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CHANGE IN USE OF PROCEEDS

Reference is made to (i) the prospectus issued by SMC Electric Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 19 May 2020 (the “**Prospectus**”) in relation to the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited, which sets out the intended use of the net proceeds from the issue of new shares of the Company (the “**Net Proceeds**”) at the time of preparing the Prospectus; and (ii) the annual report of the Company for the year ended 31 December 2022 (the “**Annual Report**”), in which the utilisation of the Net Proceeds up to 31 December 2022 was disclosed. Unless otherwise defined herein, capitalized terms used in this announcement shall have the same meanings as those defined in the Prospectus and the Annual Report.

The board of directors of the Company (the “**Board**”) hereby announces that it has resolved to change the use of the Net Proceeds.

USE OF PROCEEDS

As disclosed in the section headed “Future Plans and Use of Proceeds” in the Prospectus, the Net Proceeds were intended to be used for the following purposes:

- approximately 14.8% of the net proceeds or approximately HK\$6.3 million, will be used for the improvement of the Group’s efficiencies in its daily operations;
- approximately 60.9% of the net proceeds or approximately HK\$25.9 million and approximately HK\$4.1 million of the Group’s internal resources, for strategically expanding the Group’s manufacturing capabilities; and
- approximately 24.3% of the net proceeds or approximately HK\$10.3 million, for devoting resources on new products.

The Net Proceeds received by the Company, after deducting related underwriting fees and expenses payable by the Company in connection with the Share Offer, were approximately HK\$42.5 million.

As disclosed in the section headed “Use of Proceeds from Share Offer” in the Annual Report, the Company had utilised approximately HK\$6.8 million of the net proceeds as at 31 December 2022 and due to the dynamic changes in the global and local economic environment since the onset of COVID-19 in 2020 and the associated demand uncertainty, amid a new and evolving geopolitical setting, a relatively longer timeline is expected for the Group to review and assess the market condition to utilise the unutilised Net Proceeds. The Board extended the expected timeline for use of unutilised proceeds to on or before 31 December 2024.

CHANGE IN USE OF PROCEEDS

As at the date of this announcement, the unutilised Net Proceeds amounted to approximately HK\$34.7 million. As such, the Board resolved to change the use of the unutilised Net Proceeds. An analysis of the utilisation of the Net Proceeds as at the date of this announcement and the proposed change in the use of the unutilised Net Proceeds is set out as below:

	Allocation of net proceeds as disclosed in the Prospectus <i>HK\$'million</i>	Utilised Net Proceeds as at the date of this Announcement <i>HK\$'million</i>	Unutilised Net Proceeds as at the date of this Announcement <i>HK\$'million</i>	Proposed application of the unutilised Net Proceeds <i>HK\$'million</i>
Improvement of efficiencies	6.3	3.2	3.1	0.3
Expand manufacturing capabilities	25.9	4.0	21.9	0.4
Devoting resources on new products	10.3	0.6	9.7	–
Discount purchases of products from suppliers	–	–	–	34.0
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Total	42.5	7.8	34.7	34.7
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The unutilized Net Proceeds are expected to be utilised in the coming eighteen months.

Save for the aforesaid changes, there is no other change in use of the Net Proceeds.

REASONS FOR AND BENEFITS OF THE CHANGE IN USE OF PROCEEDS

In view of the ever-changing global and local economic landscape, the Board has carefully considered the potential benefits and risks of executing the company’s expansion plan, which includes expanding manufacturing capabilities, devoting resources to new products, and improving efficiencies. Such expansion plan was premised on opportunities in expanding sales. After thorough evaluation, the Board has determined that this plan may not be in the best interests of the Group when opportunities in sales expansion has not bear fruit in the past few years since the Initial Public Offering.

As an alternative strategy, the Board plans to enhance the Group's profitability by negotiating with suppliers to obtain discounts through offering more advantageous settlement terms of electric fan products and associated materials purchases. Such discount shall offer more savings than the Group could otherwise achieve from its treasury operations. This approach has the potential to reduce the Group's cost of sales and enable the sale of more electric fan products at more competitive price. As a result, the Board has estimated that approximately HK\$34.0 million of the remaining HK\$34.7 million of unutilised Net Proceeds will be allocated for these discounted purchases. The Board believes that this new approach will enable the Group to achieve its business objectives and enhance its competitiveness in the market.

The Board confirms that there are no material changes in the nature of the business of the Group as set out in the Prospectus. The Board considers the above change in the use of the Net Proceeds is fair and reasonable as this would allow the Group to deploy its financial resources more effectively to improve the profitability of the Group and is therefore in the interests of the Group and the Shareholders as a whole.

The Board will continuously assess the plan for the use of the unutilised Net Proceeds and may revise or amend such plan where necessary to cope with the changing market conditions and strive for better business performance of the Group.

By Order of the Board
SMC Electric Limited
Yung Kwok Kee, Billy
Chairman

Hong Kong, 27 June 2023

As at the date of this announcement, 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.