



(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2381

A large, abstract graphic composed of numerous overlapping, semi-transparent circles. The top half of the graphic is dominated by shades of blue, while the bottom half transitions into shades of red and orange. The circles are arranged in a way that creates a sense of depth and movement, with some circles appearing more prominent than others.

INTERIM
REPORT
2022

CONTENTS

- 2** Corporate Information
- 3** Unaudited Condensed Consolidated Statement of Comprehensive Income
- 4** Unaudited Condensed Consolidated Statement of Financial Position
- 5** Unaudited Condensed Consolidated Statement of Changes in Equity
- 6** Unaudited Condensed Consolidated Statement of Cash Flows
- 7** Notes to the Unaudited Condensed Consolidated Financial Information
- 19** Management Discussion and Analysis
- 22** Interim Dividend
- 23** Corporate Governance and Other Information

BOARD OF DIRECTORS

Executive Directors

Mr. Leung Chun Wah (*Chief Executive Officer*)

Mr. Tang Che Yin

Mr. Chow Kai Chiu, David

(*Appointed on 28 March 2022*)

Non-executive Directors

Mr. Yung Kwok Kee, Billy (*Chairman*)

Mdm. Li Pik Mui, Cindy

(*Appointed on 17 June 2022*)

Independent Non-executive Directors

Mr. Leung Man Chiu, Lawrence

Mr. Poon Chak Sang, Plato

Mr. Ho Chi Sing, Spencer

AUDIT COMMITTEE

Mr. Leung Man Chiu, Lawrence (*Chairman*)

Mr. Yung Kwok Kee, Billy

Mr. Poon Chak Sang, Plato

REMUNERATION COMMITTEE

Mr. Poon Chak Sang, Plato (*Chairman*)

Mr. Yung Kwok Kee, Billy

Mr. Leung Man Chiu, Lawrence

NOMINATION COMMITTEE

Mr. Yung Kwok Kee, Billy (*Chairman*)

Mr. Poon Chak Sang, Plato

Mr. Leung Man Chiu, Lawrence

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited

Hang Seng Bank Limited

COMPANY SECRETARY

Ms. Lee Ka Man *ACG HKACG*

REGISTERED OFFICE

Windward 3, Regatta Office Park,

PO Box 1350,

Grand Cayman KY1-1108,

Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

1/F, Shell Industrial Building,

12 Lee Chung Street,

Chai Wan, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited

Windward 3, Regatta Office Park,

PO Box 1350,

Grand Cayman KY1-1108, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited

2103B, 21/F, 148 Electric Road,

North Point, Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Leung Chun Wah

Mr. Tang Che Yin

COMPLIANCE OFFICER

Mr. Leung Chun Wah

AUDITOR

BDO Limited

Certified Public Accountants

COMPANY'S WEBSITE

www.smcelectric.com.hk

STOCK CODE

2381

UNAUDITED INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of SMC Electric Limited (the “**Company**”) hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2022, together with the unaudited comparative figures for the six months ended 30 June 2021 and certain comparative figures as at the end of the last audited financial year ended 31 December 2021. The condensed consolidated statement of comprehensive income of the Group for the six months ended 30 June 2022 and the condensed consolidated statement of financial position of the Group as at 30 June 2022, along with selected explanatory notes have not been audited, but have been reviewed by the Company’s audit committee and were approved for issue by the Directors on 25 August 2022.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Notes	Six months ended 30 June 2022 HK\$'000 (Unaudited)	Six months ended 30 June 2021 HK\$'000 (Unaudited)
Revenue	5	162,662	104,353
Cost of revenue		(119,170)	(76,540)
Gross profit		43,492	27,813
Other income		2,634	2,013
Selling and distribution expenses		(1,446)	(1,692)
Administrative and other operating expenses		(15,370)	(12,791)
Other gains		1,587	64
Finance costs		(25)	(56)
Profit before income tax	6	30,872	15,351
Income tax expense	7	(6,168)	(2,692)
Profit for the period attributable to owners of the Company		24,704	12,659
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange difference arising from translation of operations outside Hong Kong		(1,356)	247
Total comprehensive income for the period attributable to owners of the Company		23,348	12,906
Earnings per share	9	HK Cents	HK Cents
– Basic and diluted		1.235	0.633

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

		30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	5,463	4,278
Right-of-use assets		1,775	3,583
Prepayments for acquisition of property, plant and equipment		3,267	5,150
		10,505	13,011
Current assets			
Inventories		32,546	39,792
Trade and other receivables, deposits and prepayments	11	107,374	80,095
Tax prepaid		405	405
Amount due from a fellow subsidiary		2	–
Cash and bank balances		93,672	90,910
		233,999	211,202
Current liabilities			
Trade and other payables and accruals	12	48,688	53,721
Lease liabilities		1,809	3,636
Amounts due to fellow subsidiaries	13	852	1,168
Tax payable		5,412	1,293
		56,761	59,818
Net current assets		177,238	151,384
Total assets less current liabilities/ Net assets		187,743	164,395
CAPITAL AND RESERVES			
Share capital	14	20,000	20,000
Reserves	15	167,743	144,395
Total equity		187,743	164,395

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Share capital HK\$'000	Share premium* HK\$'000 note 15(a)	Merger reserve* HK\$'000 note 15(b)	Capital contribution* HK\$'000 note 15(c)	Translation reserve* HK\$'000 note 15(d)	Dividend reserve* HK\$'000 note 15(e)	Retained earnings* HK\$'000 note 15(e)	Total HK\$'000
At 1 January 2021	20,000	78,695	(45,952)	16,936	(400)	8,000	66,125	143,404
Profit for the period	-	-	-	-	-	-	12,659	12,659
Other comprehensive income for the period								
- Exchange difference arising from translation of overseas operations outside Hong Kong	-	-	-	-	247	-	-	247
Total comprehensive income for the period	-	-	-	-	247	-	12,659	12,906
At 30 June 2021 (Unaudited)	<u>20,000</u>	<u>78,695</u>	<u>(45,952)</u>	<u>16,936</u>	<u>(153)</u>	<u>8,000</u>	<u>78,784</u>	<u>156,310</u>
At 1 January 2022	20,000	78,695	(45,952)	16,936	272	6,000	88,444	164,395
Profit for the period	-	-	-	-	-	-	24,704	24,704
Other comprehensive income for the period								
- Exchange difference arising from translation of operations outside Hong Kong	-	-	-	-	(1,356)	-	-	(1,356)
Total comprehensive income for the period	-	-	-	-	(1,356)	-	24,704	23,348
At 30 June 2022 (Unaudited)	<u>20,000</u>	<u>78,695</u>	<u>(45,952)</u>	<u>16,936</u>	<u>(1,084)</u>	<u>6,000</u>	<u>113,148</u>	<u>187,743</u>

* The total of these equity accounts at the end of the reporting period represents "Reserves" in the unaudited condensed consolidated statement of financial position.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Six months ended 30 June 2022 HK\$'000 (Unaudited)	Six months ended 30 June 2021 HK\$'000 (Unaudited)
Cash flows from operating activities		
Profit before income tax	30,872	15,351
Total non-cash adjustments	1,622	2,283
Total working capital adjustments	(25,339)	18,423
	<hr/>	<hr/>
Cash generated from operations	7,155	36,057
Income tax paid	(1,960)	(2,069)
	<hr/>	<hr/>
Net cash generated from operating activities	5,195	33,988
	<hr/>	<hr/>
Cash flows from investing activities		
Interest received	93	63
Prepayments for purchase of property, plant and equipment	(20)	(2,163)
Purchase of property, plant and equipment	(724)	(201)
	<hr/>	<hr/>
Net cash used in investing activities	(651)	(2,301)
	<hr/>	<hr/>
Cash flows from financing activities		
Payment of principal element of lease liabilities	(1,805)	(1,771)
Payment of interest element of lease liabilities	(25)	(56)
	<hr/>	<hr/>
Net cash used in financing activities	(1,830)	(1,827)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	2,714	29,860
Cash and cash equivalents at the beginning of period	90,910	77,464
Effect of foreign exchange rate change on cash and cash equivalents	48	108
	<hr/>	<hr/>
Cash and cash equivalents at the end of period	93,672	107,432
	<hr/> <hr/>	<hr/> <hr/>

1. GENERAL INFORMATION

SMC Electric Limited was incorporated on 5 December 2018 in the Cayman Islands as an exempted company with limited liability. The shares of the Company have been listed (the “**Listing**”) on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 2 June 2020 (the “**Listing Date**”).

The address of its registered office is Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands. The principal place of business is located at 1/F., Shell Industrial Building, 12 Lee Chung Street, Chai Wan, Hong Kong.

The Company is an investment holding company. The principal activities carried out by the Company and its subsidiaries are manufacturing and selling of electric tools and sourcing and selling of electric fans.

The Directors of the Company consider its ultimate holding company to be Shell Electric Holdings Limited (“**Shell Holdings**”), a company incorporated in Bermuda.

2. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information have been prepared in accordance with Hong Kong Accounting Standard 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

The unaudited condensed consolidated interim financial information do not include all the information and disclosures required in annual financial statements and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2021 (the “**Annual Report 2021**”) which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

The unaudited condensed consolidated interim financial information have been prepared under the historical cost basis and presented in Hong Kong Dollars (“**HK\$**”), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand except when otherwise indicated.

The unaudited condensed consolidated interim financial information have been prepared in accordance with the same accounting policies and methods of computation as adopted by the Group in the Annual Report 2021 except for the adoption of new or amended HKFRSs as mentioned in note 3.

In preparing the unaudited condensed consolidated interim financial information, the significant judgment made by the management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those applied to the Annual Report 2021.

3. ADOPTION OF NEW OR REVISED HKFRSs

During the current period, the Group has applied for the first time the following new standard, amendments and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2022.

2021 Amendment to HKFRS 16	COVID-19 Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to HKFRSs 2018–2020 Cycle	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards, HKFRS 9 Financial Instruments; HKFRS 16 Leases
Amendments to HKFRS 3	Reference to the Conceptual Framework

The adoption of the above new or revised HKFRSs in the current period has no material impact on the amounts reported and/or disclosures set out in these unaudited condensed consolidated financial statements.

At the date of authorisation of the unaudited condensed consolidated financial statements, the HKICPA has issued a number of new/revise HKFRSs that are not yet effective for the current period, which the Group has not early adopted. The Directors do not anticipate that the adoption of the new/revise HKFRSs in future periods will have any material impact on the unaudited condensed consolidated financial statements of the Group.

4. SEGMENT INFORMATION

Operating segment information

The operating segments are reported in a manner consistent with the way in which information is reported internally to the Group's chief operating decision-maker for the purposes of resources allocation and assessment of segment performance. The Group has identified the following reportable operating segments:

SMC segment	—	develop, design and trading of electrical fans under the Group's own brand, namely "SMC".
Non-SMC segment	—	develop, design, manufacturing and trading of electric tools and electric fans to customers under their respective brands.

Each of the reportable segments is managed separately as the resources requirement of each of them is different.

4. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. Segment revenue represents revenue from external customers and there were no inter-segment sales between different segments during the period and in prior period. Segment profit represents gross profit generated by the segment.

Information of the operating segments of the Group reported to the chief operating decision-maker for the purposes of resources allocation and performance assessment does not include assets and liabilities. Accordingly, no information of segment assets and segment liabilities is presented.

Information regarding the Group's reportable segments including reportable segment revenue, segment profit or loss, reconciliations to profit before income tax are as follows:

	Non-SMC segment HK\$'000	SMC segment HK\$'000	Total HK\$'000
Six months ended 30 June 2022			
(Unaudited)			
Reportable segment revenue recognised at a point in time	<u>138,595</u>	<u>24,067</u>	<u>162,662</u>
Reportable segment profit	<u>37,873</u>	<u>5,619</u>	<u>43,492</u>
Corporate and unallocated income [^]			2,634
Corporate and unallocated expenses [^]			<u>(15,254)</u>
Profit before income tax			<u><u>30,872</u></u>

4. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

	Non-SMC segment HK\$'000	SMC segment HK\$'000	Total HK\$'000
Six months ended 30 June 2021			
(Unaudited)			
Reportable segment revenue recognised at a point in time	83,842	20,511	104,353
Reportable segment profit	21,676	6,137	27,813
Corporate and unallocated income [^]			2,013
Corporate and unallocated expenses [^]			(14,475)
Profit before income tax			<u>15,351</u>

[^] Corporate and unallocated income represent other income. Corporate and unallocated expenses mainly represent selling and distribution expenses and administrative and other operating expenses, which mainly included employee benefit expenses, and freight and transportation costs incurred up to the respective period.

5. REVENUE

The Group is principally engaged in the manufacturing and selling of electric tools and sourcing and selling of electric fans. Sales from the principal activities represent revenue from contracts with customers within the scope of HKFRS 15, which is recognised at a point in time and comprise:

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Sales of electric fans and electric tools:		
– Fans	68,571	57,927
– Vacuum cleaners	67,792	33,496
– Work lights	25,983	12,930
– Others	316	–
	<u>162,662</u>	<u>104,353</u>

6. PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit before income tax is arrived at after charging:		
Cost of inventories recognised as expense		
– Carrying amount of inventories consumed	119,144	76,526
– Allowances for inventories	26	14
	<hr/> 119,170	<hr/> 76,540
Depreciation of property, plant and equipment	987	658
Depreciation of right-of-use assets	1,786	1,784
Employee benefit expenses (including Directors' emoluments):		
– Salaries, wages and other benefits	13,861	11,846
– Contribution to defined contribution retirement plans	680	672
	<hr/> 14,541	<hr/> 12,518
	<hr/> 14,541	<hr/> 12,518

7. INCOME TAX EXPENSE

The amount of income tax expense in the unaudited condensed consolidated statement of comprehensive income represents:

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax		
– Hong Kong Profits Tax		
– tax for the period	3,756	2,712
– over provision in respect of prior period	–	(20)
– Other regions of the People’s Republic of China (the “ PRC ”)		
– Enterprise Income Tax (“ EIT ”)	2,456	–
– over provision in respect of prior period	(44)	–
	6,168	2,692
Income tax expense	6,168	2,692

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and is not subject to income tax in the Cayman Islands.

Hong Kong Profit Tax was calculated at 16.5% (2021: 16.5%) on the estimated assessable profits derived from Hong Kong for the period.

EIT arising from other regions of the PRC was calculated at 25% (2021: 25%) on the estimated assessable income for the period.

8. DIVIDEND

Final dividend of HK\$0.003 per ordinary share, amounting to HK\$6,000,000, was proposed by the Directors and was approved by the shareholders in the annual general meeting held on 17 June 2022.

An interim dividend in respect of 2022 of HK\$0.02 (six months ended 30 June 2021: nil) per share amounting to a total of approximately HK\$40,000,000 was declared by the Board of the Directors on 25 August 2022. This interim dividend has not been included as a liability in these unaudited condensed consolidated financial statements as it was declared after the ended of the reporting period.

The amount of the interim dividend was calculated on the basis of 2,000,000,000 shares in issue as at 25 August 2022.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2022, the Group acquired property, plant and equipment of approximately HK\$2,387,000 (six months ended 30 June 2021: HK\$376,000). Such additions mainly comprised of moulds, tools and machineries of HK\$2,382,000 (six months ended 30 June 2021: HK\$371,000).

11. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 June 2022	31 December 2021
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Trade receivables	93,521	72,155
Less: Provision for impairment	(515)	(274)
	<hr/>	<hr/>
Trade receivables, net	93,006	71,881
Other receivables	8,261	2,008
Other prepayments and deposits	6,107	6,206
	<hr/>	<hr/>
	107,374	80,095
	<hr/> <hr/>	<hr/> <hr/>

The ageing analysis of the trade receivables (gross), based on invoice date, as of the end of the reporting period is as follows:

	30 June 2022	31 December 2021
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
0 to 30 days	19,714	18,673
31 to 60 days	19,502	21,041
61 to 90 days	28,014	15,915
Over 90 days	26,291	16,526
	<hr/>	<hr/>
	93,521	72,155
	<hr/> <hr/>	<hr/> <hr/>

The Group normally allows a credit period of 45 days to 180 days to its customers.

12. TRADE AND OTHER PAYABLES AND ACCRUALS

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Trade payables	31,874	31,919
Accruals and other payables	16,030	20,349
Contract liabilities	784	1,453
	48,688	53,721

Credit periods granted by suppliers normally range from nil to 120 days.

The ageing analysis of trade payables, based on invoice date, as of the end of the reporting period is as follows:

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
0 to 30 days	13,635	19,298
31 to 60 days	10,297	8,143
61 to 90 days	2,781	2,519
Over 90 days	5,161	1,959
	31,874	31,919

13. AMOUNTS DUE TO FELLOW SUBSIDIARIES

The amounts due to fellow subsidiaries are trading in nature, unsecured, interest-free and repayable on demand.

14. SHARE CAPITAL

Details of the movements in the authorised and issued and fully paid share capital of the Company during the year ended 31 December 2021 and the six months ended 30 June 2022 are summarised as follows:

Ordinary shares	Par value HK\$	Number of ordinary shares	Amount HK\$'000
Authorised:			
At 1 January 2021,			
31 December 2021 (audited)			
and 30 June 2022 (unaudited)			
	0.01	<u>5,000,000,000</u>	<u>50,000</u>
Issued and fully paid:			
At 1 January 2021,			
31 December 2021 (audited)			
and 30 June 2022 (unaudited)			
	0.01	<u>2,000,000,000</u>	<u>20,000</u>

15. RESERVES

Details of the movements of the Group's reserves for the reporting period are presented in the unaudited condensed consolidated statement of changes in equity.

The nature of the reserves is as follows:

(a) Share premium

Share premium represents the excess of proceeds received over the par value of shares issued, less expenses incurred in connection with the issue of new shares.

(b) Merger reserve

The merger reserve arose from combining the financial statements of the companies now comprising the Group under the reorganisation for the purposes of the Listing.

(c) Capital contribution

Capital contribution comprised (i) an amount of HK\$8,254,000 due to Shell Holdings which was waived by Shell Holdings; and (ii) an amount of HK\$8,682,000 which represents professional fees incurred by the Group for the Listing which were reimbursed by Shell Holdings.

15. RESERVES (Continued)

(d) Translation reserve

Translation reserve comprises foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong.

(e) Retained earnings

Retained earnings are the accumulated net gains and losses recognised in profit or loss. Proposed final dividends are deducted from retained earnings and recognised separately as dividend reserve.

16. CAPITAL COMMITMENTS

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Contracted for but not provided in the financial statements		
– Acquisition of property, plant and equipment	<u>1,435</u>	<u>1,293</u>

17. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in this interim financial information, the Group had the following significant related party transactions:

Significant transactions entered by the Group with related parties during the period:

Name	Related party relationship	Type of transaction	Transaction amount	
			Six months ended 30 June 2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
佛山市順德區規華多媒體製品有限公司 (Shunde SMC Multi-Media Products Company Limited*) ("MMSD")	Fellow subsidiary	Rental fee charged by the related party for leasing of staff quarter	94	90
PFC Device (HK) Limited	Fellow subsidiary	Purchase of raw materials from the related party	29	105
廣東規華電器製造有限公司 (Guangdong Sien Hua Electrical Appliance Manufacturing Company Limited*)	Associate	Purchase of raw materials and goods from the related party	18,741	11,199

* for identification purpose only

Note:

The Group entered into a lease agreement with MMSD for the leasing of factory and staff quarters located at Shunde, the PRC, for a period of 24 months effective on 1 January 2021. In addition, the Group entered into lease agreements with Shell Holdings for the leasing of office premises, warehouse and carpark space located in Hong Kong for a period of 24 months effective on 1 January 2021.

The Group recognised right-of-use assets and lease liabilities in relation to the above-mentioned lease agreements for factory, office premises, warehouse and carpark space under HKFRS 16. For the six months ended 30 June 2022, total undiscounted rental payments under these leases were approximately HK\$1,830,000 (six months ended 30 June 2021: HK\$1,827,000).

The monthly rental payable for leasing the staff quarters at Shunde, the PRC, is charged based on the actual number of rooms used and recognised in profit or loss when it is incurred. Rental payment for the leasing of staff quarters for the six months ended 30 June 2022 amounted to Renminbi ("RMB") 78,000 (equivalent to approximately HK\$94,000) (six months ended 30 June 2021: RMB75,000, equivalent to approximately HK\$90,000).

The above transactions were conducted on mutually-agreed terms.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the interim period ended, the Group continued to face challenges of high raw materials costs, container shortages and increased transportation costs. Despite the challenges, the Group reported revenue growth in the first half of 2022 compared with the same period last year.

Significant increase in shipment of electric tools and electric fans in the first half of 2022 was recorded. This increase is mostly the result of clearing customer order backlogs with easing of IC component supplies and shipping containers during the period.

After encountering COVID-19 in the past two years, the world has strived to gradually adapt to the pandemic, attempting to establish a new normal as we are more experienced in handling uncertainties. It is expected the pace of recovery will continue in 2022. The Group will ensure the prudent investment of resources to maintain the company's competitiveness.

FINANCIAL REVIEW

Revenue and Operating Results

Revenue from the Group's operations for the six months ended 30 June 2022 amounted to approximately HK\$162.7 million, representing an increase of approximately HK\$58.3 million or approximately 55.9% as compared to approximately HK\$104.4 million for the corresponding period in 2021. Such increase was attributable to the increase in the sales volume of electric tools and electric fans.

The Group's gross profit for the six months ended 30 June 2022 amounted to approximately HK\$43.5 million, representing an increase of approximately HK\$15.7 million as compared to approximately HK\$27.8 million for the corresponding period in 2021. The gross profit margins were approximately 26.7% for both six months ended 30 June 2022 and 2021.

Profit attributable to the owners of the Company for the six months ended 30 June 2022 was approximately HK\$24.7 million, representing an increase of approximately HK\$12.0 million or approximately 95.1% as compared to approximately HK\$12.7 million for the corresponding period in 2021. The increase in profit for the period was mainly attributable to the increase in revenue as mentioned above.

Liquidity, Financial Resources and Capital Structure

The Group has adequate liquidity and financial resources to meet the working capital requirements and other financial obligations in the second half of the financial year. The Group will continue to follow a prudent treasury policy and maintain a healthy financial and liquidity position to achieve the Group's future business development. As at 30 June 2022, the Group's total cash and bank balance amounted to approximately HK\$93.7 million (31 December 2021: approximately HK\$90.9 million) which was mainly denominated in United States Dollars ("**US\$**") and HK\$.

As at 30 June 2022, the current ratio of the Group was approximately 4.12 times (31 December 2021: approximately 3.53 times).

The capital of the Group comprises only ordinary shares. As at 30 June 2022, there were 2,000,000,000 ordinary shares in issue. There has been no change in the Company's capital structure since the date of listing and up to the date of this report.

Foreign Exchange Exposure

The Group mainly operates in Hong Kong and the PRC. The functional currencies of the Company and the Group's operating entities are mainly HK\$ and RMB with certain of their business transactions being settled in US\$. The Group is thus exposed to currency risk arising from fluctuation on exchange rates of US\$ against the functional currencies of the relevant operating entities. During the period, the Group does not have foreign currency hedging policy, but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Gearing Ratio

The gearing ratio of the Group (expressed as a percentage of total bank borrowings net of cash and bank balances to total equity of the Group) as at 30 June 2022 was nil (31 December 2021: nil) as the Group had net cash balances at the respective period end.

Capital Expenditure and Capital Commitments

During the six months ended 30 June 2022, the Group incurred capital expenditure of approximately HK\$0.7 million for the purchase of property, plant and equipment (six months ended 30 June 2021: approximately HK\$2.4 million).

As at 30 June 2022, the Group had total capital commitments of approximately HK\$1.4 million (31 December 2021: approximately HK\$1.3 million) for the acquisition of property, plant and equipment.

Contingent Liabilities

The Directors confirm that there were no material contingent liabilities as at 30 June 2022 (31 December 2021: nil).

Segment Information

Segment information for the Group is present as disclosed in note 4 to the unaudited condensed consolidated financial information.

Significant Investments/Material Acquisitions and Disposal

During the six months ended 30 June 2022, the Group had not made any significant investments or material acquisitions and disposal of subsidiaries.

Employees and Remuneration Policy

As at 30 June 2022, the total number of employees of the Group was 119 (31 December 2021: 132), and they were stationed in the PRC and Hong Kong. The Group regularly reviews remuneration and benefits to its employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including social insurance, employee provident fund schemes and discretionary incentive.

PLEDGE ON ASSETS

As at 30 June 2022, the Group did not have any assets which were pledged as security for the Group's borrowings (31 December 2021: nil).

USE OF PROCEEDS FROM THE SHARE OFFER

The net proceeds from the share offer (after deducting the underwriting fees and related expenses) amounted to approximately HK\$42.5 million.

The Group had utilised approximately HK\$6.2 million of the net proceeds as at 30 June 2022. The unused net proceeds have been placed as interest-bearing deposits with licensed banks in Hong Kong. Set out below is a summary of the utilisation of the net proceeds:

	Allocation of net proceeds as disclosed in the prospectus HK\$ million	Unutilised amount as at 31 December 2021 HK\$ million	Actual utilised amount during the six months period HK\$ million	Unutilised amount as at 30 June 2022 HK\$ million	Expected timeline for use of unutilised proceeds (note)
Improvement of efficiencies	6.3	4.8	0.6	4.2	31 December 2022
Expand manufacturing capabilities	25.9	22.5	0.4	22.1	31 December 2022
Devoting resources on new products	10.3	10.2	0.2	10.0	31 December 2022
	<u>42.5</u>	<u>37.5</u>	<u>1.2</u>	<u>36.3</u>	

Notes:

1. There was a delay in the use of proceeds because the Group encountered uncertainties arising from the COVID-19 pandemic in the past years, which caused supply interruptions and logistic delays.
2. The expected timeline for use of unutilised proceeds is based on the Group's best estimation of the future market condition. It is subject to change based on the current and future development of the market condition.

INTERIM DIVIDEND

DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.02 (six months ended 30 June 2021: nil) per share for the six months ended 30 June 2022 to be paid on 29 September 2022 to the shareholders of the Company whose names appear on the register of members of the Company on Thursday, 15 September 2022.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 14 September 2022 to Thursday, 15 September 2022, both dates inclusive, during which period no transfer of shares of the Company will be registered for the purpose of determining the entitlement to the interim dividend.

In order to qualify for the interim dividend, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong not later than 4:30 p.m. on Tuesday, 13 September 2022 for registration.

DISCLOSURE OF INTERESTS

A. Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2022, the interests or short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company, its subsidiaries and its associated corporations (within the meaning of the Part XV of Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

I. Interests in issued shares

Name of Director	Capacity/Nature of interest	Number of shares held/ interested in the Company	Percentage of shareholding as at 30 June 2022
Mr. Yung Kwok Kee, Billy ("Mr. Yung")	Interest in a controlled corporation (Note)	1,500,000,000	75.0%

Note:

Mr. Yung holds the entire issued share capital of Red Dynasty Investments Limited ("Red Dynasty"), which, in turn, holds 80.5% interest in Shell Holdings. Accordingly, Mr. Yung is deemed to be interested in the shares held by Shell Holdings by virtue of the SFO.

II. Interest in the shares of associated corporation

Name of Director/ chief executive	Name of associated corporation	Capacity/Nature of interest	Number of shares in associated corporation	Percentage of shareholding as at 30 June 2022
Mr. Yung	Shell Holdings	Interest in a controlled corporation (Note)	421,531,111	80.5%

Note:

Shell Holdings is owned as to 80.5% by Red Dynasty. Red Dynasty is wholly-owned by Mr. Yung. By virtue of the SFO, Mr. Yung is deemed to be interested in the shares of Shell Holdings held by Red Dynasty.

Save as disclosed above, as at 30 June 2022, none of the Directors nor chief executive or any of their respective associates has registered an interest or short positions in the shares, underlying shares or debentures of the Company, or any of its holding company, subsidiaries or other associated corporations (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.

B. Substantial Shareholders' Interests and Short Positions in Shares, Underlying Shares and Debentures

According to the register of substantial shareholders maintained under Section 336 of the SFO as at 30 June 2022, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital.

<u>Name of substantial shareholders</u>	<u>Capacity/nature of interest</u>	<u>Number of shares held/interested in</u>	<u>Long/short position</u>	<u>Percentage of shareholding as at 30 June 2022</u>
Shell Holdings	Beneficial owner	1,500,000,000 (Note 1)	Long	75.0%
Red Dynasty	Interest in a controlled corporation	1,500,000,000 (Note 1)	Long	75.0%
Mr. Yung	Interest in a controlled corporation	1,500,000,000 (Note 1)	Long	75.0%
Mrs. Yung	Interest of spouse	1,500,000,000 (Note 2)	Long	75.0%
Hong Kong Construction (Hong Kong) Limited	Beneficial owner	180,090,000 (Note 3)	Long	9.0%
HKC (Holdings) Limited	Interest in a controlled corporation	180,090,000 (Note 3)	Long	9.0%
Creator Holdings Limited	Interest in a controlled corporation	180,090,000 (Note 3)	Long	9.0%
Claudio Holdings Limited	Interest in a controlled corporation	180,090,000 (Note 3)	Long	9.0%
Mr. Oei Kang, Eric	Interest in a controlled corporation	180,090,000 (Note 3)	Long	9.0%

Notes:

- Mr. Yung holds the entire issued share capital of Red Dynasty, which, in turn, holds 80.5% interest in Shell Holdings. Accordingly, Mr. Yung is deemed to be interested in the shares held by Shell Holdings by virtue of the SFO.

2. Ms. Vivian Hsu ("**Mrs. Yung**") is the spouse of Mr. Yung. By virtue of the SFO, Mrs. Yung is deemed to be interested in all the shares in which Mr. Yung is deemed to be interested.
3. Hong Kong Construction (Hong Kong) Limited is wholly-owned by HKC (Holdings) Limited. And HKC (Holdings) Limited was held as to approximately 67.829% by Claudio Holdings Limited (via its wholly-owned subsidiaries, Creator Holdings Limited and Genesis Capital Group Limited), a company wholly-owned by Mr. Oei Kang, Eric).

Save as disclosed above, as at 30 June 2022 and so far as known to the Directors, no person, other than the Directors and chief executive of the Company whose interests are set out in the section "Directors and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

The Company has a share option scheme which was approved and adopted by shareholders of the Company on 29 April 2020.

No share option has been granted under the share option scheme since its adoption.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2022, neither the Company, nor any of its subsidiaries has purchased, sold, or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2022.

The Board will continue to review and monitor its code of corporate governance practices of the Company with an aim to maintaining a high standard of corporate governance.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding dealings in the securities of the Company by the Directors and the Group's senior management and relevant employees who, because of his/her office or employment, are likely to possess inside information in relation to the Group or the Company's securities.

Upon specific enquiry by the Company, all Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2022. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the period under review.

AUDIT COMMITTEE

The Company has established an audit committee comprising two independent non-executive directors and one non-executive director, namely Mr. Leung Man Chiu, Lawrence (Chairman), Mr. Poon Chak Sang, Plato and Mr. Yung Kwok Kee, Billy. The audit committee has reviewed, with no disagreement, with the senior management on the Group's interim results and the interim financial information for the six months ended 30 June 2022, including the accounting principles and practices adopted by the Group, and discussed financial reporting, auditing and internal controls matters.

By Order of the Board
SMC Electric Limited
LEUNG Chun Wah
Executive Director

Hong Kong, 25 August 2022

As at the date of this report, the Board comprises three executive directors, namely, Mr. LEUNG Chun Wah, Mr. TANG Che Yin and Mr. CHOW Kai Chiu, David; two non-executive directors, namely, Mr. YUNG Kwok Kee, Billy and Mdm. LI Pik Mui, Cindy; and three independent non-executive directors, namely, Mr. LEUNG Man Chiu, Lawrence, Mr. POON Chak Sang, Plato and Mr. HO Chi Sing, Spencer.