 0 to 60 days (2022: 0 to 60 days).

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

| | **2023<br>HK$'000** | 2022<br>HK$'000 |
|---|---|---|
| 0 to 30 days | **214,819** | 269,729 |
| 31 to 60 days | **22,240** | 19,174 |
| 61 to 90 days | **11,566** | 36,670 |
| Over 90 days | **16,935** | 25,101 |
| | **265,560** | 350,674 |

## 35. CONTRACT LIABILITIES

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Billings in advance of performance obligation | | |
| — Sales of electronic components | **18,978** | 33,575 |

The Group receives certain amount of the contract value from customers when they place their purchase order. This gives rise to contract liabilities at the start of a contract until the Group transferred the control of goods to the customers.

During the reporting period, decrease in the contract liabilities balance mainly because of decrease in advance payments from customers.

Movements in contract liabilities:

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Balance at 1 January | **33,575** | 33,895 |
| Decrease in contract liabilities as a result of recognising revenue during the year was included in the contract liabilities at the beginning of the period | **(33,575)** | (33,895) |
| Increase in contract liabilities as a result of billing in advance of sales made | **24,121** | 33,575 |
| Deconsolidation of a subsidiary (Note 45(a)) | **(5,143)** | – |
| Balance at 31 December | **18,978** | 33,575 |

No billings in advance are expected to be recognised as income after more than one year (2022: Nil).

## 36. OTHER PAYABLES AN ACCRUED CHARGES

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Accrued purchases | **33,308** | 17,035 |
| Accrued staff costs | **23,213** | 120,344 |
| Accrued expenses | **5,560** | 19,482 |
| Others | **1,287** | 10,269 |
| | **63,368** | 167,130 |

## 37. LEASE LIABILITIES

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | 2023<br>HK$'000 | 2022<br>HK$'000 | 2023<br>HK$'000 | 2022<br>HK$'000 |
| Within one year | **6,990** | 14,344 | **6,817** | 14,100 |
| More than one year, but not exceeding two years | **1,892** | 7,013 | **1,872** | 7,012 |
| More than two years, but not exceeding five years | **–** | 2,511 | **–** | 1,925 |
| | **8,882** | 23,868 | **8,689** | 23,037 |
| Less: Future finance charges | **(193)** | (831) | **N/A** | N/A |
| Present value of lease obligations | **8,689** | 23,037 | **8,689** | 23,037 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | | | **(6,817)** | (14,100) |
| Amount due for settlement after 12 months | | | **1,872** | 8,937 |

The weighted average incremental borrowing rates applied to lease liabilities is 3.87% (2022: 4.17%).

## 38. BANK AND OTHER BORROWINGS

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Import and export loans | **172,669** | 464,411 |
| Other bank borrowings | **208,518** | 556,801 |
| | **381,187** | 1,021,212 |
| Other borrowings | **16,549** | 9,014 |
| | **397,736** | 1,030,226 |
| Analysed as: | | |
| Secured | **397,736** | 1,010,734 |
| Unsecured | **–** | 19,492 |
| | **397,736** | 1,030,226 |

The bank and other borrowings are repayable as follows:

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Within one year | **25,837** | 52,513 |
| More than one year, but not exceeding two years | **1,049** | 3,052 |
| More than two years, but not more than five years | **2,546** | 1,655 |
| | **29,432** | 57,220 |
| Portion of bank and other borrowings that contain a repayment on demand clause (shown under current liabilities) | **368,304** | 973,006 |
| | **397,736** | 1,030,226 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | **(394,141)** | (1,025,519) |
| Amount due for settlement after 12 months | **3,595** | 4,707 |

## 38. BANK AND OTHER BORROWINGS (Continued)

Certain of the banking facilities contain various covenants which include the maintenance of certain financial ratios and restrictions on the maximum amounts due from a director and related companies and related parties transactions. The directors of the Company have reviewed the covenants compliance and represented that they were not aware of any breach during both years.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

| | **2023** | 2022 |
|---|---|---|
| Effective interest rate: | | |
| Bank borrowings including import and export loans | | |
| — variable rates | **3.70%–7.86%** | 1.77%–7.88% |
| — fixed rates | **3.55%–6.50%** | 2.50%–4.25% |
| Other borrowings | | |
| — fixed rates | **4.90%** | 4.90%–6.5% |

The variable rates bank borrowings are subject to interest at Secured Overnight Funding Rate ("**SOFR**") plus a spread, Loan Prime Rate ("**LPR**") plus a spread, Hong Kong Interbank Offered Rate ("**HIBOR**") plus a spread (2022: SOFR plus a spread, LPR plus a spread, HIBOR plus a spread and US Prime Rate plus a spread).

## 39. BANKING FACILITIES

At 31 December 2023, the Group had approximately HK$2,792,000,000 (2022: HK$2,067,600,000) of available undrawn banking facilities. Available undrawn banking facilities include bank loans, factoring loans, etc. The Group's banking facilities are secured by the followings:

i. Financial assets at FVTPL amounted to HK$127,026,000 (2022: HK$153,039,000);

ii. Pledged bank deposits amounted to HK$227,472,000 (2022: HK$457,286,000); and

iii. Trade and bills receivables factored to banks amounted to HK$235,334,000 (2022: HK$367,491,000).

## 40. DEFERRED TAX

The following are the deferred tax liabilities and assets recognised by the Group.

| | ECL provision of trade and bills receivables<br>HK$'000 | Intangible asset identified from business combination<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|
| At 1 January 2022 | (9,011) | 724 | (8,287) |
| Charge to profit or loss for the year (note 13) | | | |
| — Changes in temporary differences | 3,129 | (395) | 2,734 |
| At 31 December 2022 and 1 January 2023 | **(5,882)** | **329** | **(5,553)** |
| Charge to profit or loss for the year (note 13) | | | |
| — Changes in temporary differences | **2,405** | **(329)** | **2,076** |
| Deconsolidation of a subsidiary | **368** | **–** | **368** |
| Exchange realignment | **76** | **–** | **76** |
| At 31 December 2023 | **(3,033)** | **–** | **(3,033)** |

The following is the analysis of the deferred tax balances (after offset) for statement of financial position purposes:

| | **2023**<br>**HK$'000** | 2022<br>HK$'000 |
|---|---|---|
| Deferred tax liabilities | **–** | 329 |
| Deferred tax assets | **(3,033)** | (5,882) |
| | **(3,033)** | (5,553) |

At the end of the reporting period, the Group has unused tax losses of approximately HK$68,066,000 (2022: HK$64,042,000), available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Unrecognised tax losses of approximately HK$43,644,000 will expire from 2024 to 2028 (2022: HK$20,198,000 will expire from 2023 to 2027) and the remaining tax losses may be carried forward indefinitely.

## 41. SHARE CAPITAL

| | Number of Shares | Amount |
|---|---|---|
| | | US$'000 |
| **Authorised:** | | |
| Ordinary shares of US$0.00001 (2022: US$0.00001) each | | |
| At 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023 | 5,000,000,000 | 50 |

| | Number of Shares | Amount | Equivalent to Amount |
|---|---|---|---|
| | | US$'000 | HK$'000 |
| **Issued and fully paid:** | | | |
| Ordinary shares of US$0.00001 (2022: US$0.00001) each | | | |
| At 31 December 2022, 1 January 2023 and 1 December 2023 | 488,681,030 | 5 | 38 |

During the year ended 31 December 2023, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

| Month of repurchase | Number of shares of US$0.00001 each | Price per share Highest HK$ | Lowest HK$ | Aggregate consideration HK$'000 |
|---|---|---|---|---|
| March 2023 | **200,000** | **1.80** | **1.80** | **361** |
| April 2023 | **1,100,000** | **2.01** | **1.85** | **2,159** |
| May 2023 | **1,350,000** | **1.98** | **1.90** | **2,620** |
| June 2023 | **1,050,000** | **2.07** | **1.84** | **2,049** |
| September 2023 | **350,000** | **1.25** | **1.22** | **434** |
| October 2023 | **200,000** | **1.17** | **1.17** | **235** |
| November 2023 | **200,000** | **1.17** | **1.17** | **244** |
| | **4,450,000** | | | **8,102** |

The Company repurchased 4,450,000 shares during the year ended 31 December 2023 for an aggregate consideration of HK$8,102,000 from the market pursuant to the share award scheme of the Company, which has been recognised under treasury share reserve as at 31 December 2023 and 3,000,000 ordinary shares under share award scheme have been granted to a director as RSUs as details set out in Note 42(a). 500,000 (2022: 1,000,000) RSUs were vested and HK$918,000 (2022: HK$1,632,000) was released from treasury share reserve during the year ended 31 December 2023.

## 41. SHARE CAPITAL (Continued)

During the year ended 31 December 2022, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

| Month of repurchase | Number of shares of US$0.00001 each | Price per share Highest | Lowest | Aggregate consideration |
|---|---|---|---|---|
| | | HK$ | HK$ | HK$'000 |
| May 2022 | 2,250,000 | 1.61 | 1.47 | 3,521 |
| June 2022 | 2,500,000 | 1.80 | 1.60 | 4,307 |
| July 2022 | 2,850,000 | 1.90 | 1.80 | 5,312 |
| September 2022 | 2,750,000 | 1.97 | 1.70 | 5,279 |
| October 2022 | 1,750,000 | 1.92 | 1.84 | 3,334 |
| November 2022 | 2,000,000 | 1.95 | 1.84 | 3,806 |
| December 2022 | 1,500,000 | 1.92 | 1.87 | 2,859 |
| | 15,600,000 | | | 28,418 |

The Company repurchased 15,600,000 shares during the year ended 31 December 2022 for an aggregate consideration of HK$28,418,000 from the market pursuant to the share award scheme of the Company, which has been recognised under treasury share reserve as at 31 December 2022 and 3,000,000 ordinary shares under share award scheme have been granted to a director as RSUs as details set out in Note 42(a). 1,000,000 RSUs have been vested and HK$1,632,000 has been released from treasury share reserve during the year ended 31 December 2022.

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders and maintaining an adequate capital structure. The Group's overall strategy remained unchanged from prior year.

The capital structure of the Group consists of debts, which include bank and other borrowings, amounts due to non-controlling shareholders of a subsidiary, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group regularly reviews the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through the payment of dividends and new shares issues and share-buy-backs as well as the issue of new debts and redemption of existing debts.

## 42. SHARE-BASED PAYMENTS

### (a) Equity-settled share award scheme

The Company's share award scheme (the "**Share Award Scheme**") was adopted pursuant to the written resolutions of all shareholders of the Company on 19 September 2016 ("**Date of Adoption**") for the primary purpose of rewarding the directors, senior managers and employees ("**Eligible Persons**") of the Group for their hard work, contribution and loyalty and align their interest with those of shareholders of the Company.

An award granted by the board of directors ("**the Board**") of the Company to the Eligible Persons is a right of the relevant participant to receive the shares of the Company. Each award may be subject to such other conditions as may be imposed by the Board at its absolute discretion, including without limitation, a vesting period. Share award must be taken up within 7 days of the grant upon payment of HK$1 per award. The total number of shares in respect of which shares may be granted under the Share Award Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time. The number of shares award which may be granted to any individual but unvested under the Share Award Scheme shall not exceed 1% of the total number of shares of the Company in issue at any point in time.

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

During the current year, the Group granted RSUs to a Group's director under the Share Award Scheme. The RSUs granted would vest on specific dates, or in equal tranches from the grant date over 3 to 27 months, on condition that the director remains in service with certain performance requirements. Once the vesting conditions underlying the respective RSUs are met, the RSUs are considered duly and validly issued to the holder, and free of restrictions on transfer.

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

| | Number of RSUs | Weighted average fair value per RSU<br>HK$ |
|---|---|---|
| Outstanding at 1 January 2022 | – | – |
| Granted during the year | 3,000,000 | 1.37 |
| Vested during the year | (1,000,000) | 1.37 |
| Outstanding as at 31 December 2022 and 1 January 2023 | **2,000,000** | **1.37** |
| Vested during the year | **(500,000)** | **1.37** |
| Forfeited during the year | **(500,000)** | **1.37** |
| Outstanding as at 31 December 2023 | **1,000,000** | **1.37** |

## 42. SHARE-BASED PAYMENTS (Continued)

### (a) Equity-settled share award scheme (Continued)

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

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

The total expenses recognised in the consolidated statement of profit or loss and other comprehensive income for share-based awards granted to the Group's director are HK$472,000 for the year ended 31 December 2023 (2022: HK$2,649,000).

### (b) Equity-settled share option scheme

The Company's share option scheme (the "**Share Option Scheme**") was adopted pursuant to a written resolutions of all shareholders of the Company passed on 19 September 2016 for the primary purpose of providing incentives and awards to an employee (whether full time or part-time) or a director of a member of the Group or associated companies of the Company for their contribution to the Group and to align their interests with that of the Company ("**ESOS Eligible Person(s)**") so as to encourage them to work towards enhancing the value of the Company.

The Board may, at its absolute discretion, offer to grant an option (the "**Options**") to subscribe for such number of shares in the Company at a price determined by the Board, but shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares of the Company on the date of grant of the option.

The Share Option Scheme shall be valid and effective for a period of ten years commencing on 7 October 2016. Options granted must be taken up not later than 30 days after the date of grant. A consideration of HK$1 is payable on acceptance of the offer of grant of an option. The total number of shares in respect of which shares may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company as at 7 October 2016, without prior approval from the shareholders of the Company. No options shall be granted to any participant under the Share Option Scheme in excess of 1% of the total number of shares of the Company in issue at such date, without prior approval from the shareholders of the Company. At any time, the maximum number of shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the Share Option Scheme and any other schemes of the Company to ESOS Eligible Persons must not exceed 30% of the total number of shares of the Company from time to time.

The exercisable period of an option, which shall not exceed 10 years from 7 October 2016, is determined by the Board at their discretion.

No options have been granted since the adoption of Share Option Scheme.

## 43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Note | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | | **160,013** | 160,013 |
| **Current assets** | | | |
| Amounts due from subsidiaries | | **184,268** | 204,577 |
| Other receivables | | **246** | 564 |
| Cash and cash equivalents | | **648** | 6,636 |
| | | **185,162** | 211,777 |
| **Current liabilities** | | | |
| Other payables and accrued charges | | **784** | 511 |
| Amounts due to subsidiaries | | **14,316** | 2,305 |
| | | **15,100** | 2,816 |
| **Net current assets** | | **170,062** | 208,961 |
| **NET ASSETS** | | **330,075** | 368,974 |
| **Capital and reserves** | | | |
| Share capital | | **38** | 38 |
| Reserves | 44(b) | **330,037** | 368,936 |
| **TOTAL EQUITY** | | **330,075** | 368,974 |

The Company's statement of financial position was approved by the Board of Directors on 22 March 2024 and signed on its behalf by:

**Tian Weidong**
*DIRECTOR*

**Wong Tsz Leung**
*DIRECTOR*

## 44. RESERVES

### (a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

### (b) Company

| | Share premium | Treasure share reserve | Share award reserve | Capital redemption reserve | Retained profits/ (accumulated losses) | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2022 | 211,541 | (381) | – | 1 | (26,174) | 184,987 |
| Dividend recognised as distribution | (58,143) | – | – | – | – | (58,143) |
| Recognition of equity-settled share-based expense | – | – | 2,649 | – | – | 2,649 |
| Share repurchased and not yet cancelled | – | (28,418) | – | – | – | (28,418) |
| Share vested under share award scheme | – | 1,632 | (1,370) | – | (262) | – |
| Total comprehensive income for the year | – | – | – | – | 267,861 | 267,861 |
| At 31 December 2022 and 1 January 2023 | **153,398** | **(27,167)** | **1,279** | **1** | **241,425** | **368,936** |
| Dividend recognised as distribution | **(28,262)** | **–** | **–** | **–** | **–** | **(28,262)** |
| Recognition of equity-settled share-based expense | **–** | **–** | **472** | **–** | **–** | **472** |
| Share repurchased and not yet cancelled | **–** | **(8,102)** | **–** | **–** | **–** | **(8,102)** |
| Share vested under share award scheme | **–** | **918** | **(685)** | **–** | **(233)** | **–** |
| Total comprehensive income for the year | **–** | **–** | **–** | **–** | **(3,007)** | **(3,007)** |
| At 31 December 2023 | **125,136** | **(34,351)** | **1,066** | **1** | **238,185** | **330,037** |

## 44. RESERVES (Continued)

### (c) Nature and purpose of reserves

#### (i) Share premium

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

#### (ii) Other reserve

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

#### (iii) Statutory reserve

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

#### (iv) Treasury share reserve

Treasury share reserve represents (i) ordinary shares purchased by Computer Share Hong Kong Trustees Limited ("**Trustee**") from the market pursuant to the share award scheme of the Company for those unlisted awarded shares and ungranted shares; and (ii) shares repurchased but not yet cancelled during the years ended 31 December 2023 and 2022.

#### (v) Share award reserve

The share award reserve represents the fair value of the RSUs granted to employees of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 4(t) to the consolidated financial statements.

#### (vi) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(d)(iii) to the consolidated financial statements.

## 45. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Deconsolidation of a subsidiary

As disclosed in note 5(a), the directors advise that the Group had lost control of Quiksol Group and Quiksol Group therefore have been deconsolidated from the Group's consolidated financial statements with effect from 31 December 2023. From the same date onward, the Group will account for its interest in Quiksol Group as an associate.

In accordance with the HKFRSs, when the Group lost control of the Quiksol Group, the assets and liabilities of the Quiksol Group and the non-controlling interests will be derecognised from the Group's consolidated financial statements. A gain or loss will be recognised in the Group's profit or loss, representing the difference between (i) the aggregate of the fair value of the consideration received (if any) and the fair value of any retained interest in the Quiksol Group; and (ii) the carrying amount of the assets (including goodwill), and liabilities of the Quiksol Group that were attributable to the owners of the Company immediately before the Deconsolidation. The fair value of any investment retained in the Quiksol Group as at the date when control is lost is regarded as the cost on initial recognition of an investment in an associate.

Below table illustrate the assets and liabilities of Quiksol Group as at 31 December 2023 being deconsolidated from the Group's consolidated financial statements and the calculation of the gain or loss arise from the deconsolidation.

## 45. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

### (a) Deconsolidation of a subsidiary (Continued)

Net assets at the date of deconsolidation were as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment | 8,804 |
| Deferred tax assets | 368 |
| Right-of-use assets | 11,753 |
| Trade and bills receivables | 122,147 |
| Deposits, prepayments and other receivables | 26,140 |
| Inventories | 50,262 |
| Loan to a fellow subsidiary | 78,039 |
| Pledged bank deposits | 52,458 |
| Cash and cash equivalents | 156,371 |
| Trade payables | (7,410) |
| Accrued expenses and other payables | (19,275) |
| Contract liabilities | (5,143) |
| Current tax liabilities | (4,784) |
| Bank borrowings | (29,331) |
| Lease liabilities | (11,828) |
| Dividend payable | (156,359) |
| Net assets of Quiksol Group as at 31 December 2023 | 272,212 |
| Proportion of the Group's ownership interest in Quiksol Group | 25% |
| Net assets being deconsolidated from the Group | 68,053 |
| Goodwill being deconsolidated from the Group | 9,735 |
| Gain on deconsolidation | 2,859 |
| Less: fair value of interest retained (note) | (80,647) |
| Total consideration | – |
| Net cash flow arising on deconsolidation: | |
| Cash consideration received | – |
| Cash and cash equivalents disposed of | (156,371) |
| | (156,371) |

Note: The Group has engaged an independent professional valuer to assist in estimating the fair value of Quiksol Group as at 31 December 2023 based on the income approach.

## 45. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

### (b) Major non-cash transaction

Additions to right-of-use assets during the year of HK$13,875,000 (2022: HK$11,383,000) were financed by leases liabilities.

### (c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | 1 January 2023 HK$'000 | Addition HK$'000 | Cash flows HK$'000 | Interest expenses HK$'000 | Exchange difference HK$'000 | Deconsolidation of a subsidiary HK$'000 | Non-cash settlement of discounted bills HK$'000 | 31 December 2023 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| Lease liabilities (note 37) | **23,037** | **13,875** | **(16,475)** | **778** | **(698)** | **(11,828)** | **–** | **8,689** |
| Bank and other borrowings (note 38) | **1,030,226** | **–** | **(598,018)** | **56,254** | **(1,892)** | **(29,331)** | **(59,503)** | **397,736** |
| Loan from an associate (note 31) | **–** | **–** | **–** | **–** | **–** | **78,039** | **–** | **78,039** |

| | 1 January 2022 HK$'000 | Addition HK$'000 | Cash flows HK$'000 | Interest expenses HK$'000 | Exchange difference HK$'000 | Acquisition of a subsidiary HK$'000 | Non-cash settlement of discounted bills HK$'000 | 31 December 2022 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| Lease liabilities (note 37) | 28,145 | 11,383 | (16,648) | 1,028 | (871) | – | – | 23,037 |
| Bank and other borrowings (note 38) | 1,638,132 | – | (395,411) | 78,151 | (1,737) | 23,481 | (312,390) | 1,030,226 |

### (d) Total cash outflow for leases

Amounts included in the cash flow statements for leases comprise the following:

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Within operating cash flows | **3,560** | 1,597 |
| Within financing cash flows | **15,697** | 15,620 |
| | **19,257** | 17,217 |

## 45. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

### (d) Total cash outflow for leases (Continued)

These amounts relate to the following:

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Lease rental paid | **19,257** | 17,217 |

## 46. CONTINGENT LIABILITIES

As at 31 December 2023 and 2022, the Group did not have other significant contingent liabilities.

## 47. OPERATING LEASE ARRANGEMENTS

The Group regularly entered into short-term leases for office premises and staff quarters. As at 31 December 2023, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in note 20.

## 48. RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the year:

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Sales of goods to an associate | **1,465** | – |
| Purchase of goods from an associate | **20,374** | – |

(b) The remuneration of directors of the Company and other members of key management was as follows:

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Short-term employee benefits | **8,360** | 7,228 |
| Post-employment benefits | **117** | 90 |
| | **8,477** | 7,318 |

The remuneration of key management personnel is determined by the management of the Company having regard to the performance of individuals and market trends.

## 49. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 22 March 2024.

SMART-CORE HOLDINGS LIMITED
芯智控股有限公司