



**SMC ELECTRIC LIMITED**  
**蜆壳電業有限公司**

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2381

# 2023

## ANNUAL REPORT



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Leung Chun Wah (*Chief Executive Officer*)  
Mr. Tang Che Yin  
Mr. Chow Kai Chiu, David

### Non-executive Directors

Mr. Yung Kwok Kee, Billy (*Chairman*)  
Mdm. Li Pik Mui, Cindy

### 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. Chow Kai Chiu, David  
Mdm. Li Pik Mui, Cindy

## AUDITOR

BDO Limited  
*Certified Public Accountants*  
*Registered Public Interest Entity Auditor*

## COMPANY'S WEBSITE

[www.smcelectric.com.hk](http://www.smcelectric.com.hk)

## STOCK CODE

2381

# CHAIRMAN'S STATEMENT

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of SMC Electric Ltd (the “**Company**”), I am pleased to present the audited consolidated annual results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2023.

During the financial year of (the “**FY**”) 2023, the Group faced multiple challenges from uncertainties in the global environment and currency fluctuations to risk factors brought on by the aftermath of the COVID-19 epidemic. Despite these uncertainties, the Group managed to achieve a relatively stable return by diversifying in new product initiatives which proved successful.

In FY2023, the Group's revenue and gross profit decreased to approximately HK\$232.9 million and HK\$63.7 million respectively, representing a decrease of 8.5% and 9.0% as compared with the previous year. Profit attributable to owners of the Group was HK\$20.8 million, representing a decrease of 7.1%, as compared with the profit of HK\$22.4 million of FY2022.

The current year continues to be a challenge due to persistent uncertainties brought on by the aftermath of the COVID-19 epidemic. The Group has adopted multiple plans including reaching new customers to protect the interests of our shareholders and other stakeholders.

On behalf the Board, I would like to express our gratitude to our staff and fellow Directors and the support from all our shareholders and stakeholders.

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

Hong Kong, 25 March 2024

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

During the year ended 31 December 2023, overall sales dropped compared to the prior year. Uncertainties in the global environment and currency fluctuations had led to more cautious purchases by customers.

The electric fan business experienced price competition in the Middle East market, resulting in reduction of sales and gross profit.

The electric tools business experienced minor reduction in sales with diversification in new product initiatives.

Looking forward, year 2024 continues to be challenging. We will continue to adopt multiple plans including reaching new customers and strive to achieve a stable return.

## FINANCIAL REVIEW

### Revenue and operating results

Revenue from the Group's operations for the year ended 31 December 2023 amounted to HK\$232.9 million, representing a decrease of HK\$21.6 million or 8.5% as compared to HK\$254.5 million for the year ended 31 December 2022. Such decrease was primarily attributable to the decrease in the sales volume.

The Group's gross profit for the year ended 31 December 2023 amounted to HK\$63.7 million, representing a decrease of HK\$6.3 million as compared to HK\$70.0 million for the year ended 31 December 2022. The gross profit margin for the year ended 31 December 2023 was 27.3%, representing a decrease of 0.2 percentage points compared to 27.5% for the year ended 31 December 2022.

Profit attributable to the owners of the Company for the year ended 31 December 2023 was HK\$20.8 million, representing a decrease of HK\$1.6 million or 7.1% as compared to HK\$22.4 million for the year ended 31 December 2022. The decrease in profit for the year was mainly attributable to the decrease of revenue as mentioned above.

# MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

## 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 next 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 31 December 2023, the Group's total cash and bank balances amounted to approximately HK\$82.2 million (2022: HK\$89.3 million) which is mainly denominated in United States Dollars ("US\$").

As at 31 December 2023, the current ratio of the Group was approximately 3.20 times (2022: approximately 3.89 times).

The capital of the Group comprises only ordinary shares. As at 31 December 2023, 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, the People's Republic of China (the "PRC") and Vietnam. The functional currencies of the Company and the Group's operating entities are mainly HK\$ and Renminbi (the "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 foreign currencies, primarily HK\$, RMB and US\$ against the functional currencies of the relevant operating entities. During the financial year, 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 31 December 2023 was nil (2022: nil) as the Group had net cash balances at the respective year end.

## Capital Expenditure and Capital Commitments

During the year ended 31 December 2023, the Group incurred capital expenditure of HK\$5.4 million for the purchase of property, plant and equipment, right-of-use assets and prepayment for acquisition of property, plant and equipment (2022: HK\$6.3 million).

As at 31 December 2023, the Group had total capital commitments of approximately HK\$0.6 million (2022: HK\$1.1 million) for the acquisition of property, plant, and equipment.

## Contingent Liabilities

The Directors confirm that there were no material contingent liabilities as at 31 December 2023 (2022: nil).

## Significant Investment/Material Acquisition and Disposal

During the year ended 31 December 2023, the Group had not made any significant investments or material acquisitions and disposals of subsidiaries.

# MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

## Employees and Remuneration Policy

As at 31 December 2023, the total number of employees of the Group was 112 (2022: 106), which were stationed in the PRC, Hong Kong and Vietnam. 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 31 December 2023, the Group did not have any assets which were pledged as security for the Group's borrowings (2022: nil).

## USE OF PROCEEDS FROM THE SHARE OFFER

The business planned use of proceeds as stated in the prospectus of the Company (the "Prospectus") dated 19 May 2020 were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus. The net proceeds from the share offer (after deducting the underwriting fees and related expenses) amounted to approximately HK\$42.5 million. As disclosed in the Company's announcement dated 27 June 2023 (the "Change in Use of Proceeds Announcement"), having carefully considered the latest business and development needs of the Group, the Board have resolved to change the proposed use of the unutilised net proceeds in the amount of approximately HK\$34.0 million originally allocated for (i) improving of efficiencies; (ii) expanding manufacturing capabilities and (iii) devoting resources on new products. Please refer to the Change in Use of Proceeds Announcement for details. The following table sets forth the status of the use of proceeds as at 31 December 2023.

	Allocation of net proceeds as disclosed in the Prospectus HK\$ million	Unutilised amount as at 31 December 2022 HK\$ million	Utilised amount from 1 January 2023 to the date of Change in Use of Proceeds Announcement HK\$ million	Reallocation as stated in the Change in Use of Proceeds Announcement HK\$ million	Amount utilised from reallocation as stated in the Change in Use of Proceeds Announcement to 31 December 2023 HK\$ million	Unutilised amount as at 31 December 2023 HK\$ million	Expected timeline for use of unutilised proceeds
Improvement of efficiencies	6.3	3.7	(0.6)	(2.8)	(0.1)	0.2	By end of 31 December 2024
Expand manufacturing capabilities	25.9	22.2	(0.3)	(21.5)	-	0.4	By end of 31 December 2024
Devoting resources on new products	10.3	9.8	(0.1)	(9.7)	-	-	N/A
Discount purchase of products from suppliers	-	-	-	34.0	(11.6)	22.4	By end of 31 December 2024
	42.5	35.7	(1.0)	-	(11.7)	23.0	

The unutilised net proceeds have been placed with licensed banks in Hong Kong.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

**Mr. Leung Chun Wah (梁振華)**, aged 77, was appointed as an executive Director and Chief Executive Officer of the Company on 2 January 2019. Mr. Leung joined the Group in 1977 and he is currently the general manager of electric fan division and responsible for its daily business operations and management.

Mr. Leung has more than 40 years of experience in electric tools manufacturing industry and has substantial experience in procurement, material control and production planning. He is primarily responsible for overall management, operation and implementation of strategic planning of the Group. He was an executive director of Shell Electric Mfg. (Holdings) Co. Ltd from 1990 until 2010. He is also a director of certain subsidiaries of the Group. Mr. Leung obtained a bachelor's degree of Business Administration from the City University of Macau.

**Mr. Tang Che Yin (鄧自然)**, aged 68, was appointed as an executive Director of the Company on 2 January 2019. Mr. Tang is primarily responsible for assisting the chairman of the Board in the overall management of the strategic planning and overseeing the human resource and operation of the Group's PRC manufacturing operation. Mr. Tang joined the Group in 1991 and has over 30 years of experience in electric appliance manufacturing industry. He is currently the general manager of electric tools division and is responsible for its daily business operations and management. Before joining the Group, Mr Tang worked in a multinational corporation related to electronic fields from 1977 to 1982. In 1983, he was assigned and instrumental in setting up a manufacturing facility which was run by a wholly-owned subsidiary of Philips (HK) Co., Ltd., where he was responsible for managing manufacturing operation of the facility, until he joined the Group.

Mr. Tang obtained his master's degree of Science from the University of Manchester of the United Kingdom and his master's degree of Business Administration from the Chinese University of Hong Kong. He was elected as a member of The Institution of Electronic and Radio Engineers in 1986. He obtained the qualification of Chartered Engineer of The Engineering Council in the United Kingdom. He was admitted as a Chartered Electrical Engineer by the Institution of Electrical Engineers. Mr. Tang has over 20 years of experience in technical and factory management. Mr. Tang was a non-executive director of PFC Device Inc. (stock code: 8231), a related company of the Group, which was delisted subsequent to its privatisation, until 25 March 2022.

**Mr. Chow Kai Chiu, David (周啟超)**, aged 59, Chartered Financial Analyst, joined the Group in 2004, was appointed as an executive Director of the Company with effect from 28 March 2022. Mr. Chow received his Bachelor degree of Applied Science in Computer Engineering and his Master's degree in Business Administration from the University of Waterloo and York University, Canada. He has previously held positions at First Marathon Securities Limited in Canada, Asian Capital Partners, and HSBC Private Equity (Asia) Limited in the corporate finance and investment management field. He is a director of certain subsidiaries of the Group. He is also a director and the Deputy Chief Executive of Shell Electric Holdings Limited ("**Shell Holdings**"). He was an executive director of PFC Device Inc. (stock code: 8231), a related company of the Group, which was delisted subsequent to its privatisation, until 25 March 2022.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

## Non-executive Directors

**Mr. Yung Kwok Kee, Billy (翁國基)**, aged 70, was appointed as a director of the Company on 5 December 2018 and was re-designated as a non-executive Director and Chairman of the Board of the Company on 2 January 2019. Mr. Yung is primarily responsible for the strategic direction and overall management of the strategic planning of the Group. Mr. Yung is the Chairman of the Nomination Committee and a member of both the Audit Committee and the Remuneration Committee of the Company. Mr. Yung is also a director of a number of the subsidiaries of the Group. Mr. Yung is controlling shareholder of the Company.

Mr. Yung obtained a bachelor's degree in Electrical Engineering from University of Washington, USA and a master's degree in Industrial Engineering from Stanford University, USA. Mr. Yung has over 40 years of experience in managing manufacturing, transportation, property investment and development, semiconductor and computer hardware and software businesses in PRC, Hong Kong and the USA.

Mr. Yung had been the executive director of Shell Electric Mfg. (Holdings) Co. Ltd from 1973 to 2010, now known as China Overseas Grand Oceans Group Ltd. (stock code: 0081), which shares are listed on the Main Board of the Stock Exchange. Since then, Mr. Yung has become a non-executive Director and vice chairman. Mr. Yung has been the chairman and the chief executive of Shell Holdings since 2009. Mr. Yung was a non-executive director and chairman of PFC Device Inc. (stock code: 8231), a related company of the Group, which was delisted subsequent to its privatisation, until 25 March 2022. Mr. Yung is currently the Permanent Honorary President of Friends of Hong Kong Association Ltd., the Honorary President of Shun Tak Fraternal Association, a member of Senior Police Call Central Advisory Board and was awarded the Honorary Citizen of the City of Guangzhou and the Honorary Citizen of the City of Foshan. Mr. Yung holds the entire issued share capital of Red Dynasty Investments Limited, which, in turn, holds 80.5% interest in Shell Holdings. As such, Mr. Yung is deemed to be interested in all the shares held by Shell Holdings by virtue of the Securities and Futures Ordinance.

**Mdm. Li Pik Mui, Cindy (李碧玫)**, aged 61, was appointed as a non-executive Director of the Company on 17 June 2022. Mdm. Li has over 35 years of experience in administrative and secretarial role. She is responsible for managing the administration and business affairs in office environment as well as the property investment and developments in Hong Kong and United States. She is a director of a subsidiary of the Group and also a director of Shell Holdings.

## Independent non-executive Directors

**Mr. Leung Man Chiu, Lawrence (梁文釗)**, aged 75, was appointed as an independent non-executive Director of the Company on 2 October 2019. He is also the chairman of the Audit Committee, a member of both the Nomination Committee and the Remuneration Committee of the Company.

Mr. Leung is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He has been in public practice for over 49 years and is now practicing as a partner in Tang and Fok, certified public accountants. Mr. Leung is currently an independent non-executive director of Safety Godown Company Limited (stock code: 237) and Pak Fah Yeow International Limited (stock code: 239), both of which are listed on the Stock Exchange. He was a non-executive director of World Super Holdings Limited (stock code: 8612) until 21 July 2020 and was an independent non-executive director of PFC Device Inc. (stock code: 8231), a related company of the Group, which was delisted subsequent to its privatisation, until 25 March 2022.

**Mr. Poon Chak Sang, Plato (潘澤生)**, aged 78, was appointed as an independent non-executive Director of the Company on 2 October 2019 and is responsible for providing independent judgment on the Group's strategy, performance, resources and standard of conduct. He is the chairman of the Remuneration Committee, a member of both the Audit Committee and the Nomination Committee of the Company.

Mr. Poon has over 40 years of working experience in export industry. He was an executive director of Shell Electric Mfg. (Holdings) Co. Ltd during 1992 to 2007 and the general manager of electric fan division from 1986 to 2007. He was responsible for overseeing import and export matters, production materials and operations.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

**Mr. Ho Chi Sing, Spencer (何志成)**, aged 64, was appointed as an independent non-executive Director of the Company with effect from 1 September 2020 and is responsible for providing independent judgment on the Group's strategy, performance, resources and standard of conduct.

Mr. Ho holds a bachelor's degree in Laws in University of Wolverhampton, United Kingdom, and a master's degree in Arts in Lancaster University, United Kingdom. He was a licensed person of the Securities and Futures Commission during 2006 to 2011.

Mr. Ho has over 30 years of experience in corporate finance and investment. He was the investment manager of Shell Holdings during 1999 to 2018. He was responsible for managing investment portfolios comprising listed stocks, bonds, and derivatives.

Save as disclosed in this annual report, there are no other changes to the Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

## Senior management

**Mr. Lee Yen Lim (李炎林)**, aged 42, is the assistant general manager of SMC Electric (HK) Limited. He joined the Group in 2007 and is primarily responsible for overseeing the manufacturing, sales and marketing of the Group. Mr. Lee has over 19 years of experience in electric tools manufacturing industry. He worked in Motorola Technology Sdn. Bhd. from 2006 to 2007 as a process engineer where he was responsible for developing new product to realise mass production through achievement of targeted yield for full ship acceptance. He worked as a sales and service engineer with Hottemp (M) Sdn. Bhd from 2005 to 2006 where he was responsible for sales of products and managing and building customer relationship within an assigned geographical region. He worked in Komag USA (M) Sdn. Bhd as a maintenance technician trainee in 2003 where he was responsible for assisting maintenance technician to set up fully automated production line and equipment. Mr. Lee obtained a bachelor's degree of Engineering in Mechatronics from London South Bank University and an advanced diploma in Electrical and Electronic Engineering course from Institut Teknologi Dan Pengurusan Lebuuh Victoria, Malaysia.

**Mr. Chang Peng Tse (張鵬澤)**, aged 50, is the assistant general manager of electric fan division of the Group and is primarily responsible for overseeing the electric fan division. He joined the Group from 1997 to 2002 and worked as a sales manager and rejoined in 2018. He was the general manager of Shell Creative Home Appliances Company Limited from 2002 to 2010 where he was responsible for selecting qualified products among potential suppliers to tag "SMC" brand, adding new elements to the tagged products and engaging with suppliers and wholesalers for business development. He worked as an operation manager in UNP Optoelectronic Lightings Company Limited from 2010 to 2016 where he was responsible for sourcing electronic parts for patented heat sinks and selecting plants for processing and refining heat sinks. Mr. Chang has over 15 years of experience in electric tools manufacturing industry. Mr. Chang obtained a bachelor's degree of Arts in Business Studies from the Hong Kong Polytechnic University.

**Ms. Ma Yuk Ling (馬玉玲)**, aged 64, is the assistant factory manager of electric tools division of the Group. She joined the Group in 1991 as a production leader of SMC Microtronic Co. Ltd, a subsidiary of Shell Electric Mfg. (Holdings) Ltd, then as an assistant production supervisor from 1992 until 1998. She was then appointed as a production supervisor by SMC Microtronic Co. Ltd and worked in the production plant of Shunde SMC Multi-Media Products Company Limited since 1999. She is primarily responsible for overseeing the factory production of the Group. Ms. Ma has over 20 years of experience in electric tools manufacturing industry.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited since 2 June 2020 (the "**Listing Date**"). The Group is committed to achieving high standards of corporate governance by reviewing and strengthening corporate governance measure from time to time. The Board of the Company believes that sound and reasonable corporate governance practices are essential for the efficient operation and continuing growth of the Group and the safeguarding and maximising the interests of our shareholders.

The Corporate Governance Code (the "**CG Code**") set out in Appendix C1 to the Listing Rules have been duly adopted by the Board as the code on corporate governance practices of the Company.

The Company has complied with the applicable code provisions (the "**Code Provision(s)**") and principles under CG Code as set out in Appendix C1 to the Listing Rules throughout the year ended 31 December 2023.

### Purpose, Values, Strategy and Culture

The core purpose of the Company is to create value for its shareholders. It strives to become the leading pioneer in the electronic appliances industry that is trusted by its consumers, and a place where its employees are proud to work for. Its mission is to lead the development of the industry and set the industry bench-marks. In this connection, it endeavours to maintain accountability to its employees, consumers, shareholders, the society, and the environment. These purpose and values shape the Company's strategy, which are geared towards building a trusted and socially responsible enterprise whereby values for shareholders are created.

The Company's purpose, values and strategy form the foundations of the Company's corporate culture. Its corporate culture is centered on adherence to high ethical standards and practices, and striving for sustainable development.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 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 year. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the year under review.

## BOARD OF DIRECTORS

### Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility to the senior management for day-to-day management and operation of the Group. To oversee aspects of the Company's affairs, the Board has established three committees including the Audit Committee, the Remuneration Committee, and the Nomination Committee (collectively, the "**Committees**"). The Board has delegated to the Committees responsibilities as set out in their respective terms of reference.

# CORPORATE GOVERNANCE REPORT (Continued)

The Board is responsible for performing the corporate governance duties set out in Code Provision C.2.1 of the CG Code and the duties of the Board in respect of the corporate governance are as follows:

1. to develop and review the policies and practices on corporate governance of the Group and make recommendations;
2. to review and monitor the training and continuous professional development of the Directors and senior management;
3. to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;
4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to Directors and employees; and
5. to review the Company's compliance with the code and disclosure in the corporate governance report.

During the year, the Board has performed the above duties and reviewed and discussed the corporate governance policy of the Group. The Board was satisfied with the effectiveness of its corporate governance policy.

## Composition of the Board

The Board comprised three executive Directors, two non-executive Directors and three independent non-executive Directors (the "INED(s)"). In particular, the composition of the Board is set out as follows:

### Executive Directors

Mr. Leung Chun Wah (*Chief Executive Officer*)  
Mr. Tang Che Yin  
Mr. Chow Kai Chiu, David

### Non-executive Directors

Mr. Yung Kwok Kee, Billy (*Chairman*)  
Mdm. Li Pik Mui, Cindy

### Independent non-executive Directors

Mr. Leung Man Chiu, Lawrence  
Mr. Poon Chak Sang, Plato  
Mr. Ho Chi Sing, Spencer

During the year ended 31 December 2023, the Board at all times met the requirements of the Rules 3.10(1) and (2), and 3.10A of the Listing Rules relating to the appointment of at least three INEDs with at least one of the INED have appropriate professional qualifications or accounting or related financial management expertise.

The Board recognises the importance of gender, social and ethnic diversity, and the strengths diversity brings to Board effectiveness. Diversity is taken into account in its broadest sense when considering succession plans and appointments at both Board and senior management level, as well as more broadly across the Group.

In line with the Board diversity policy, the Board remains committed to increasing diversity at Board and senior levels to ensure we reflect the markets and societies we serve. The Board currently has one female Director and seven male Directors and the Board will take opportunities to increase the proportion of female members over time as and when suitable candidates are identified.

In addition, the Board places emphasis on diversity (including gender diversity) across all levels of the Group. The employee gender ratio of the Group as at 31 December 2023 is 2.03 females: 1 male. The Group when hiring employees considers a number of factors, including but not limited to gender, age, cultural and education background, qualification, ethnicity, professional experience, skills, knowledge and length of service, and the Group will make sure achieving gender diversity across the workforce.

# CORPORATE GOVERNANCE REPORT (Continued)

## Board Meetings and General Meetings

The Board convenes at least four regular meetings each year and will convene further meetings when necessary. When a regular Board meeting is convened, the Board documents will be sent to the Directors for review before the meeting pursuant to the Listing Rules and the CG Code so that the Directors can keep abreast of the information to perform their duties and responsibilities.

During the year ended 31 December 2023, five Board meetings (including four regular Board meetings) and one annual general meeting (the “AGM”) of the Company were held and the attendance of the individual Directors at these meetings is set out in the table below:

<b>Name of Directors</b>	<b>Number of attendance/ number of Board meetings</b>	<b>Attendance of the AGM</b>
<i>Executive Directors</i>		
Mr. Leung Chun Wah	5/5	1/1
Mr. Tang Che Yin	5/5	1/1
Mr. Chow Kai Chiu, David	5/5	1/1
<i>Non-executive Directors</i>		
Mr. Yung Kwok Kee, Billy	5/5	1/1
Mdm. Li Pik Mui, Cindy	5/5	1/1
<i>Independent non-executive Directors</i>		
Mr. Leung Man Chiu, Lawrence	4/5	1/1
Mr. Poon Chak Sang, Plato	5/5	1/1
Mr. Ho Chi Sing, Spencer	5/5	0/1

During the year, Board Meetings were held approving the 2022 final results, announcement relating to profit warning for the 2023 unaudited interim results, 2023 unaudited interim results of the Group and reviewing the 2023 1st and 3rd quarterly results of the Group.

## Confirmation of Independence by the Independent Non-executive Directors

The Company has received written annual confirmation from INEDs of their independence pursuant to the requirements of the Listing Rules. The Company considers all INEDs to be independent in accordance with the independence guidelines as set out in the Listing Rules.

None of the Directors has any personal relationship (including financial, business, family, or other material/relevant relationship), with any other Directors.

# CORPORATE GOVERNANCE REPORT (Continued)

## Induction and Continuous Professional Development

Pursuant of Code Provision C.1.4, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

During the year, all Directors have participated in continuous professional development trainings such as attending seminars, conferences and forums or reading materials relevant to the Group's business, regulatory updates, corporate governance and the duties and responsibilities of a listed company director. According to the training records maintained by the Company, the continuing professional development programmes received by each of the Directors during the year are summarised as follows:

Name of Directors	Type of trainings
<i>Executive Directors</i>	
Mr. Leung Chun Wah	A and B
Mr. Tang Che Yin	B
Mr. Chow Kai Chiu, David	A and B
<i>Non-executive Directors</i>	
Mr. Yung Kwok Kee, Billy	A and B
Mdm. Li Pik Mui, Cindy	A and B
<i>Independent non-executive Directors</i>	
Mr. Leung Man Chiu, Lawrence	A and B
Mr. Poon Chak Sang, Plato	B
Mr. Ho Chi Sing, Spencer	B

A: attending training session/seminars/workshops/conferences/forums

B: reading materials relevant to the business of the Group, regulatory updates, corporate governance and directors' duties and responsibilities

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under Code Provision C.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The position of chairman is held by Mr. Yung Kwok Kee, Billy ("**Mr. Yung**") and chief executive officer (the "**CEO**") is held by Mr. Leung Chun Wah. The roles of the chairman and the CEO are clearly defined and segregated to ensure independence and proper checks and balances. The chairman focuses on formulating business strategies and direction of the Company and has executive responsibilities, provides leadership for the Board and ensures proper and effective functioning of the Board in discharging its responsibilities. The CEO is accountable to the Board for the overall implementation of the Company's strategies and the co-ordination of overall business operations.

# CORPORATE GOVERNANCE REPORT (Continued)

## NON-EXECUTIVE DIRECTORS

Non-executive Director, Mr. Yung, has entered into a service contract with the Company for a term of three years commencing from 2 June 2023, and subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

Mdm. Li Pik Mui, Cindy was appointed by the Company for an initial term of three years, commencing from 17 June 2022, and subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

Each of Mr. Leung Man Chiu, Lawrence and Mr. Poon Chak Sang, Plato was appointed by the Company for a term of three years, commencing from 2 June 2023, and subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

Mr. Ho Chi Sing, Spencer was appointed by the Company for a term of three years, commencing from 1 September 2023, and subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

## BOARD COMMITTEES

The Board has established three Committees, namely the Audit Committee, Remuneration Committee and Nomination Committee, to oversee specific aspects of the Company's affairs. All Committees reported to the Board regularly and have been provided with sufficient resources and support from the Group to discharge their respective duties. Further particulars of each of the Committees are set out below:

### Audit Committee

The Audit Committee comprised one Non-executive Director, namely Mr. Yung and two INEDs (Mr. Leung Man Chiu, Lawrence and Mr. Poon Chak Sang, Plato). It was chaired by an INED, Mr. Leung Man Chiu, Lawrence, and he has appropriate professional qualifications and experience in accounting matters under the requirement of Rule 3.10(2).

The primary duties of the Audit Committee are to ensure the objectivity and credibility of financial reporting, review of the Company's risk management and internal control systems and maintain an appropriate relationship with the Company's auditors. Each member of the Audit Committee has unrestricted access to the Group's external auditor and the management. The members of the Audit Committee meet at least twice a year.

The terms of reference of the Audit Committee are available on the respective websites of the Company and the Stock Exchange, and include the followings:

1. to make recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
2. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
3. to monitor the integrity of the Company's financial statements and annual report and accounts, half-year report and to review significant financial reporting judgements contained therein;
4. to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems;
5. to review the Group's financial and accounting policies and practices;

# CORPORATE GOVERNANCE REPORT (Continued)

6. 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;
7. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter; and
8. to report to the Board on the matters pursuant to the terms of reference of the Audit Committee and consider other topics as defined by the Board.

For the year ended 31 December 2023, three meetings of the Audit Committee was held and the attendance record of the Audit committee members is set out in the table below:

	<b>Number of attendance/ number of meetings</b>
Mr. Leung Man Chiu, Lawrence ( <i>Chairman</i> )	3/3
Mr. Yung Kwok Kee, Billy	3/3
Mr. Poon Chak Sang, Plato	3/3

The Audit Committee meetings were held on 30 March 2023 to review 2022 final results and to review and discuss the internal control and risk management systems of the Group and held on 25 August 2023 to review the 2023 interim results and recommended the same to the Board for approval and held on 14 December 2023 to review the audit planning for the year ended 31 December 2023.

The Board also has adopted the arrangement for employees of the Company, customers and suppliers to raise genuine concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters in the Company and its subsidiaries. The Audit Committee monitors the execution of this arrangement.

## Remuneration Committee

The Remuneration Committee comprised one Non-executive Director, namely Mr. Yung, and two INEDs (Mr. Leung Man Chiu, Lawrence and Mr. Poon Chak Sang, Plato), and was chaired by Mr. Poon Chak Sang, Plato.

The primary responsibilities of the Remuneration Committee are to recommend the Board on the Group's Directors' remuneration policy and other remuneration related matters. And to establish formal and transparent procedures for setting policies on executive Directors' remuneration and all Directors' remuneration packages. Each of the Directors has not involved in the determination of his own remuneration. The members of the Remuneration Committee meet at least once a year.

The terms of reference of the Remuneration Committee are available on the respective websites of the Company and the Stock Exchange, and include the followings:

1. to consult the chairman and/or chief executive about their remuneration proposals for other executive Directors;
2. to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
3. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
4. to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management;
5. to make recommendations to the Board on the remuneration of non-executive Directors;

# CORPORATE GOVERNANCE REPORT (Continued)

6. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
7. to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
8. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
9. to ensure that no Director or any of his associates is involved in deciding his own remuneration; and
10. to review and provide its view and/or approve matters relating to share scheme under Chapter 17 of the Listing Rules.

For the year ended 31 December 2023, one meeting of the Remuneration Committee was held and the attendance record of the Remuneration Committee members is set out in the table below:

	<b>Number of attendance/ number of meetings</b>
Mr. Poon Chak Sang, Plato ( <i>Chairman</i> )	1/1
Mr. Yung Kwok Kee, Billy	1/1
Mr. Leung Man Chiu, Lawrence	1/1

The Remuneration Committee was held on 30 March 2023 to review the policy and structure for all remuneration of Directors and senior management, assess the performance of executive Directors and review the remuneration packages for individual executive Directors and senior management of the Company, as well as the remunerations of independent non-executive Directors and made recommendations to the Board.

The remuneration of senior management by band for the year ended 31 December 2023 are set out in note 13(c) to the consolidated financial statements.

## **Nomination Committee**

The Nomination Committee comprised one Non-executive Director, namely Mr. Yung, and two INEDs (Mr. Leung Man Chiu, Lawrence and Mr. Poon Chak Sang, Plato), and was chaired by the chairman of the Board, Mr. Yung.

The primary responsibilities of the Nomination Committee are to formulating nomination policy and making recommendations to the Board on nomination and appointment of Directors and Board succession. It also develops selection procedures of candidates for nomination, reviews the structure, size and composition of the Board and assesses the independence of the INEDs. The members of the Nomination Committee meet at least once a year.

The Company has adopted a nomination policy which sets out the selection criteria (including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry experience of the candidate) and nomination process of Directors.

# CORPORATE GOVERNANCE REPORT (Continued)

The terms of reference of the Nomination Committee are available on the respective websites of the Company and the Stock Exchange, and include the followings:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
3. to assess the independence of INEDs;
4. to make recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for Directors, in particular the chairman and the chief executive; and
5. to review board diversity policy and nomination policy of the Company.

For the year ended 31 December 2023, two meetings of the Nomination Committee were held and the attendance record of the Nomination Committee members is set out in the table below:

	<b>Number of attendance/ number of meetings</b>
Mr. Yung Kwok Kee, Billy ( <i>Chairman</i> )	2/2
Mr. Leung Man Chiu, Lawrence	2/2
Mr. Poon Chak Sang, Plato	2/2

The Nomination Committee was held on 30 March 2023 to review the structure, size and composition of the Board, assess the independence of the INEDs, consider the Directors to retire and re-appoint at the annual general meeting held on 16 June 2023 and to renew the contracts of Directors, and held on 25 August 2023 to renew the contract of a Director.

## BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the composition of the Board. The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage. The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, and knowledge and industry experience. The Company will also take into consideration the business needs and the Board's succession planning from time to time. All Board appointments will be based on meritocracy and candidates will be considered against objective criteria, having due regard to the benefits of diversity on the Board.

There is a female director, Mdm. Li Pik Mui, Cindy, appointed on 17 June 2022. The Company will continue to look for suitable female candidates to join the Group and to provide career development and training programmes to the Group's female staff such that they will be eligible for managerial and board-level position in foreseeable future.

During the year under review, the Nomination Committee has considered and reviewed the board diversity policy and considered that the existing board diversity policy is suitable and effective.

# CORPORATE GOVERNANCE REPORT (Continued)

## SUCCESSION PLANNING POLICY

Succession Planning is an ongoing process that identifies necessary competencies, and then works to assess, develop, and retain a talent pool of employees, in order to ensure a continuity of leadership for all critical positions. The nomination committee is responsible to review the structure, size and composition of the Board and to identify appropriate candidates for recommendation to the Board. To ensure succession planning and continuity in the Group, the nomination committee will identify appropriate candidates and build up a talent pool for nomination for senior management positions in order to meet business needs and strategies of the Group from time to time.

The Board has adopted the succession planning policy in its terms of reference and will be responsible 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 officer, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future, together with the Board, as appropriate.

## AUDITOR'S REMUNERATION

BDO Limited was appointed as the Company's auditors to audit the financial statements of the Company for the year ended 31 December 2023 prepared in accordance with Hong Kong Financial Reporting Standards. The remuneration in respect of audit and non-audit services provided by BDO Limited to the Company are as follows:

	Fees paid/payable for the services rendered	
	2023 HK\$'000	2022 HK\$'000
Annual audit	820	833
Non-audit services	85	76
	<b>905</b>	<b>909</b>

## DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Group for the year ended 31 December 2023, which give a true and fair view of the state of affairs, results and cash flows of the Group and are in compliance with the relevant accounting standards and principles, applicable laws and disclosure provisions required by the Listing Rules.

The Directors are of the view that the consolidated financial statements of the Group for the year ended 31 December 2023 has been prepared on this basis.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of reporting responsibility issued by BDO Limited, the auditor of the Company, in respect of the consolidated financial statements of the Group is set out in the independent auditor's report.

# CORPORATE GOVERNANCE REPORT (Continued)

## COMPANY SECRETARY

The Company engages an external service provider to provide secretarial services and has appointed Ms. Lee Ka Man as its Company Secretary on 18 January 2019. Ms. Lee is an associate member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom. She has over 15 years of experience in the fields of company secretarial and compliance. The primary corporate contact person in the Company is Mr. Leung Chun Wah, the Executive Director.

During the year ended 31 December 2023, Ms. Lee Ka Man has undertaken not less than 15 hours of relevant professional training in accordance with Rule 3.29 of the Listing Rules.

## SHAREHOLDERS' RIGHTS

### Procedures for shareholders to convene an extraordinary general meeting

Pursuant to Article 64 of the Articles of Association, extraordinary general meetings may be convened on the requisition of one or more members holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### Procedures by which enquiries may be put to the Board

If shareholders have any query in connection with their shareholdings, they should write to or contact the Company's branch share registrar in Hong Kong, details of which are set out in the section headed "Corporate Information" of this annual report.

Shareholders may put written enquiries to the Board through the Company Secretary who will direct the enquiries to the Board for handling. Such enquiries can be made by mail to the head office and principal place of business at 1/F., Shell Industrial Building, 12 Lee Chung Street, Chai Wan, Hong Kong.

### Procedures for putting forward proposals at shareholders' meetings

There are no provisions in the Articles or the Companies Law (2015 Revision) of the Cayman Islands regarding procedures for shareholders to put forward proposals at general meetings other than a proposal of a person for election as director. Shareholders may follow the procedures set out in "Procedures for shareholders to convene an extraordinary general meeting" above to convene an extraordinary general meeting for any business specified in such written requisition.

Detailed procedures for shareholders to propose a person for election as a Director of the Company are published on the Company's website.

# CORPORATE GOVERNANCE REPORT (Continued)

## Shareholder's Communication Policy

The Board has adopted a Shareholder's Communication Policy which sets out the Group's commitment of maintaining an effective ongoing dialogue with shareholders. In summary, the Company establishes different communication channels with shareholders and stakeholders including: (i) provision of printed copies of corporate communications; (ii) provision of timely corporate information on the company website; (iii) holding of annual general meetings to provide platform for shareholders to raise comments and exchange views with the Board; and (iv) arrangement in serving the shareholders in respect of all share registration matters.

The Board reviewed the validity of implementation of the Shareholder's Communication Policy during the year and considered that it remained effective in enhancing timely, transparent, accurate and open communication between the Company and its shareholders.

## CONSTITUTIONAL DOCUMENTS

The Company's Memorandum and Articles of Association are available on both the Company's and the Stock Exchange's websites. During the year ended 31 December 2023, other than the adoption of a new Memorandum of Association and Articles of Association passed at the annual general meeting on 16 June 2023, there was no change in the Company's constitutional documents.

## INVESTOR RELATIONS

The Company has established a range of communication channels between itself and its shareholders and investors. These include answering questions through the annual general meeting, the publication of annual and interim reports, notices, announcements and circulars, the Company's website at [www.smcelectric.com.hk](http://www.smcelectric.com.hk) and meetings with investors and shareholders. New update of the Group's business development and operation are also available on the Company's website.

## RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Board is responsible for maintaining an adequate risk management and internal control systems to safeguard the shareholders' investment and the Group's assets. With the support of the Audit Committee, the Board reviews the effectiveness of such system of the Group and its subsidiaries on an annual basis. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and only provide reasonable but not absolute assurance against material misstatements of financial statements or losses of assets.

The Audit Committee assists the Board to conduct review of the implemented system and procedures, which covering financial, operational and compliance controls and risk management functions. The Board consider that the Group has implemented appropriate procedures for safeguarding the Group's assets against unauthorised use or misappropriation, maintaining proper accounting records, segregation of duties and putting plans and routines into execution with appropriate authority and in compliance with the relevant laws and regulations.

The Group's risk management framework comprises the following processes:

- Identify the significant or potential risks which may affect the Group and determine the standards for measuring the risk;
- Evaluate the identified risk and classify the level of risk;
- Select strategy or formulate relevant policy in response to mitigate or minimise the relevant risk; and
- Monitor and review the appropriateness and effectiveness of such controlling procedures.

# CORPORATE GOVERNANCE REPORT (Continued)

The Group formulated the policies and procedures of risk management and internal control as follows:

- The Group established an organisational structure with clear operating and reporting procedures, lines of responsibility and delegated authority;
- Each operating subsidiary maintains internal controls and procedures appropriate to its structure whilst complying with the Group's policies, standards, and guidelines;
- Relevant executive Directors and senior management have been delegated with specific accountability for monitoring the performance of designated business operating units;
- The management performs a systematic review of the financial and business processes in order to ensure the adequacy and effectiveness of internal controls. Where weaknesses are identified in the system of internal controls, management will evaluate and take necessary measures to ensure that improvements are implemented; and
- Code of ethics are established and adhered to by all employees to ensure high standards of conduct and ethical values in all business practices.

During the year ended 31 December 2023, the Board, through the Audit Committee with the assistance of the Company's internal auditor, has conducted reviews of the effectiveness of the internal control and risk management systems of the Group covering the material aspects including the financial, operational and compliance controls and risk management functions. The Board considers that the Group's internal control and risk management systems are adequate and effective. The Board will continue to monitor and remedial measures will be taken, if any, to strength the risk management and internal control system of the Group.

The Company has established an internal audit function which is responsible for identifying and monitoring the Group's risks and internal control issues. Results of audit work, together with an assessment of the overall internal control framework are reported to the Audit Committee as appropriate.

## **Dissemination of Inside information**

The Company is committed to a consistent practice of timely, accurate and sufficiently detailed disclosure of material information about the Group. The Company has adopted a corporate disclosure policy which sets out the obligations, guidelines and procedures for handling and dissemination of inside information. With those guidelines and procedures, the Group has management controls in place to ensure that potential inside information can be promptly identified, assessed, and escalated for the attention of the Board to decide about the need for disclosure.

## **Anti-corruption policy and whistleblowing policy**

The Company has adopted an anti-corruption policy to govern acceptance of advantages by employees and a whistleblowing policy to provide guidance to employees and external stakeholders to report concerns about any suspected or actual improprieties relating to the Group.

## **Remuneration Policy for Directors**

Directors are remunerated in accordance with the nature of their duties and comparable market conditions. Incentive bonus would be granted to reward and motivate well-performed Directors.

# DIRECTORS' REPORT

The Board is pleased to present this annual report and the consolidated financial statements of the Group for the year ended 31 December 2023.

## PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the Cayman Islands and has its registered office situated at Windward 3, Regatta Office Park, P.O. 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.

## PRINCIPAL ACTIVITIES & BUSINESS REVIEW

The Group is principally engaged in (i) manufacturing and selling of electric tools and (ii) sourcing and selling of electric fans. The Group is headquartered in Hong Kong with its manufacturing operations in the PRC and Vietnam. The Group sells a range of products including fans, work lights, vacuum cleaners, and other electric tools. There are no significant changes in the nature of the Group's principal activities during the year.

Further discussion and analysis of these activities of the Group as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the "Chairman's Statement" and "Management Discussion and Analysis" set out on pages 3 to 6 of this annual report, and notes 5 and 33 to the consolidated financial statements, which forms part of the Directors' report.

For the analysis using financial key performance indicators, please refer to the section of "Financial Review" set out in Management Discussion and Analysis.

For the analysis of the Group's business performance by operating and geographical segments, please refer to note 6 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 25 to the consolidated financial statements.

## SHARE PREMIUM & RESERVES

Details of movements in the share premium and reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 26 to the consolidated financial statements respectively.

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2023, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amount to approximately HK\$118,557,000. This includes the Company's share premium in the amount of approximately HK\$78,695,000 as at 31 December 2023, which may be 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 and when they fall due in the ordinary course of business.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

# DIRECTORS' REPORT (Continued)

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 86.

## ENVIRONMENTAL POLICY

The Group is committed to fulfilling its corporate social responsibility in community affairs, environmental protection, and corporate governance during its business operation in order to achieve its sustainable development. The Group's Environment, Social and Governance Report for the year will be despatch to shareholders of the Company and will be made available on the websites in due course.

## DIRECTORS

The Directors during the financial year and up to the date of this report are as follows:

### Executive Directors

Mr. Leung Chun Wah (*Chief Executive Officer*)  
Mr. Tang Che Yin  
Mr. Chow Kai Chiu, David

### Non-Executive Directors

Mr. Yung Kwok Kee, Billy (*Chairman*)  
Mdm. Li Pik Mui, Cindy

### Independent Non-Executive Directors

Mr. Leung Man Chiu, Lawrence  
Mr. Poon Chak Sang, Plato  
Mr. Ho Chi Sing, Spencer

In accordance with the Company's Articles of Association, one-third of the Directors shall retire from office by rotation at annual general meeting and be eligible for re-election provided that every Director shall be subject to retirement by rotation at least every three years. Furthermore, in accordance with the Company's Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an additional Director but the number of Directors so appointed shall not exceed the maximum number determined from time to time by the shareholders in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Accordingly, Mr. Leung Chun Wah, Mr. Chow Kai Chiu, David and Mr. Ho Chi Sing, Spencer shall retire by rotation from office at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

## CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

# DIRECTORS' REPORT (Continued)

## DIVIDEND POLICY

The Company has adopted a general dividend policy. In proposing any dividend payout, the Board shall take into account certain factors, including but not limited to the Group's actual and expected financial performance, retained earnings and distributable reserves, expected working capital requirement and future expansion plans, as well as other factors that the Board deems appropriate. The payment of the dividend by the Company is also subject to all applicable requirements under the Companies Law of the Cayman Islands and the Articles of Association of the Company.

## FINAL DIVIDEND

The Board of the Company has proposed a final dividend of HK0.5 cent (2022: HK1.0 cent) per ordinary share for the year ended 31 December 2023. Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company, the proposed final dividend will be payable on Wednesday, 17 July 2024 to the shareholders whose names appear on the register of members of the Company on Tuesday, 25 June 2024.

## CLOSURE OF REGISTER OF MEMBERS

To ascertain the members' entitlement to attend and vote at the forthcoming annual general meeting, the register of members will be closed from Friday, 7 June 2024 to Friday, 14 June 2024, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attendance of the meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 6 June 2024.

To ascertain the entitlement of the shareholders to the proposed final dividend, the register of members of the Company will be closed from Friday, 21 June 2024 to Tuesday, 25 June 2024, both days inclusive, during which period no transfer of shares will be registered by the Company. In order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 20 June 2024.

## EMOLUMENT POLICY

In order to attract and retain high quality staff and to enable smooth operation within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience). The remuneration packages are subject to review on a regular basis.

The emoluments of the Directors are reviewed by the Remuneration Committee of the Company from time to time, with reference to the operating results of the Group, qualifications, experience, and performance of the individual Directors.

## REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and the five individuals with the highest emoluments are set out in note 13 to the consolidated financial statements.

# DIRECTORS' REPORT (Continued)

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and non-executive Directors have entered into a service contract with the Company for a term of three years, commencing from the Listing Date, 28 March 2022 or 17 June 2022. The service contracts of two executive Directors and a non-executive Director commencing from the Listing Date has been renewed for a term of a further 3 years from 2 June 2023. The appointment of each of the executive Directors may be terminated by either party by giving to the other not less than three months' written notice.

Each of the INEDs have entered into letters of appointment with the Company for a term of three years, commencing from the Listing Date or 1 September 2020. Their appointment has been renewed for a term of further 3 years from 2 June 2023 or 1 September 2023. The appointment of each of the INEDs may be terminated by either party by giving to the other not less than one month's written notice.

None of the Directors who proposes for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## MANAGEMENT CONTRACTS

No contracts concerning the management and/or administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2023.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

To the best knowledge of the Directors, none of the Directors has any interest in any business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

## DISCLOSURE OF INTERESTS

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

As at 31 December 2023, 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 as set out in Appendix C3 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 31 December 2023
Mr. Yung	Interest in a controlled corporation ( <i>Note</i> )	1,500,000,000	75.00%

*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.

## DIRECTORS' REPORT (Continued)

### II. Interests 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 31 December 2023
Mr. Yung	Shell Holdings	Interest in a controlled corporation ( <i>Note</i> )	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 31 December 2023, 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 31 December 2023, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital.

Name of substantial shareholders	Capacity/nature of interest	Number of shares held/ interested in	Long/short position	Percentage of shareholding as at 31 December 2023
Shell Holdings	Beneficial owner	1,500,000,000 ( <i>Note 1</i> )	Long	75.00%
Red Dynasty	Interest in a controlled corporation	1,500,000,000 ( <i>Note 1</i> )	Long	75.00%
Mr. Yung	Interest in a controlled corporation	1,500,000,000 ( <i>Note 1</i> )	Long	75.00%
Mrs. Yung	Interest of spouse	1,500,000,000 ( <i>Note 2</i> )	Long	75.00%
Hong Kong Construction (Hong Kong) Limited	Beneficial owner	180,090,000 ( <i>Note 3</i> )	Long	9.00%
HKC (Holdings) Limited	Interest in a controlled corporation	180,090,000 ( <i>Note 3</i> )	Long	9.00%
Creator Holdings Limited	Interest in a controlled corporation	180,090,000 ( <i>Note 3</i> )	Long	9.00%
Claudio Holdings Limited	Interest in a controlled corporation	180,090,000 ( <i>Note 3</i> )	Long	9.00%
Mr. Oei Kang, Eric	Interest in a controlled corporation	180,090,000 ( <i>Note 3</i> )	Long	9.00%

# DIRECTORS' REPORT (Continued)

## Notes:

1. 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 31 December 2023 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 following is a summary of the principal terms of the Share Option Scheme (the "**Share Option Scheme**") which was approved and adopted by the shareholder of the Company on 29 April 2020.

### 1. Purpose

The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Group.

### 2. Who may join

The Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for shares:

- (a) any employee or proposed employee (whether full-time or part-time and including any executive Director), consultants or advisers of or to the Company, any of the subsidiaries or any entity (the "**Invested Entity**") in which the Group holds an equity interest;
- (b) any directors of the Company, any of the subsidiaries or any Invested Entity;
- (c) any supplier of goods or services to any member of the Group or any Invested Entity;
- (d) any customer of the Group or any Invested Entity;
- (e) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and
- (f) any shareholders of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.

For the purposes of the Share Option Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of shares or other securities of the Group to any person who falls within any of the above classes of participants shall not, by itself, unless the Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

## DIRECTORS' REPORT (Continued)

The basis of eligibility of any of the above classes of participants to the grant of any options shall be determined by the Directors from time to time on the basis of the participants' contribution to the development and growth of the Group. In order for a person to satisfy the Directors that he is qualified to be (or where applicable, continues to qualify to be) a participant, such person shall provide all such information as the Directors may request for the purpose of assessing his eligibility (or continuing eligibility).

### 3. Maximum number of shares

- (a) The maximum number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Group must not in aggregate exceed 30% of the Company's issued share capital from time to time. No options may be granted under any schemes of the Company or the subsidiary of the Company if such grant will result in the maximum number being exceeded.
- (b) The total number of shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of the Group) must not in aggregate exceed 10% of the total number of Shares in issue at the time dealings in the shares first commence on the Stock Exchange (excluding the shares which may be issued pursuant to the exercise of the options that may be granted under the Share Option Scheme) which amounts to 200,000,000 shares (the "**General Mandate Limit**").
- (c) Subject to (a) above and without prejudice to (d), the Company may issue a circular to its shareholders in compliance with Note (1) to Rule 17.03(3) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules and seek approval of its shareholders in general meeting to refresh the General Mandate Limit provided that the total 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 scheme of the Group must not exceed 10% of the shares in issue as at the date of approval of the refreshed limit and for the purpose of calculating the limit, options (including those outstanding, cancelled or lapsed in accordance with the Share Option Scheme or exercised options) previously granted under the Share Option Scheme and any other share option scheme of the Group will not be counted.
- (d) Subject to (a) above and without prejudice to (c) above, the Company may issue a circular to its shareholders in compliance with Note (1) to Rule 17.03(3) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules and seek separate shareholders' approval in general meeting to grant options beyond the General Mandate Limit or, if applicable, the refreshed limit referred to in (c) above to participants specifically identified by the Company before such approval is sought.

As at the date of this report, the total number of shares of the Company available for issue under the Share Option Scheme is 200,000,000 shares, representing approximately 10% of the Company's issued share capital as at the same date.

### 4. Maximum entitlement of each participant and connected persons

- (a) Unless approved by the shareholders, the total number of shares issued and to be issued upon exercise of all outstanding options granted (including both exercised and outstanding options) to each participant in any 12-month period must not exceed 1% of the shares in issue (the "**Individual Limit**").
- (b) Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the shareholders in compliance with the Note to Rule 17.03(4) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules and the approval of the shareholders in general meeting with such participant and his close associates (or his associates if the participant is a connected person) abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before the shareholders' approval and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under Note (1) to Rule 17.03(9) of the Listing Rules.

## DIRECTORS' REPORT (Continued)

- (c) In addition to the shareholders' approval set out in Note (1) to Rule 17.03(3) and Note to Rule 17.03(4) of the Listing Rules, each grant of options under the Share Option Scheme or any other share option scheme of the Group to a Director, chief executive or substantial shareholder or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).
- (d) Where any grant of options to a substantial shareholder or an independent non-executive Director or any of their respective associates would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) under the Share Option Scheme or any other share option schemes of the Group to such person in the 12-month period up to and including the date of such grant:
  - (i) representing in aggregate more than 0.1% of the shares in issue; and
  - (ii) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK\$5 million, such further grant of options must be approved by the shareholders. The Company must send a circular to the shareholders. All of the connected persons must abstain from voting in favour at such general meeting. Any core connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such option must be taken on a poll.

### **5. Minimum period of holding an option and performance target**

The Directors may, at their absolute discretion, fix any minimum period for which an option must be held, any performance targets that must be achieved and any other conditions that must be fulfilled before the options can be exercised upon the grant of an option to a participant.

### **6. Subscription price for shares**

The subscription price of a share in respect of any option granted under the Share Option Scheme, subject to any adjustments made in accordance with the Share Option Scheme, shall be such price as the Board in its absolute discretion shall determine, provided that such price shall not be less than the highest of (i) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheet for the five Business Days immediately preceding the date on which an offer is made to a participant (which must be a Business Day); (ii) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date on which an offer is made to a participant (which must be a Business Day); and (iii) the nominal value of the shares. A consideration of HK\$1.00 is payable on acceptance of the offer of the grant of an option.

### **7. Rights are personal to grantee**

An option granted under the Share Option Scheme shall not be transferable or assignable and is personal to the grantee.

### **8. Time of exercise of option**

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option.

### **9. Period of the Share Option Scheme**

Unless terminated by the Company by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional.

No share option has been granted under the Share Option Scheme since its adoption.

## DIRECTORS' REPORT (Continued)

### **DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE**

Except for the transactions disclosed in note 29 to the consolidated financial statements, there were no transactions, arrangements, or contracts of significance to the business of the Group, to which the Company or any of its subsidiaries was a party and in which any of the Directors or connected entities of a Director had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Neither the Company nor any of its subsidiaries was a party to any arrangement to enable the Directors and chief executives of the Company (including their respective spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares or underlying shares in, or debentures of, the Company or any of its associated corporations during the year.

### **EQUITY-LINKED AGREEMENTS**

Save as disclosed in the section headed "Share Option Scheme", the Company did not enter into any equity-linked agreement during the year or subsisted at the end of the year.

### **SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the total issued share capital of the Company were held by the public in accordance with Rule 8.08 of the Listing Rules as at the date of this report.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

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

### **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Articles of Association and there was no restriction against such rights under the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

# DIRECTORS' REPORT (Continued)

## CONNECTED TRANSACTIONS

During the financial year, the Group had the following connected transactions regarding to tenancy agreements that are subject to the reporting requirements under Chapter 14 and 14A for the Listing Rules, the details of which are set out below:

### 1. New Tenancy Agreement 1

Date:	14 December 2023
Parties:	Landlord – Shunde SMC Multi-Media Products Company Limited) (“ <b>MMSD</b> ”) Tenant – SMC Electric (China) Limited (“ <b>SMC Electric China</b> ”)
Property:	Factory spaces situated at 3rd Floor, Block A (4,765 sq. m.), No.18, San Le Dong Road, Bei Jiao Resident’s Committee Industrial Park, Bei Jiao County, Shunde District, Foshan City, the PRC
Term:	From 1 January 2024 to 31 December 2024
Rent:	RMB81,005 per calendar month (equivalent to approximately HK\$90,000)
Total consideration:	RMB972,060 (equivalent to approximately HK\$1,080,000)

### 2. New Tenancy Agreement 2

Date:	14 December 2023
Parties:	Landlord – Shell Holdings Tenant – SMC Electric (HK) Limited (“ <b>SMC Electric HK</b> ”)
Property:	Portion of the 1st Floor (4,806 sq. ft.), portion of the 4th Floor (7,679 sq. ft.) and portion of the 6th Floor (3,000 sq. ft.) and two car parking spaces located in Shell Industrial Building, 12 Lee Chung Street, Chai Wan, Hong Kong
Term:	From 1 January 2024 to 31 December 2024
Rent:	HK\$227,836 per calendar month
Total consideration:	HK\$2,734,032

In accordance with HKFRS 16 “Leases” applicable to the Group, the Group recognised the rental payment as right-of-use assets taking into account the aggregate discounted amount of the rental payments of HK\$3,602,000. Such acquisition of right-of-use assets under the new tenancy agreements will constitute a one-off connected transaction for the Company under Chapter 14A of the Listing Rules.

As at the date of this annual report, Shell Holdings holds directly 75.0% of the issued share capital of the Company and is accordingly a controlling shareholder of the Company. MMSD is an indirect wholly-owned subsidiary of Shell Holdings. SMC Electric China and SMC Electric HK are indirect wholly-owned by the Company. As such, the above companies are the associates of Shell Holdings and are thus the connected persons of the Company under Chapter 14A of the Main Board Listing Rules.

The new tenancy agreements are required to be aggregated in the calculation of the applicable percentage ratios in accordance with Rule 14A.81 of the Listing Rules as they are of same nature and are all entered into with Shell Holdings or its subsidiary. As all the applicable percentage ratios (other than profits ratio) with respect to the aggregate value of the right-of-use assets to be recognised under the new tenancy agreements are less than 25% and the total consideration is below HK\$10,000,000, pursuant to Chapter 14A of the Listing Rules, the Company is required to comply with the reporting, announcement and annual review requirements, but is exempt from the circular (including independent financial advice) and independent shareholders’ approval requirements.

# DIRECTORS' REPORT (Continued)

For further details, please refer to the announcement “Connected Transactions – Tenancy Agreements” dated on 14 December 2023.

The details of the related party transactions during the year are set out in note 29(a) to the consolidated financial statements. The related party transactions in notes 29(a)(i)-(iv) to the consolidated financial statements are also the connected transactions and the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. The related party transactions in note 29(a)(v) and note 29(b) to the consolidated financial statements are not connected transactions.

## KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Directors acknowledges the importance of employees, customers, and suppliers to sustainable corporate development of the Group. The Group maintains and establishes harmonious and long-term relationship with its employees and suppliers, and always improving the quality of products and services to its customers. The Group regards employees as valuable assets by ensuring them with competitive remuneration and benefits, regular training and support for the operation, as well as occupational health and safety. The Group also develops stable cooperation with its customers and suppliers and provides various channels to enable timely communication and interaction in daily operations with them and for their feedback and suggestions.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2023, the five largest customers of the Group accounted for approximately 93.2% (2022: approximately 89.7%) of the total revenue of the Group, of which 69.2% (2022: 67.2%) was attributable to the largest customer.

For the year ended 31 December 2023, the five largest suppliers of the Group accounted for approximately 61.0% (2022: approximately 55.5%) of the total purchases of the Group, of which 20.1% (2022: 20.0%) was attributable to the largest supplier.

During the year ended 31 December 2023, none of the Directors, their associates, or any shareholders of the Company (which to the knowledge of the Directors, owned more than 5% of the Company's issued shares) had any interest in the five largest customers or suppliers of the Group.

## PERMITTED INDEMNITY PROVISION

The Company has maintained appropriate liability insurance for its Directors and senior management and such permitted indemnity provision for the benefit of the Directors is currently in force and was in force during the year ended 31 December 2023.

## COMPLIANCE WITH LAWS AND REGULATIONS

During the year, the Group had not been and was not involved in any non-compliance incidents that led to fines, enforcement actions or other penalties that could, individually or in the aggregate, had a material adverse effect on the Group's business, financial condition or results of operations. As far as the Company is aware, the Group had complied, in all material respects, with all relevant laws and regulations in the jurisdictions in which the Group operated during the year ended 31 December 2023.

# DIRECTORS' REPORT (Continued)

## AUDITORS

The consolidated financial statements for the year ended 31 December 2023 have been audited by BDO Limited who will retire, and a resolution for their reappointment as the auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Leung Chun Wah**  
*Executive Director*

Hong Kong, 25 March 2024

# INDEPENDENT AUDITOR'S REPORT



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25<sup>th</sup> Floor Wing On Centre  
111 Connaught Road Central  
Hong Kong

To the shareholders of **SMC Electric Limited**  
(incorporated in the Cayman Islands with limited liability)

## OPINION

We have audited the consolidated financial statements of SMC Electric Limited (the “**Company**”) and its subsidiaries (together the “**Group**”) set out on pages 38 to 85, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including 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 issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

### Impairment assessment of trade receivables

(refer to notes 5(a), 20(a) and 33(a) to the consolidated financial statements)

As at 31 December 2023, the Group had trade receivables with a gross carrying amount of HK\$62,659,000, against which an allowance for expected credit loss (“**ECL**”) of HK\$307,000 was made. The Group has assessed impairment for trade receivables based on ECL model under HKFRS 9 *Financial Instruments* (“**HKFRS 9**”).

Assessing ECL on trade receivables is a subjective area as it requires application of judgment and uses of estimates. To determine whether impairment provision is required, management considers a wide range of factors such as the creditworthiness, the past collection history of each customer, the probability of insolvency or significant financial difficulties of the customer and default or significant delay in payment according to the contract terms. Management is also required to consider forward looking information with reference to market and economic conditions that may affect the ability of customers to settle trade receivables.

We identified impairment assessment of trade receivables as a key audit matter due to the significance of balance of trade receivables to the consolidated financial statements as a whole and that significant amount of management judgment and estimation was involved in determining the ECL allowance.

BDO Limited  
香港立信德豪會計師事務所有限公司

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# INDEPENDENT AUDITOR'S REPORT (Continued)

## KEY AUDIT MATTERS (Continued)

### Our response

Our key procedures in relation to management's ECL assessment on trade receivables included:

- Understanding and evaluating management's key internal control in respect of the valuation of trade receivables which include credit control procedures and estimate of ECL under the Group's policy;
- Obtaining an understanding on how loss allowance for trade receivables is estimated by the management and assessing whether the Group's impairment policy is in accordance with the requirements under HKFRS 9;
- Assessing the appropriateness of management's estimate of loss allowance by examining the information provided by the management to derive such estimates, including testing the historical payment records and historical loss rates; checking subsequent settlements by the customers; and assessing how reasonably the management has incorporated in their assessment of forward-looking information including expected changes in economic and financial conditions which is expected to cause a significant change in the customers' ability to meet their debt obligations;
- Obtaining a list of receivables which were past due and assessing the recoverability of these outstanding receivables through discussion with the management and with reference to supporting information provided by the management, such as financial background and historical payment trend of these customers; and
- Testing the accuracy of ageing of trade receivables balances at year end to the underlying invoices on a sample basis.

## OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## DIRECTORS' RESPONSIBILITIES 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 Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibilities in this regard.

# INDEPENDENT AUDITOR'S REPORT (Continued)

## 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. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's 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 HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- 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 regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

# INDEPENDENT AUDITOR'S REPORT (Continued)

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

From the matters communicated with the directors, 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.

**BDO Limited**

*Certified Public Accountants*

Leung Tze Wai

Practising Certificate no. P06158

Hong Kong, 25 March 2024

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	<i>Notes</i>	2023 HK\$'000	2022 HK\$'000
<b>Revenue</b>	7	<b>232,920</b>	254,489
Cost of revenue		<b>(169,228)</b>	(184,529)
<b>Gross profit</b>		<b>63,692</b>	69,960
Other income	8	<b>7,201</b>	4,128
Selling and distribution expenses		<b>(1,581)</b>	(2,055)
Administrative and other operating expenses		<b>(44,986)</b>	(42,458)
Reversal of impairment loss/(Impairment loss) on financial assets		<b>64</b>	(97)
Other gains/(losses)	9	<b>257</b>	(260)
Finance costs	10	<b>(168)</b>	(34)
<b>Profit before income tax</b>	11	<b>24,479</b>	29,184
Income tax expense	12	<b>(3,706)</b>	(6,814)
<b>Profit for the year attributable to owners of the Company</b>		<b>20,773</b>	22,370
<b>Other comprehensive income</b>			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange difference arising from translation of operations outside Hong Kong		<b>(232)</b>	(2,045)
<b>Total comprehensive income for the year attributable to owners of the Company</b>		<b>20,541</b>	20,325
		<b>HK Cents</b>	HK Cents
<b>Earnings per share</b>	15		
– Basic and diluted		<b>1.039</b>	1.119

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	<i>Notes</i>	<b>2023</b> <b>HK\$'000</b>	2022 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	4,493	4,941
Right-of-use assets	17	3,548	5,324
Prepayments for acquisition of property, plant and equipment		2,862	2,873
		<b>10,903</b>	13,138
<b>Current assets</b>			
Inventories	19	18,047	23,374
Trade and other receivables, deposits and prepayments	20	72,223	56,390
Amount due from ultimate holding company	23	–	147
Amount due from a fellow subsidiary	23	–	6
Cash and bank balances	21	82,158	89,297
		<b>172,428</b>	169,214
<b>Current liabilities</b>			
Trade and other payables and accruals	22	49,708	36,075
Lease liabilities	17	3,596	5,360
Amounts due to fellow subsidiaries	23	497	738
Tax payable		2	1,323
		<b>53,803</b>	43,496
<b>Net current assets</b>		<b>118,625</b>	125,718
<b>Total assets less current liabilities</b>		<b>129,528</b>	138,856
<b>Non-current liabilities</b>			
Deferred tax liabilities	24	267	136
<b>Net assets</b>		<b>129,261</b>	138,720
<b>CAPITAL AND RESERVES</b>			
Share capital	25	20,000	20,000
Reserves	26	109,261	118,720
<b>Total equity</b>		<b>129,261</b>	138,720

On behalf of the Board of Directors

**Leung Chun Wah**  
*Director*

**Tang Che Yin**  
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Share capital HK\$'000	Share premium* HK\$'000 (note 26(a))	Merger reserve* HK\$'000 (note 26(b))	Capital contribution* HK\$'000 (note 26(c))	Translation reserve* HK\$'000 (note 26(d))	Dividend reserve* HK\$'000	Statutory reserve* HK\$'000 (note 26(e))	Retained earnings* HK\$'000 (note 26(f))	Total HK\$'000
At 1 January 2022	20,000	78,695	(45,952)	16,936	272	6,000	-	88,444	164,395
Profit for the year	-	-	-	-	-	-	-	22,370	22,370
Other comprehensive income for the year									
- Exchange difference arising from translation of operations outside Hong Kong	-	-	-	-	(2,045)	-	-	-	(2,045)
Total comprehensive income for the year	-	-	-	-	(2,045)	-	-	22,370	20,325
2021 Final dividend paid	-	-	-	-	-	(6,000)	-	-	(6,000)
2022 Interim dividend paid (note 14)	-	-	-	-	-	-	-	(40,000)	(40,000)
2022 Proposed final dividend (note 14)	-	-	-	-	-	20,000	-	(20,000)	-
<b>At 31 December 2022 and 1 January 2023</b>	<b>20,000</b>	<b>78,695</b>	<b>(45,952)</b>	<b>16,936</b>	<b>(1,773)</b>	<b>20,000</b>	<b>-</b>	<b>50,814</b>	<b>138,720</b>
Profit for the year	-	-	-	-	-	-	-	20,773	20,773
Other comprehensive income for the year									
- Exchange difference arising from translation of operations outside Hong Kong	-	-	-	-	(232)	-	-	-	(232)
Total comprehensive income for the year	-	-	-	-	(232)	-	-	20,773	20,541
Transfer to statutory reserve	-	-	-	-	-	-	2,103	(2,103)	-
2022 Final dividend paid	-	-	-	-	-	(20,000)	-	-	(20,000)
2023 Interim dividend paid (note 14)	-	-	-	-	-	-	-	(10,000)	(10,000)
2023 Proposed final dividend (note 14)	-	-	-	-	-	10,000	-	(10,000)	-
<b>At 31 December 2023</b>	<b>20,000</b>	<b>78,695</b>	<b>(45,952)</b>	<b>16,936</b>	<b>(2,005)</b>	<b>10,000</b>	<b>2,103</b>	<b>49,484</b>	<b>129,261</b>

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	<i>Note</i>	<b>2023</b> <b>HK\$'000</b>	2022 HK\$'000
<b>Cash flows from operating activities</b>			
Profit before income tax		<b>24,479</b>	29,184
Adjustments for:			
Interest income		<b>(2,409)</b>	(593)
Finance costs		<b>168</b>	34
Depreciation of property, plant and equipment		<b>2,053</b>	2,047
Depreciation of right-of-use assets		<b>5,355</b>	3,581
(Reversal of allowance)/Allowance for inventories		<b>(151)</b>	299
Loss on disposal of property, plant and equipment		<b>69</b>	–
Write-off of property, plant and equipment		<b>27</b>	–
Write-off of other receivables		<b>–</b>	19
(Reversal of impairment loss)/Impairment loss on financial assets		<b>(64)</b>	97
Exchange difference		<b>(79)</b>	(1,576)
<b>Operating profit before working capital changes</b>		<b>29,448</b>	33,092
Decrease in inventories		<b>5,330</b>	13,924
(Increase)/Decrease in trade and other receivables, deposits and prepayments		<b>(15,785)</b>	23,259
Increase/(Decrease) in trade and other payables and accruals		<b>13,934</b>	(14,888)
Decrease in amounts due to fellow subsidiaries		<b>(226)</b>	(340)
<b>Cash generated from operations</b>		<b>32,701</b>	55,047
Income tax paid		<b>(4,893)</b>	(6,195)
<b>Net cash generated from operating activities</b>		<b>27,808</b>	48,852
<b>Cash flows from investing activities</b>			
Interest received		<b>2,409</b>	593
Prepayment for purchase of property, plant and equipment		<b>(759)</b>	(755)
Purchase of property, plant and equipment		<b>(993)</b>	(50)
Proceeds from disposal of property, plant and equipment		<b>2</b>	–
<b>Net cash generated from/(used in) investing activities</b>		<b>659</b>	(212)
<b>Cash flows from financing activities</b>			
Payment of principal element of lease liabilities	28	<b>(5,340)</b>	(3,598)
Payment of interest element of lease liabilities	28	<b>(168)</b>	(34)
Dividends paid	28	<b>(30,000)</b>	(46,000)
<b>Net cash used in financing activities</b>		<b>(35,508)</b>	(49,632)
<b>Net decrease in cash and cash equivalents</b>		<b>(7,041)</b>	(992)
<b>Cash and cash equivalents at the beginning of year</b>		<b>89,297</b>	90,910
<b>Effect of foreign exchange rate change on cash and cash equivalents</b>		<b>(98)</b>	(621)
<b>Cash and cash equivalents at the end of year</b>		<b>82,158</b>	89,297
<b>Analysis of the balances of cash and cash equivalents</b>			
Cash and bank balances		<b>82,158</b>	89,297

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 1. GENERAL INFORMATION

The Company 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 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 is Shell Electric Holdings Limited (“**Shell Holdings**”), a company incorporated in Bermuda.

Particulars of the Company’s subsidiaries as at 31 December 2023 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and paid up capital	Effective interest held by the Company		Principal activities
			Directly	Indirectly	
SMC Electric Holdings Limited	The British Virgin Islands (“ <b>BVI</b> ”)/ Hong Kong	United States dollars (“ <b>US\$</b> ”) 1	100%	–	Investment holding
SMC Electric (HK) Limited	Hong Kong	Hong Kong dollars (“ <b>HK\$</b> ”) 1	–	100%	Trading of electric fans and electric tools
Shell Electric Mfg. (China) Company Limited	The BVI/Hong Kong	US\$1,000	–	100%	Trading of electric fans
Quanta Global Limited	The BVI/Hong Kong	US\$1	–	100%	Trading of electric fans
Speed Power Limited	Hong Kong	HK\$2	–	100%	Trading of electric fans
SMC Electric (China) Limited (“ <b>SMC Electric China</b> ”) (note)	The People’s Republic of China (the “ <b>PRC</b> ”)	US\$999,958.50	–	100%	Manufacturing and trading of electric tools

*Note:* SMC Electric China was established in the PRC as a wholly-foreign-owned enterprise.

The consolidated financial statements for the year ended 31 December 2023 were approved and authorised for issue by the board on 25 March 2024.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards which collective term includes individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations (hereinafter collectively referred to as the “**HKFRS**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

The consolidated financial statements have been prepared under the historical cost basis.

The consolidated financial statements are presented in HK\$, which is the same as the functional currency of the Company.

Accounting estimates and assumptions are used in the preparation of the consolidated financial statements. Although these estimates and assumptions are based on management’s best knowledge and judgment of current events and actions, actual results may ultimately be different from those estimates and assumptions. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5.

## 3. ADOPTION OF NEW AND AMENDMENTS TO HKFRS

### 3.1 Adoption of new and amendments to HKFRS – effective on 1 January 2023

The HKICPA has issued a number of new and amendments to HKFRS that are relevant to and effective for the current accounting period of the Group:

Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
HKFRS 17	Insurance Contracts

Except as disclosed below, the adoption of the above new and amendments to HKFRS that are effective from 1 January 2023 does not have any significant impact on the Group’s financial results and financial position.

#### Amendments to HKAS 1 and HKFRS Practice Statement 2 – Disclosure of Accounting Policies

Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. 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.

Amendments to HKFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures.

These amendments have no effect on the measurement or presentation of any items in the consolidated financial statements of the Group but affect the disclosure of accounting policies of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 3. ADOPTION OF NEW AND AMENDMENTS TO HKFRS (Continued)

### 3.1 Adoption of new and amendments to HKFRS – effective on 1 January 2023 (Continued)

#### *HKFRS 17 – Insurance Contracts (“HKFRS 17”)*

HKFRS 17 defines an insurance contract as a contract under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

In October 2020, the HKICPA issued Amendments to HKFRS 17 to address concerns and implementation challenges that were identified after HKFRS 17 was published. The amendments defer the date of initial application of HKFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. At the same time, the HKICPA issued Amendments to HKFRS 4 *Extension of the Temporary Exemption* (“HKFRS 4”) from HKFRS 9 *Financial Instruments* (“HKFRS 9”) that extends the fixed expiry date of the temporary exemption from applying HKFRS 9 in HKFRS 4 to annual reporting periods beginning on or after 1 January 2023.

In February 2022, the HKICPA issued Amendment to HKFRS 17 Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information to address implementation challenges that were identified after HKFRS 17 was published. The amendment addresses challenges in the presentation of comparative information.

Certain contracts entered into by the Group, including warranty contracts issued by the Group, meet the definition of insurance contracts under HKFRS 17. However, these contracts are specifically scoped out from HKFRS 17 and the Group continues to account for these contracts under relevant accounting standards. Therefore, the application of HKFRS 17 in the current year had no material impact on the consolidated financial statements.

### 3.2 New HKICPA guidance on the accounting implications of the abolition of the MPF-LSP offsetting mechanism

In June 2022, the Hong Kong SAR Government gazetted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the “**Amendment Ordinance**”), which will come into effect from 1 May 2025 (the “**Transition Date**”). Once the Amendment Ordinance takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory contributions to mandatory provident fund (“**MPF**”) scheme to reduce the long service payment (“**LSP**”) in respect of an employee’s service from the Transition Date (the abolition of the “**offsetting mechanism**”). In addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee’s monthly salary immediately before the Transition Date and the number of years of employee’s service up to that date.

In July 2023, the HKICPA published “Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong” that provides accounting guidance relating to the offsetting mechanism and the abolition of the mechanism.

To better reflect the substance of the interaction between the accrued benefits arising from employer MPF contributions and LSP obligation, the Group has changed its accounting policy in connection with its LSP liability and has applied the above HKICPA guidance retrospectively. In the opinion of the directors, this change in accounting policy did not have material impact on the consolidated statement of financial position as at 31 December 2022 and 31 December 2023.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 3. ADOPTION OF NEW AND AMENDMENTS TO HKFRS (Continued)

### 3.3 Amendments to HKFRS that have been issued but are not yet effective

The following amendments to HKFRS, potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group in the preparation of the consolidated financial statements.

Amendments to HKAS 1	Classification of Liabilities as Current or Non-Current <sup>1</sup>
Amendments to HKAS 1	Non-Current Liabilities with Covenants <sup>1</sup>
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback <sup>1</sup>

1 Effective for annual periods beginning on or after 1 January 2024

The directors anticipate that all of the relevant pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. The directors are currently assessing the possible impact of these revised standards on the Group's results and financial position in the first year of application. The directors consider that these amendments are unlikely to have a material impact to the Group's consolidated financial statements.

## 4. ACCOUNTING POLICIES

### 4.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (note 4.2). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

### 4.2 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present:

- power over the investee;
- exposure, or rights, to variable returns from the investee; and
- the ability to use its power to affect those variable returns.

Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 4. ACCOUNTING POLICIES (Continued)

### 4.3 Associates

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associates are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associates' profits and losses resulting from these transactions are eliminated against the carrying amount of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

### 4.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses (note 4.13).

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. In situations where it can be demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is provided to write off the cost of each item of property, plant and equipment less its residual value, if applicable, over its estimated useful life on a straight-line basis as follows:

Furniture, fixtures and fittings	3 – 10 years
Office equipment	3 – 5 years
Moulds, tools and equipment	3 – 10 years
Motor vehicles	4 years

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the item and is recognised in profit or loss.

### 4.5 Government grant

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

Grants that compensate the Group for expenses incurred are recognised as income or deducted from the related expenses, as appropriate, in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

## 4. ACCOUNTING POLICIES (Continued)

### 4.6 Lease

#### The Group as lessee

All leases are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases for which at the commencement date have a lease term of 12 months or less and do not contain any purchase option and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and short-term leases. The lease payments associated with those leases have been expensed on a straight-line basis over the lease term.

#### *Right-of-use asset*

Right-of-use asset is initially recognised at cost and would comprise:

- (i) the amount of the initial measurement of the lease liability (see below for the accounting policy for lease liability);
- (ii) any lease payments made at or before the commencement date, less any lease incentives received;
- (iii) any initial direct costs incurred by the lessee; and
- (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The Group measures right-of-use assets by applying a cost model. Under the cost model, the Group measures right-to-use assets at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated over the shorter of the remaining lease term or their respective estimated useful life.

#### **Lease liability**

Lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. Lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequent to the commencement date, the Group measures its lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modification, or to reflect revised in-substance fixed lease payments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 4. ACCOUNTING POLICIES (Continued)

### 4.7 Financial instruments

#### (i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, transaction costs that are directly attributable to its acquisition or issue. Trade receivable without a significant financing component is initially measured at the transaction price. All receivables are subsequently stated at amortised cost.

#### *Financial assets at amortised cost*

The Group classified its financial assets as financial assets measured at amortised cost, which are assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Financial assets at amortised cost are subsequently measured using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

#### (ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit losses (“ECL”) on trade receivables and other financial assets measured at amortised cost. ECL are measured on either of the following bases:

- 12-month ECL: these are ECL that result from possible default events within 12 months after the reporting date; and
- Lifetime ECL: these are ECL that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

The Group measures loss allowances for trade receivables using the simplified approach and has calculated ECL based on lifetime ECL. The Group has established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the Group applies the general approach and ECL is based on 12-month ECL. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

The Group recognises an impairment loss or reversal in profit or loss for financial assets at amortised cost with a corresponding adjustment to their carrying amount through a loss allowance account.

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. Any recoveries made are recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 4. ACCOUNTING POLICIES (Continued)

### 4.7 Financial instruments (Continued)

#### (iii) Financial liabilities

The Group classifies its financial liabilities as financial liabilities measured at amortised costs.

#### *Financial liabilities at amortised cost*

Financial liabilities at amortised cost includes trade and other payables and accruals and amounts due to fellow subsidiaries. They are initially measured at fair value net of directly attributable costs incurred and are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

### 4.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling price less any estimated costs to be incurred to completion and disposal.

### 4.9 Revenue and other income recognition

Income is classified by the Group as revenue when it arises from the sales of goods in the ordinary course of the Group's business.

#### *Revenue from contracts with customers*

The Group is the principal for its revenue transactions and recognises revenue on a gross basis. In determining whether the Group acts as a principal or as an agent, it considers whether it obtains control of the products before they are transferred to the customers. Control refers to the Group's ability to direct the use of and obtain substantially all of the remaining benefits from the products.

Revenue is recognised when control of goods is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods, excluding those amounts collected on behalf of third parties. Revenue excludes value added taxes or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's recognition policies for revenue and other income are as follows:

#### (i) Sales of electric tools and electric fans

Revenue is recognised when the customers take possession of the products and title has been passed. Payment terms and conditions vary by customers and are established in the contracts or purchase orders with customers. The Group generally provides credit terms to customers range from nil to 120 days.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 4. ACCOUNTING POLICIES (Continued)

### 4.9 Revenue and other income recognition (Continued)

#### (ii) Interest income

Interest income is accrued on a time basis using effective interest method by applying applicable interest rate on (i) the amortised cost (i.e. gross carrying amount less loss allowance) for credit-impaired financial assets; or (ii) the gross carrying amount for non-credit-impaired financial assets. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial assets.

#### *Contract liabilities*

A contract liability is the obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

### 4.10 Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for (i) initial recognition of assets and liabilities that are not part of a business combination which affect neither accounting nor taxable profits or losses and does not give rise to equal taxable and deductible temporary differences; and (ii) taxable temporary differences arising on investments in subsidiaries and associates where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period, and reflects any uncertainty related to income taxes.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 4. ACCOUNTING POLICIES (Continued)

### 4.11 Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the “**functional currency**”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of operations outside Hong Kong are translated into the presentation currency of the Group (i.e. HK\$) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of operations outside Hong Kong are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as translation reserve. Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in operations outside Hong Kong are reclassified to other comprehensive income and accumulated in equity as translation reserve.

### 4.12 Employee benefits

#### (i) Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short-term employee benefits are recognised in the period when the employees render the related service.

#### (ii) Defined contribution retirement plans

The Group participates in the Mandatory Provident Fund Scheme (the “**MPF Scheme**”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance (“**MPF Ordinance**”) for those employees employed under the jurisdiction of the Hong Kong SAR. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make mandatory contributions to the scheme at 5% of the employees' relevant income which is defined in the MPF Ordinance and subject to a cap. Voluntary contribution is made by the Group to certain employees and employer's contribution to those employees is calculated at 5% of the relevant income of those employees instead of the mandatory contribution which is subject to a cap.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 4. ACCOUNTING POLICIES (Continued)

### 4.12 Employee benefits (Continued)

#### (ii) Defined contribution retirement plans (Continued)

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group are members of the central pension scheme (the “**Central Pension Scheme**”), which is a defined contribution retirement benefit plan organised by the relevant provincial government in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans which are calculated as a percentage of the employees’ salaries, subject to certain ceilings imposed. The provincial government undertakes to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plan described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

The Group’s contributions to both the MPF Scheme and the Central Pension Scheme vest fully and immediately with the employees. Accordingly, there are no forfeited contributions under the MPF Scheme or the Central Pension Scheme which may be used by the Group to reduce its existing level of contributions or contributions payable in future years as at and during each of the years ended 31 December 2023 and 2022.

#### (iii) Termination benefits

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

### 4.13 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of property, plant and equipment, right-of-use assets and investment in an associate to determine whether there is any indication that the above assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

Impairment loss is recognised as an expense immediately for the amount by which the asset’s or cash-generating unit’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs of disposal, reflecting market conditions, and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss on the Group’s non-financial assets is reversed if there has been a favourable change in the estimates used to determine the asset’s or cash-generating unit’s recoverable amount, but only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised. A reversal of such impairment is credited to profit or loss in the period in which it arises.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 4. ACCOUNTING POLICIES (Continued)

### 4.14 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits and highly liquid investments with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

### 4.15 Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared and consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### 4.16 Related parties

- (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 key management personnel of the Company or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions apply:
  - (i) The entity and the Group 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 the employees of 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 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 Group or to the Company's parent.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgment, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumption 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 judgment in applying accounting policies

#### Accounting for transactions entered into with subcontractors

Certain production processes are outsourced to subcontractors. Terms and arrangements agreed with the subcontractors and the business practice of subcontractors are different. The Group has followed the guidance on principal versus agent considerations set out in HKFRS 15 *Revenue from contracts with customers* ("HKFRS 15") to determine the appropriate accounting treatment for the transactions entered into with subcontractors which is based on an evaluation of the terms and arrangements agreed with subcontractors, and the business practice of subcontractor so as to assess whether the nature of the promise is a performance obligation to provide the specified goods or services itself (i.e. the subcontractors are principal) or to arrange for those goods or services to be provided by the other party (i.e. the subcontractors are agent). The assessment requires significant judgement by the management.

### Key sources of estimation uncertainty

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty are as follows:

#### (a) Loss allowance for trade receivables

The measurement of loss allowance for ECL of trade receivables requires judgement, in particular, the estimation of the amount and timing of future cash flows when determining impairment losses. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Trade receivables are reviewed periodically to assess for impairment. The Group estimates loss allowances for ECL based on a wide range of factors such as the creditworthiness, the past collection history of each customer, the probability of insolvency or significant financial difficulties of the customer, default or significant delay in payment according to the contract terms and the current and forecast economic conditions for customers with similar credit risk ageing of the receivables. If the financial conditions of customers were to deteriorate, actual write off would be higher than expected. The methodology and assumptions used are reviewed regularly to reduce any difference between the loss estimates and actual amounts.

Loss allowance for ECL provided for trade receivables amounted to HK\$307,000 as at 31 December 2023. Details of the ECL assessment are set out in note 33(a).

#### (b) Allowance for inventories

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group would evaluate ageing analysis of inventories and compare the carrying value of inventories to their respective net realisable values. A considerable amount of judgment is required in determining such allowance. If conditions which have an impact on the net realisable value of inventories deteriorate, additional allowances may be required.

The carrying amount of inventories and the allowance of inventories are disclosed in notes 19 and 11 respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Key sources of estimation uncertainty (Continued)

#### (c) Estimates of current and deferred tax

The Group is subject to taxation in various jurisdictions. Significant judgment is required in determining the amount of the provision for taxation and the timing of payment of the related taxation and interpreting the tax rules. The Group recognised income tax based on management's best estimates according to their understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the tax expense in the period in which the tax calculations are finalised with the local tax authorities.

The Group's income tax expenses and deferred tax are disclosed in notes 12 and 24 respectively.

## 6. SEGMENT INFORMATION

### (a) Operating segment information

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision-maker i.e. executive directors of the Company for their decisions about resources allocation to the Group's business components and for their review of the performance of those components.

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.

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 year and in prior year. 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 6. SEGMENT INFORMATION (Continued)

### (a) Operating segment information (Continued)

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
<b>Year ended 31 December 2023</b>			
Reportable segment revenue recognised at a point in time	202,665	30,255	232,920
Reportable segment profit	54,982	8,710	63,692
Corporate and unallocated income <sup>^</sup>			7,201
Corporate and unallocated expenses <sup>^</sup>			(46,414)
Profit before income tax			24,479
<b>Year ended 31 December 2022</b>			
Reportable segment revenue recognised at a point in time	211,131	43,358	254,489
Reportable segment profit	58,568	11,392	69,960
Corporate and unallocated income <sup>^</sup>			4,128
Corporate and unallocated expenses <sup>^</sup>			(44,904)
Profit before income tax			29,184

<sup>^</sup> 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 for the respective years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 6. SEGMENT INFORMATION (Continued)

### (a) Operating segment information (Continued)

Other segment information is as follows:

	Non-SMC segment HK\$'000	SMC segment HK\$'000	Corporate/ Unallocated HK\$'000	Total HK\$'000
<b>Year ended 31 December 2023</b>				
Depreciation of property, plant and equipment	1,706	52	295	2,053
Depreciation of right-of-use assets	2,312	–	3,043	5,355
Reversal of allowance for inventories	(90)	(61)	–	(151)
Reversal of impairment loss on financial assets	(64)	–	–	(64)
Write-off of property, plant and equipment	27	–	–	27
Additions to specified non-current assets*	2,034	–	3,320	5,354

	Non-SMC segment HK\$'000	SMC segment HK\$'000	Corporate/ Unallocated HK\$'000	Total HK\$'000
<b>Year ended 31 December 2022</b>				
Depreciation of property, plant and equipment	1,709	69	269	2,047
Depreciation of right-of-use assets	731	–	2,850	3,581
Allowance for inventories	–	299	–	299
Impairment loss/(Reversal of impairment loss) on financial assets	138	(41)	–	97
Additions to specified non-current assets*	3,209	–	3,044	6,253

\* Including additions to property, plant and equipment, right-of-use assets and prepayments for acquisition of property, plant and equipment (i.e. "specified non-current assets").

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 6. SEGMENT INFORMATION (Continued)

### (b) Geographical segment information

The following table provides an analysis of the Group's revenue from external customers, determined based on locations to which the goods are delivered or locations of the distributors to which the goods are delivered for onward distribution to distributors' customers:

	2023 HK\$'000	2022 HK\$'000
United States	103,441	114,578
Canada	11,230	4,992
Mexico	18,985	29,817
<b>Americas</b>	<b>133,656</b>	<b>149,387</b>
Hong Kong (place of domicile)	5,920	6,315
Other regions of the PRC	1,018	1,987
Other countries in Asia	17,269	27,335
<b>Asia</b>	<b>24,207</b>	<b>35,637</b>
Australia	42,833	42,759
Other countries in Oceania	7,272	7,125
<b>Oceania</b>	<b>50,105</b>	<b>49,884</b>
Europe	18,339	12,063
Africa	6,613	7,518
	<b>232,920</b>	<b>254,489</b>

An analysis of the Group's specified non-current assets by geographical locations, determined based on the location of the assets or the location of operations, is as follows:

	2023 HK\$'000	2022 HK\$'000
Hong Kong	3,701	3,002
Other regions of the PRC	6,466	9,170
Other country in Asia	736	966
	<b>10,903</b>	<b>13,138</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 6. SEGMENT INFORMATION (Continued)

### (c) Information about major customers

Revenue from major customers, each of them accounted for 10% or more of the Group's revenue, are set out below:

	2023 HK\$'000	2022 HK\$'000
Customer I*	161,093	170,976
Customer II*	41,572	40,155

\* Revenue from Customer I and Customer II was reported under Non-SMC segment.

## 7. 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:

	2023 HK\$'000	2022 HK\$'000
Sales of electric fans and electric tools:		
– Fans	102,559	111,554
– Vacuum cleaners	107,013	106,796
– Work lights	21,687	34,471
– Others	1,661	1,668
	232,920	254,489

## 8. OTHER INCOME

	2023 HK\$'000	2022 HK\$'000
Bank interest income	2,409	593
Sales of spare parts and sample products	4,504	3,093
Government subsidies*	29	48
Sundry	259	394
	7,201	4,128

\* During the year ended 31 December 2023, the Group received government subsidy of Renminbi ("RMB") 26,000 (equivalent to approximately HK\$29,000) from the PRC government which represents subsidies in relation to labour welfare. In 2022, the Group received government subsidy of RMB37,000 (equivalent to approximately HK\$43,000) from the PRC government which represents subsidy to training programs arranged for workers in the PRC. There are no unfulfilled conditions or contingencies relating to government subsidies.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 9. OTHER GAINS/(LOSSES)

	2023 HK\$'000	2022 HK\$'000
Loss on disposal of property, plant and equipment	(69)	–
Write-off of property, plant and equipment	(27)	–
Exchange gains/(losses), net	353	(260)
	<b>257</b>	<b>(260)</b>

## 10. FINANCE COSTS

	2023 HK\$'000	2022 HK\$'000
Interest expenses on lease liabilities	168	34

## 11. PROFIT BEFORE INCOME TAX

	2023 HK\$'000	2022 HK\$'000
Profit before income tax is arrived at after charging/(crediting):		
Auditors' remuneration:		
– Current year	858	833
Cost of inventories recognised as expense		
– Carrying amount of inventories consumed	169,379	184,230
– (Reversal of allowance)/Allowance for inventories	(151)	299
	<b>169,228</b>	<b>184,529</b>
Depreciation of property, plant and equipment	2,053	2,047
Depreciation of right-of-use assets	5,355	3,581
Donations	520	4,851
Short-term lease expense	–	796
Write-off of other receivables	–	19
Employee benefit expenses (including directors' emoluments):		
– Salaries, wages and other benefits	32,788	31,734
– Contribution to defined contribution retirement plans	1,309	1,378
	<b>34,097</b>	<b>33,112</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 12. INCOME TAX EXPENSE

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

	2023 HK\$'000	2022 HK\$'000
Current tax for the year		
Hong Kong Profits Tax	3,513	4,822
Other regions of the PRC – Enterprise Income Tax (“EIT”)	155	1,212
Withholding tax on dividends	–	666
	<b>3,668</b>	6,700
(Over)/Under provision in prior years		
Hong Kong Profits Tax	(189)	20
Other regions of the PRC	96	(42)
	<b>(93)</b>	(22)
Deferred tax (note 24)	131	136
Income tax expense	<b>3,706</b>	6,814

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 Profits Tax was calculated at 16.5% (2022:16.5%) on the estimated assessable profits derived from Hong Kong for the year.

During the year ended 31 December 2023, SMC Electric China qualified as a Small and Micro Enterprise (“SME”) and was entitled to the PRC preferential EIT rate of 5% (2022: 25%). Pursuant to the Announcement of the PRC [2023] No. 12 “Announcement on Tax and Fee Policies for Further Supporting the Development of Small and Micro Enterprises and Individual Businesses” (《關於進一步支持小微企業和個體工商戶發展有關稅費政策的公告》) issued by the Ministry of Finance and the State Taxation Administration, for an entity qualified as SME, the taxable income not exceeding RMB3 million shall be calculated at a reduced rate of 25% as taxable income and be subject to EIT rate of 20%, i.e. an effective rate of 5%.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by its subsidiary established in the PRC in respect of earnings generated by the subsidiary from 1 January 2008 and the applicable tax rate is 5%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 12. INCOME TAX EXPENSE (CONTINUED)

The income tax expense for the year can be reconciled to the profit before income tax in the consolidated statement of comprehensive income as follows:

	2023 HK\$'000	2022 HK\$'000
Profit before income tax	24,479	29,184
Tax on profit at the tax rates applicable to the profits in the jurisdictions concerned	3,693	5,251
Tax effect of income not taxable for tax purpose	(443)	(119)
Tax effect of expenses not deductible for tax purpose	168	1,276
Tax losses and other temporary differences not recognised	524	79
Utilisation of previously unrecognised tax losses	(252)	(279)
Over provision in respect of prior years	(93)	(22)
Withholding tax on dividends	–	666
Effect of withholding tax on distributable profits of a PRC subsidiary	131	136
Other	(22)	(174)
Income tax expense	3,706	6,814

## 13. DIRECTORS' EMOLUMENTS, FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

Directors' emoluments are disclosed as follows:

	Fees HK\$'000	Salaries, allowances and other benefits HK\$'000	Discretionary bonus HK\$'000	Pension scheme contribution HK\$'000	Total HK\$'000
<b>Year ended 31 December 2023</b>					
<i>Executive Directors</i>					
Mr. Leung Chun Wah	20	1,928	100	106	2,154
Mr. Tang Che Yin	20	1,574	600	139	2,333
Mr. Chow Kai Chiu, David	20	–	250	–	270
<i>Non-Executive Directors</i>					
Mr. Yung Kwok Kee, Billy	20	–	5,000	–	5,020
Mdm. Li Pik Mui, Cindy	20	–	250	–	270
<i>Independence Non-Executive Directors</i>					
Mr. Leung Man Chiu, Lawrence	180	–	–	–	180
Mr. Poon Chak Sang, Plato	180	–	–	–	180
Mr. Ho Chi Sing, Spencer	180	–	–	–	180
	640	3,502	6,200	245	10,587

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 13. DIRECTORS' EMOLUMENTS, FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

### (a) Directors' emoluments (Continued)

	Fees HK\$'000	Salaries, allowances and other benefits HK\$'000	Discretionary bonus HK\$'000	Pension scheme contribution HK\$'000	Total HK\$'000
<b>Year ended 31 December 2022</b>					
<i>Executive Directors</i>					
Mr. Leung Chun Wah	20	1,890	100	98	2,108
Mr. Tang Che Yin	20	973	600	49	1,642
Mr. Chow Kai Chiu, David	15	–	250	–	265
<i>Non-Executive Directors</i>					
Mr. Yung Kwok Kee, Billy	20	–	5,000	–	5,020
Mdm. Li Pik Mui, Cindy	11	–	250	–	261
<i>Independence Non-Executive Directors</i>					
Mr. Leung Man Chiu, Lawrence	180	–	–	–	180
Mr. Poon Chak Sang, Plato	180	–	–	–	180
Mr. Ho Chi Sing, Spencer	180	–	–	–	180
	626	2,863	6,200	147	9,836

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office for the year ended 31 December 2023 (2022: nil). In addition, none of the directors waived or agreed to waive any emoluments for the year ended 31 December 2023 (2022: nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 13. DIRECTORS' EMOLUMENTS, FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included three directors (2022: three directors) of the Company, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2022: two) highest paid individuals are as follows:

	2023 HK\$'000	2022 HK\$'000
Salaries, allowances and other benefits	1,516	1,373
Discretionary bonus	83	85
Pension scheme contribution	60	53
	<b>1,659</b>	1,511

The emoluments of the above non-director highest paid individuals were within the following band:

	2023 Numbers of individuals	2022 Numbers of individuals
Nil to HK\$1,000,000	2	2

No emoluments were paid by the Group to any of the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2022: nil).

### (c) Senior management's emoluments

Emoluments paid or payable to members of senior management who are not directors were within the following band:

	2023 Numbers of individuals	2022 Numbers of individuals
Nil to HK\$1,000,000	3	3

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 14. DIVIDENDS

	2023 HK\$'000	2022 HK\$'000
Interim dividend of HK\$0.005 (2022:HK\$0.02) per ordinary share	10,000	40,000
Proposed final dividend of HK\$0.005 (2022: HK\$0.01) per ordinary share	10,000	20,000
	<b>20,000</b>	60,000

The final dividend of HK\$0.005 (2022: HK\$0.01) per ordinary share, amounting to HK\$10,000,000 (2022: HK\$20,000,000), has been proposed by the directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

## 15. EARNINGS PER SHARE

### (a) Basic earnings per share

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

	2023 HK\$'000	2022 HK\$'000
<b>Profit</b>		
Profit for the year attributable to owners of the Company	20,773	22,370

	2023 Number of Shares '000	2022 Number of Shares '000
<b>Number of shares</b>		
Weighted average number of ordinary shares in issue during the year	2,000,000	2,000,000

### (b) Diluted earnings per share

The diluted earnings per share is the same as the basic earnings per share as there were no dilutive potential ordinary shares in issue during the current and prior years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 16. PROPERTY, PLANT AND EQUIPMENT

	Moulds, tools and equipment HK\$'000	Furniture, fixtures and fittings HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost</b>					
At 1 January 2022	14,158	1,558	988	343	17,047
Translation adjustment	(1,235)	(132)	(82)	(29)	(1,478)
Additions	3,046	–	36	–	3,082
<b>At 31 December 2022 and 1 January 2023</b>					
	<b>15,969</b>	<b>1,426</b>	<b>942</b>	<b>314</b>	<b>18,651</b>
Translation adjustment	(207)	(18)	(12)	(4)	(241)
Additions	1,086	–	27	650	1,763
Disposals	(666)	(186)	–	–	(852)
Write-off	(233)	(23)	–	–	(256)
<b>At 31 December 2023</b>	<b>15,949</b>	<b>1,199</b>	<b>957</b>	<b>960</b>	<b>19,065</b>
<b>Accumulated depreciation</b>					
At 1 January 2022	10,496	1,410	580	283	12,769
Translation adjustment	(905)	(120)	(56)	(25)	(1,106)
Depreciation	1,777	18	205	47	2,047
<b>At 31 December 2022 and 1 January 2023</b>					
	<b>11,368</b>	<b>1,308</b>	<b>729</b>	<b>305</b>	<b>13,710</b>
Translation adjustment	(150)	(17)	(10)	(4)	(181)
Depreciation	1,757	16	128	152	2,053
Disposals	(612)	(169)	–	–	(781)
Write-off	(209)	(20)	–	–	(229)
<b>At 31 December 2023</b>	<b>12,154</b>	<b>1,118</b>	<b>847</b>	<b>453</b>	<b>14,572</b>
<b>Net carrying amount</b>					
<b>At 31 December 2023</b>	<b>3,795</b>	<b>81</b>	<b>110</b>	<b>507</b>	<b>4,493</b>
At 31 December 2022	4,601	118	213	9	4,941

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 17. LEASES

The Group entered into the lease agreements with fellow subsidiaries for leasing of factory and office premises located in the PRC and also entered into the lease agreements with Shell Holdings for leasing of office premises, warehouse and carpark spaces located in Hong Kong.

### Right-Of-Use Assets

The Group's right-of-use assets in respect of lease arrangements for renting factory, office premises, warehouse and carpark spaces at the end of the reporting period are as follows:

	HK\$'000
<b>Cost</b>	
At 1 January 2022	13,371
Translation difference	(321)
Addition	2,635
Effect of lease modification	2,813
<b>At 31 December 2022 and 1 January 2023</b>	<b>18,498</b>
Translation difference	(71)
Addition	535
Effect of lease modification	3,067
<b>At 31 December 2023</b>	<b>22,029</b>
<b>Accumulated depreciation</b>	
At 1 January 2022	9,788
Translation difference	(195)
Depreciation	3,581
<b>At 31 December 2022 and 1 January 2023</b>	<b>13,174</b>
Translation difference	(48)
Depreciation	5,355
<b>At 31 December 2023</b>	<b>18,481</b>
<b>Net carrying amount</b>	
<b>At 31 December 2023</b>	<b>3,548</b>
At 31 December 2022	5,324

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 17. LEASES (Continued)

### Lease Liabilities

The movement of lease liabilities in respect of these leases are as follows:

	2023 HK\$'000	2022 HK\$'000
As at 1 January	5,360	3,636
Addition	535	2,635
Effect of lease modification	3,067	2,813
Finance costs	168	34
Lease payments	(5,508)	(3,632)
Translation difference	(26)	(126)
As at 31 December	3,596	5,360

### Maturity analysis

	2023 HK\$'000	2022 HK\$'000
Within one year (current liabilities)	3,596	5,360

### Future minimum lease payment due

	2023 HK\$'000	2022 HK\$'000
Within one year	3,719	5,528
Less: Future finance charges	(123)	(168)
	3,596	5,360

For the year ended 31 December 2023, the total cash payments for the Group's lease arrangements (including repayment of lease liabilities) amounted to HK\$5,508,000(2022: HK\$4,428,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 18. INVESTMENT IN AN ASSOCIATE

	2023 HK\$'000	2022 HK\$'000
Unlisted shares, at cost less impairment losses	–	–

Details of the associate held by the Group as at 31 December 2023 are as follows:

Name of associate	Place of establishment/ operation	Paid up registered capital	Percentage of equity interests	Principal activity
廣東蜆華電器製造有限公司 (Guangdong Sien Hua Electrical Appliance Manufacturing Company Limited*) (“Sien Hua”)	The PRC	US\$3,250,000	28.92%	Manufacturing of electric fans, electric cables and lamps

\* for identification purposes only

The associate is established in the PRC as a sino-foreign co-operation joint venture. It is a major supplier of the Group from which the Group sources electric fans.

Pursuant to the constitutional documents of Sien Hua, upon dissolution of the entity, the Group shall not be entitled to its residual assets. The Group, however, is entitled to returns on investment by way of dividend distribution made by Sien Hua, which is not controlled by the Group. In the opinion of the directors, dividend distributions were not expected in the foreseeable future in light of the financial position of Sien Hua. Hence, the Group made full provision for its investment in this associate.

## 19. INVENTORIES

	2023 HK\$'000	2022 HK\$'000
Raw materials	11,967	16,481
Work-in-progress	1,077	661
Finished goods	5,003	6,232
	<b>18,047</b>	<b>23,374</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 20. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2023 HK\$'000	2022 HK\$'000
Trade receivables	62,659	47,822
Less: Provision for impairment	(307)	(371)
Trade receivables, net (note (a))	62,352	47,451
Other receivables (note b))	1,338	4,468
Other prepayments and deposits (note (c))	8,533	4,471
	<b>72,223</b>	<b>56,390</b>

Notes:

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

	2023 HK\$'000	2022 HK\$'000
0 – 30 days	16,557	15,037
31 – 60 days	15,503	11,428
61 – 90 days	15,571	5,491
Over 90 days	15,028	15,866
	<b>62,659</b>	<b>47,822</b>

The movements in the allowance for impairment of trade receivables during the year are as follows:

	2023 HK\$'000	2022 HK\$'000
At the beginning of the year	371	274
Impairment losses recognised during the year	112	141
Impairment losses reversed during the year	(176)	(44)
At the end of the year	<b>307</b>	<b>371</b>

The Group normally allows a credit period of 0 to 120 days to its customers. Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 33(a).

- (b) Included in the amount as at 31 December 2023 was other receivables of HK\$336,000 (2022: HK\$3,085,000) due from a subcontractor for sales of raw materials.
- (c) The balance mainly comprise prepayments to suppliers and prepaid operating expenses. Included in the amount as at 31 December 2023 was prepayment of HK\$443,000 (2022: HK\$615,000) to the associate for purchases of goods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 21. CASH AND BANK BALANCES

	2023 HK\$'000	2022 HK\$'000
Cash at banks and in hand	39,203	28,059
Short-term bank deposits	42,955	61,238
	<b>82,158</b>	89,297

Cash at banks earns interest at floating rates based on daily bank deposits rates.

The effective interest rates of short-term bank deposits ranged from 5.14% to 5.54% per annum as at 31 December 2023 (2022: 4.42% to 5.19%). These deposits have maturity periods within three months. The Group considered that the fair values of the short-term bank deposits are not materially different from their carrying amount because of the short maturity periods at their inception.

## 22. TRADE AND OTHER PAYABLES AND ACCRUALS

	2023 HK\$'000	2022 HK\$'000
Trade payables (note (a))	22,474	9,803
Accruals and other payables (note (b))	25,222	26,112
Contract liabilities (note (c))	2,012	160
	<b>49,708</b>	36,075

(a) Credit periods granted by suppliers normally range from 0 to 120 days.

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

	2023 HK\$'000	2022 HK\$'000
0 – 30 days	9,626	8,137
31 – 60 days	4,796	717
61 – 90 days	3,757	177
Over 90 days	4,295	772
	<b>22,474</b>	9,803

(b) The balances mainly comprise accruals for purchase of materials and accrued employee benefit liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 22. TRADE AND OTHER PAYABLES AND ACCRUALS (Continued)

- (c) The Group may request the customers to pay certain percentage of the contract sum upon placing orders as deposits. The deposits received by the Group are recognised as contract liabilities until the production activity is completed and the customers take possession of the products and title has been passed. In addition, during the course of the production activity, the Group may receive advances from the customers, and this also give rise to contract liabilities. The Group will recognise the revenue when such performance obligations are satisfied, which is expected to occur within the next 12 months. Movements in contract liabilities during the year are as follows:

	2023 HK\$'000	2022 HK\$'000
At the beginning of the year	160	1,453
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(160)	(1,453)
Increase in contract liabilities as a result of receiving deposits and advances during the year, the performance obligations for which orders had not been satisfied	2,012	160
At the end of the year	2,012	160

The Group's sales contracts generally have an original expected duration of one year or less and accordingly, the Group has applied the practical expedient in HKFRS 15 not to disclose the transaction price allocated to the remaining performance obligations for the contracts existed that has an original expected duration of one year or less at the end of the reporting period.

## 23. AMOUNTS DUE FROM/TO ULTIMATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

The amount due from ultimate holding company, Shell Holdings is non-trade in nature, unsecured, interest-free and repayable on demand.

The amounts due from/to fellow subsidiaries are unsecured, interest-free and repayable on demand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 24. DEFERRED TAX LIABILITIES

Details of the deferred tax liabilities recognised and movements thereon during the current and prior years are as follows:

	<b>Withholding tax HK\$'000</b>
At 1 January 2022	–
Charged to profit or loss (note 12)	136
<b>At 31 December 2022 and 1 January 2023</b>	<b>136</b>
Charged to profit or loss (note 12)	131
<b>At 31 December 2023</b>	<b>267</b>

Deferred tax liabilities of approximately HK\$267,000 (2022: HK\$136,000) have been recognised in respect of the undistributed earnings of a PRC subsidiary amounted to approximately HK\$5,340,000 (2022: HK\$2,723,000) as at 31 December 2023.

As of 31 December 2023, the Group had unused tax losses amounting to approximately HK\$10,518,000 (2022: HK\$10,370,000), which were incurred by certain subsidiaries operating in Hong Kong. These tax losses are available for offset against future profits, which are subject to the agreement of the relevant tax authorities. No deferred tax assets have been recognised in respect of these tax losses due to the unpredictability of future profit streams. The tax losses of the subsidiaries operating in Hong Kong have no expiry date.

## 25. SHARE CAPITAL

Details of the movements in the authorised and issued and fully paid share capital of the Company during the current and prior years are summarised as follows:

<b>Ordinary shares</b>	<b>Par value HK\$</b>	<b>Number of ordinary shares</b>	<b>Amount HK\$'000</b>
<b>Authorised:</b>			
At 1 January 2022, 31 December 2022 and 2023	0.01	5,000,000,000	50,000
<b>Issued and fully paid:</b>			
At 1 January 2022, 31 December 2022 and 2023	0.01	2,000,000,000	20,000

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 26. RESERVES

### The Group

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

The nature of each reserve 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 in 2020.

#### (d) Translation reserve

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

#### (e) Statutory reserve

In accordance with the relevant PRC rules and regulations, a subsidiary of the Company in the PRC is required to retain certain percentage of its profits after tax to the statutory reserve. Subject to certain restrictions as set out in the relevant PRC regulations, this statutory reserve may be used to make good previous years' losses, if any, or to increase the paid-up capital of the subsidiary, and may be used for capital expenditure on staff welfare facilities, as appropriate.

#### (f) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 26. RESERVES (Continued)

### The Company

Details of the movements in the Company's reserves are as follows:

	Share premium HK\$'000	Capital contribution HK\$'000	Dividend reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2022	78,695	8,682	6,000	12,905	106,282
Profit and total comprehensive income for the year	–	–	–	54,801	54,801
2021 Final dividend paid	–	–	(6,000)	–	(6,000)
2022 Interim dividend paid (note 14)	–	–	–	(40,000)	(40,000)
2022 Proposed final dividend (note 14)	–	–	20,000	(20,000)	–
<b>At 31 December 2022 and 1 January 2023</b>	<b>78,695</b>	<b>8,682</b>	<b>20,000</b>	<b>7,706</b>	<b>115,083</b>
Profit and total comprehensive income for the year	–	–	–	33,474	33,474
2022 Final dividend paid	–	–	(20,000)	–	(20,000)
2023 Interim dividend paid (note 14)	–	–	–	(10,000)	(10,000)
2023 Proposed final dividend (note 14)	–	–	10,000	(10,000)	–
<b>At 31 December 2023</b>	<b>78,695</b>	<b>8,682</b>	<b>10,000</b>	<b>21,180</b>	<b>118,557</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 27. HOLDING COMPANY'S STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	<b>2023</b> HK\$'000	2022 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment in a subsidiary		45,952	45,952
<b>Current assets</b>			
Other receivables		2	299
Amounts due from subsidiaries		94,608	112,265
Cash and bank balances		164	30,110
		<b>94,774</b>	142,674
<b>Current liabilities</b>			
Other payables and accruals		1,084	6,531
Amounts due to subsidiaries		1,085	47,012
		<b>2,169</b>	53,543
<b>Net current assets</b>		<b>92,605</b>	89,131
<b>Net assets</b>		<b>138,557</b>	135,083
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>25</i>	20,000	20,000
Reserves	<i>26</i>	118,557	115,083
<b>Total equity</b>		<b>138,557</b>	135,083

On behalf of the Board of Directors

**Leung Chun Wah**  
*Director*

**Tang Che Yin**  
*Director*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 28. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The table below details the changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities.

	<b>Dividends payables HK\$'000</b>	<b>Lease liabilities HK\$'000 (note 17)</b>
<b>At 1 January 2022</b>	–	3,636
Changes from cash flows:		
Payment of principal element of lease liabilities	–	(3,598)
Payment of interest element of lease liabilities	–	(34)
2021 Final dividends paid	(6,000)	–
2022 Interim dividends paid	(40,000)	–
	(46,000)	(3,632)
Non-cash changes:		
Addition	–	2,635
Effect of lease modification	–	2,813
Interest expenses of lease liabilities	–	34
Exchange difference	–	(126)
2021 Final dividends declared	6,000	–
2022 Interim dividends declared (note 14)	40,000	–
	46,000	5,356
<b>At 31 December 2022 and 1 January 2023</b>	–	<b>5,360</b>
Changes from cash flows:		
Payment of principal element of lease liabilities	–	(5,340)
Payment of interest element of lease liabilities	–	(168)
2022 Final dividends paid	(20,000)	–
2023 Interim dividends paid	(10,000)	–
	(30,000)	(5,508)
Non-cash changes:		
Addition	–	535
Effect of lease modification	–	3,067
Interest expenses of lease liabilities	–	168
Exchange difference	–	(26)
2022 Final dividends declared (note 14)	20,000	–
2023 Interim dividends declared (note 14)	10,000	–
	30,000	3,744
<b>At 31 December 2023</b>	–	<b>3,596</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 29. RELATED PARTY TRANSACTIONS

The prepayment to the associate is disclosed in note 20(c) whereas the amounts due from/to ultimate holding company and fellow subsidiaries is disclosed in note 23.

Save as disclosed elsewhere in these consolidated financial statements, the Group had the following significant related party transactions:

(a) Significant transactions entered by the Group with related parties during the year:

Name	Related party relationship	Type of transaction	Transaction amount	
			2023 HK\$'000	2022 HK\$'000
(i) Shunde SMC Multi-Media Products Company Limited	Fellow subsidiary	Rental fee charged by the related party for leasing of staff quarter	127	159
(ii) PFC Device (HK) Limited	Fellow subsidiary	Purchase of raw materials from the related party	-	29
(iii) PFC Device Inc.	Fellow subsidiary	Purchase of raw materials from the related party	115	65
(iv) Guangdong PFC Device Limited	Fellow subsidiary	Purchase of raw materials from the related party	15	6
(v) Sien Hua	Associate	Purchase of raw materials and goods from the related party	31,035	30,760

*Note:*

During the year, the Group entered into 2 leases expiring in 1 year (2022: 4 leases expiring in 1 year) in respect of factory, office premises, warehouse and carpark spaces in Hong Kong and the PRC with a fellow subsidiary and Shell Holdings. Monthly rental is approximately HK\$459,000 as at 31 December 2023 (2022: HK\$302,000), which was determined with reference to amounts charged by the fellow subsidiary and Shell Holdings to third parties. The Group recognised right-of-use assets and lease liabilities (note 17) in relation to the above-mentioned lease agreements for factory, office premises, warehouse and carpark spaces under HKFRS 16 *Leases*. For the year ended 31 December 2023, total undiscounted rental payments under these leases were approximately HK\$5,508,000 (2022: HK\$3,632,000). No building management fees were charged by above-mentioned related parties in respect of these leases during the years ended 31 December 2023 and 2022.

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 year ended 31 December 2023 amounted to RMB114,000 (equivalent to approximately HK\$127,000) (2022: RMB137,000, equivalent to approximately HK\$159,000).

The above transactions were conducted on mutually-agreed terms.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 29. RELATED PARTY TRANSACTIONS (Continued)

(b) Compensation of key management personnel:

The remuneration paid and payable to the directors and other members of key management during the year were as follows:

	2023 HK\$'000	2022 HK\$'000
Salaries, allowances and other benefits	11,628	10,835
Pension scheme contribution	306	204
	<b>11,934</b>	<b>11,039</b>

## 30. CAPITAL COMMITMENTS

	2023 HK\$'000	2022 HK\$'000
Contracted for but not provided in the financial statements		
– Acquisition of property, plant and equipment	585	1,058

## 31. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal capital structure to reduce the cost of capital and to support the Group's stability and growth.

The Group monitors its capital structure on the basis of net debt to equity ratio. Net debt includes bank borrowings less cash and bank balances. Equity represented total equity of the Group.

The directors actively and regularly review and manage the Group's capital structure, taking into consideration the future capital requirements of the Group, to ensure optimal shareholders' returns. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debts or sells assets to reduce debt.

The Group targets to maintain a net debt to equity ratio to be in line with expected changes in economic and financial conditions. The Group's overall strategy on capital management remains unchanged throughout the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 32. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amounts of financial assets and financial liabilities:

	2023 HK\$'000	2022 HK\$'000
Financial assets at amortised costs		
– Trade and other receivables and deposits	65,184	53,099
– Amount due from ultimate holding company	–	147
– Amount due from a fellow subsidiary	–	6
– Cash and bank balances	82,158	89,297
	<b>147,342</b>	142,549
Financial liabilities at amortised costs		
– Trade and other payables and accruals	47,696	35,915
– Amounts due to fellow subsidiaries	497	738
	<b>48,193</b>	36,653
Other financial instruments:		
– Lease liabilities	3,596	5,360

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 32. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (Continued)

### Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and other receivables, deposits, cash and bank balances, trade and other payables and accruals and balances with related companies. Due to their short-term nature, the carrying values of the above financial instruments approximate their fair values.

For disclosure purpose, the fair value of lease liabilities is not materially different from their carrying value. The fair value is determined by using discounted cash flow models and is classified as level 3 in the fair value hierarchy. Significant inputs include the discount rate used to reflect the credit risks of the Group.

## 33. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks which comprise credit risk, market risk (including interest rate risk and currency risk) and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by key management under the policies approved by the board of directors. The Group does not have written risk management policies. However, the directors and senior management meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks.

Generally, the Group employs a conservative strategy regarding its financial risk management. As the directors consider that the Group's exposure to financial risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The most significant risks to which the Group is exposed to are described below:

### (a) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's credit risk is primarily attributable to its trade receivables and bank balances.

In respect of trade receivables, the Group limits its exposure to credit risk by rigorously selecting the counterparties and to deal with creditworthy counterparties. Credit terms are granted to new customers after creditworthiness assessment. The Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management assesses the collectability of trade receivables regularly on a case-by-case basis for the determination of any loss allowance for trade receivables by taking into account customers' financial conditions, current creditworthiness, past settlement history, business relationship with the Group and other factors such as current market conditions.

The Group had certain concentration of credit risk as 99% of the Group's trade receivables as at 31 December 2023 (2022: 99%), was due from the Group's two largest customers.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 33. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Credit risk (Continued)

The Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition on an ongoing basis throughout the reporting period. To assess whether there has been a significant increase in credit risk, the Group compares the risk of default occurring on receivables over the expected life between the reporting date and the date of initial recognition. For this purpose, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition.

- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change in the debtor's ability to meet its debt obligations.
- Actual or expected significant changes in the operating results of the debtors.
- Significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtor in the Group.
- Actual or expected significant adverse change in the regulatory, economic, or technological environment in which the debtor operates that results in a significant change in the debtor's ability to meet its debt obligations.

The Group presumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when (i) the debtor is unlikely to pay its credit obligations to the Group in full; or (ii) the financial asset is more than 90 days past due in general.

The Group assesses whether a financial asset is credit-impaired at the end of each reporting period. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

The Group measures loss allowance for trade receivables at an amount equal to lifetime expected credit losses, which is calculated using a provision matrix by reference to past default experience of customers and current market condition in relation to customers' exposure and the time value of money where appropriate. The expected credit losses also incorporate forward looking information with reference to general macroeconomic conditions that may affect the ability of customers to settle trade receivables. Trade receivables have been grouped based on shared credit risk characteristics and the days past due. At the end of each reporting period, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 33. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Credit risk (Continued)

The Group determines the expected credit loss rate for its trade receivables as follows:

	Expected loss rate	Net carrying amount HK\$'000
<b>As at 31 December 2023</b>		
Current	0.31%	55,113
Past due less than 30 days	1.55%	5,201
Past due for 30 or more but less than 60 days	2.56%	1,747
Past due for 60 or more but less than 90 days	3.56%	285
Past due for 90 days or more	4.56%	6
		<b>62,352</b>
<b>As at 31 December 2022</b>		
Current	0.49%	35,427
Past due less than 30 days	1.47%	11,230
Past due for 30 or more but less than 60 days	2.47%	429
Past due for 90 days or more	4.47%	365
		<b>47,451</b>

Movements in the loss allowance in respect of the trade receivables are set out in Note 20(a).

For other receivables, the Group regularly monitors the financial position of the counterparties to assess the recoverability of the outstanding balances.

In respect of bank balances, the Group's exposure to credit risk is limited because a majority of the deposits are placed with reputable banks, for which the Group considers having low credit risk. There was no history of default in relation to these financial institutions.

The credit policies have been consistently applied and are considered to be effective in limiting the Group's exposure to credit risk to a desirable level.

### (b) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group's interest rate risk is not significant due to the short-term bank deposits are subject to a fixed interest rate.

The Group currently does not have an interest rate hedging policy. However, the management closely monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 33. FINANCIAL RISK MANAGEMENT (Continued)

### (c) Currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group mainly operates in Hong Kong, the PRC and Vietnam. 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 foreign currencies. The Group is thus exposed to currency risk arising from fluctuation on exchange rates of foreign currencies, primarily HK\$, RMB and US\$ against the functional currencies of the relevant operating entities. Currently, 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.

The Group continues to conduct its sales mainly in US\$ and HK\$ and make payments in RMB, US\$ and HK\$. The directors closely monitor the volatility of the exchange rates of US\$ and HK\$ against RMB, to which the Group has major exposure, and continues to review its options to further limit exposures to currency movements.

The overall exposure in respect of the carrying amounts of the Group's foreign currency denominated monetary assets and liabilities in net position as of 31 December 2023 and 2022 are as follows:

	2023 HK\$'000	2022 HK\$'000
<b>Net monetary assets/(liabilities) denominated in foreign currencies</b>		
US\$ (functional currency being HK\$)	124,177	89,022
US\$ (functional currency being RMB)	232	2,634
RMB (functional currency being HK\$)	(2,229)	2,618

As HK\$ is pegged to US\$, the Group does not have material currency risk arising from fluctuation of exchange rate between HK\$ and US\$ and thus the relevant amounts of foreign currency denominated monetary assets and liabilities in net position are excluded from the sensitivity analysis below. The following sensitivity analysis, determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year and held constant throughout the year, demonstrates the Group's exposure to a reasonably possible change in the rates of US\$ against RMB and RMB against HK\$ on the net monetary assets/liabilities denominated in US\$ and RMB respectively as at the end of each reporting period (in practice, the actual trading results may differ from the sensitivity analysis and the difference could be material):

	Increase/(Decrease) in profit for the year and retained earnings	
	2023 HK\$'000	2022 HK\$'000
<b>Net monetary assets/(liabilities) denominated in foreign currencies</b>		
US\$ appreciated by 5% (functional currency being RMB)	9	99
RMB appreciated by 5% (functional currency being HK\$)	(93)	109

The changes in exchange rates do not affect the Group's other component of equity. The same percentage of depreciation in US\$ against RMB and RMB against HK\$ would have the same magnitude on the result of the Group but of opposite effect.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2023

## 33. FINANCIAL RISK MANAGEMENT (Continued)

### (d) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities and other financial instruments that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of the settlement of trade and other payables and accruals, lease liabilities, and amounts due to related companies, and also in respect of its cash flow management policy. The Group's objective is to maintain a prudent liquidity risk management policy which is to maintain sufficient cash and cash equivalents as well as to make available funds through adequate amounts of committed credit facilities and the ability to close out market positions. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities of the Group's financial liabilities at the end of each reporting period, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates ruling at the end of each reporting period) and at the earliest date the Group can be required to pay based on the scheduled repayment dates.

	Carrying amount HK\$'000	Total contractual undiscounted cash flows HK\$'000	Within 1 year or on demand HK\$'000
<b>As 31 December 2023</b>			
<b><i>Non-derivative financial liabilities</i></b>			
Trade and other payables and accruals	47,696	47,696	47,696
Amounts due to fellow subsidiaries	497	497	497
	<b>48,193</b>	<b>48,193</b>	<b>48,193</b>
Lease liabilities	3,596	3,719	3,719
	<b>51,789</b>	<b>51,912</b>	<b>51,912</b>
<b>At 31 December 2022</b>			
<b><i>Non-derivative financial liabilities</i></b>			
Trade and other payables and accruals	35,915	35,915	35,915
Amounts due to fellow subsidiaries	738	738	738
	36,653	36,653	36,653
Lease liabilities	5,360	5,528	5,528
	42,013	42,181	42,181

# FINANCIAL SUMMARY

For the year ended 31 December 2023

A summary of results and of assets and liabilities of the Group for the last five financial years, as extracted from the consolidated financial statements in this annual report and the Prospectus, are as follows:

## RESULTS

	2023 HK\$'000	2022 HK\$'000	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000
<b>Revenue</b>	<b>232,920</b>	254,489	230,443	294,409	277,974
Profit before income tax	<b>24,479</b>	29,184	34,061	44,836	57,007
Income tax expense	<b>(3,706)</b>	(6,814)	(5,742)	(8,483)	(11,640)
<b>Profit for the year attributable to owners of the Company</b>	<b>20,773</b>	22,370	28,319	36,353	45,367

## ASSETS AND LIABILITIES

	2023 HK\$'000	2022 HK\$'000	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000
<b>Total assets</b>	<b>183,331</b>	182,352	224,213	199,705	268,923
Total liabilities	<b>(54,070)</b>	(43,632)	(59,818)	(56,301)	(89,090)
<b>Net assets</b>	<b>129,261</b>	138,720	164,395	143,404	179,833