



SMC ELECTRIC LIMITED 蜆壳電業有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2381



ANNUAL REPORT 2020

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Leung Chun Wah (*Chief Executive Officer*)
Mr. Tang Che Yin

Non-executive Director

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

Independent Non-executive Directors

Mr. Leung Man Chiu, Lawrence
Mr. Poon Chak Sang, Plato
Mr. Lam Sai Yu, Geoffrey
(Resigned on 1 September 2020)
Mr. Ho Chi Sing, Spencer
(Appointed on 1 September 2020)

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 ACS*

REGISTERED OFFICE

Windward 3, Regatta Office Park, PO Box 1350,
Grand Cayman KY1-1108, Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

1/F, Shell Industrial Building, 12 Lee Chung Street,
Chai Wan, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park, PO Box 1350,
Grand Cayman KY1-1108, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited
2103B, 21/F, 148 Electric Road, North Point, Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Leung Chun Wah
Mr. Tang Che Yin

COMPLIANCE OFFICER

Mr. Leung Chun Wah

COMPLIANCE ADVISER

Red Sun Capital Limited

AUDITOR

BDO Limited
Certified Public Accountants

COMPANY'S WEBSITE

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 2020.

LISTING

On 2 June 2020 (the “**Listing Date**”), the shares of the Company were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). This marked a momentous leap of the Group to a new stage of our corporate development.

I would like to express my sincere gratitude to all professional parties and the Group’s management for their joint efforts contributing to the Company’s successful listing.

OVERVIEW

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 People’s Republic of China (the “**PRC**”). The Group sells a range of products including fans, work lights, vacuum cleaners, and other electric tools.

During the financial year of (the “**FY**”) 2020, the Group faced multiple challenges from deterioration of the economic environment to the unforeseeable risk factors brought on by the ongoing COVID-19 epidemic and the ever-escalating China-US trade tensions. Despite these uncertainties, the Group managed to outperform these challenges with our focus on quality and differentiation and maintained profitability amid an inevitable set back in business growth.

For FY2020, the Group’s revenue and gross profit decreased to approximately HK\$249.4 million and HK\$76.2 million respectively, representing a decrease of 10.3% and 12.8% as compared with the previous year. Profit attributable to owner of the Group was HK\$36.4 million, representing a decrease of 19.8%, as compared with the profit of HK\$45.4 million of FY2019.

The forthcoming FY2021 will continue to be a challenge due to the ongoing COVID-19 and other persistent uncertainties. In response to the public health and safety issue on COVID-19, the Group has adopted multiple plans and responses to protect the interests of our shareholders, staff, and other stakeholders.

APPRECIATION

On behalf of 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, 26 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

On 2 June 2020, the shares of the Company were listed on the Main Board of the Stock Exchange.

During FY2020, the widespread impact of COVID-19 and its disruption to global and local economic activities has had a negative effect on the Group's performance particularly in terms of sales compared to the prior year. Under the Group's sourcing and selling of electric fans business, sales revenue in the Middle East and Africa declined significantly during FY2020, whereas sales to Australia recorded double digit growth. Sales revenue of the manufacturing and selling of electric tools business for the first half of 2020 registered a drop, and it managed a slight increase in the second half of 2020 despite the challenging economic environment. But the overall annual performance still captured a decline compared to the prior year, which was mainly due to the sales decline in work lights and cordless fans. Overall, from rising costs of raw materials and freight to the appreciation of RMB against US dollar in the second half of 2020, the Group was still able to maintain a stable gross profit margin due to strict costs control process.

Looking ahead, FY2021 is still expected to be challenging given the uncertain global economic conditions, the China-US and geopolitical tensions. We remain hopeful that the COVID-19 pandemic will ease off after vaccines roll out across the countries, and hopefully global economic activities will resume normally and stabilize and the import demand of electric fans and electric tools will recover gradually.

Meanwhile, the Group intends to further improve our strategic actions in risk management, operational cost control, supply chain agility and liquidity position enhancement in the forthcoming year. Management will proactively pursue various avenues to further reduce the risk exposure and maintain our edge and competitiveness in the market.

FINANCIAL REVIEW

Revenue and Operating Results

Revenue from the Group's operations for the year ended 31 December 2020 amounted to HK\$249.4 million, representing a decrease of HK\$28.6 million or 10.3% as compared to HK\$278.0 million for the year ended 31 December 2019. Such decrease was primarily attributable to the decrease in the sales volume of fans and work lights.

The Group's gross profit for the year ended 31 December 2020 amounted to HK\$76.2 million, representing a decrease of HK\$11.3 million as compared to HK\$87.5 million for the year ended 31 December 2019. The gross profit margin for the year ended 31 December 2020 was 30.6%, representing a slight decrease of 0.9 percentage points compared to 31.5% for the year in 2019. The Group's gross profit margin remained stable which was mainly due to the strict and effective cost controls and processes.

Profit attributable to the owners of the Company for the year ended 31 December 2020 was HK\$36.4 million, representing a decrease of HK\$9.0 million or 19.8% as compared to HK\$45.4 million for the year ended 31 December 2019. 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. Despite the COVID-19 challenging environment this year, the Group have sufficient working capital to meet its financial obligations. As of 31 December 2020, the Group's total cash and bank balances amounted to approximately HK\$77.5 million (31 December 2019: HK\$19.3 million) which is mainly denominated in HK\$.

As of 31 December 2020, the current ratio of the Group was approximately 3.53 times (31 December 2019: approximately 2.93 times).

The capital of the Group comprises only ordinary shares. As of 31 December 2020, there were 2,000,000,000 ordinary shares in issue. There has been no change in the Company's capital structure since the date of listing and up to the date of this report.

Foreign Exchange Exposure

The Group mainly operates in Hong Kong and the PRC. The functional currencies of the Company and the Group's operating entities are mainly HK\$ and Renminbi (the "RMB") with certain of their business transactions being settled in United States Dollars (the "US\$"). The Group is thus exposed to currency risk arising from fluctuation on exchange rates of US\$ against the functional currencies of the relevant operating entities. During the 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 of 31 December 2020 was nil (31 December 2019: nil) as the Group had net cash balances at the respective year end. As of 31 December 2020, the Group had no bank borrowing (31 December 2019: HK\$14.6 million). The interest coverage ratio of the Group for the year ended 31 December 2020, calculated by dividing profit before interest and tax expenses with interest expenses for the year, stood at 216.6 times (31 December 2019: 88.8 times).

Capital Expenditure and Capital Commitments

The capital expenditures of the Group amounted to approximately HK\$2.9 million for the year ended 31 December 2020 (31 December 2019: HK\$2.0 million) were for the purchases of property, plant and equipment.

As of 31 December 2020, the Group had total capital commitments of approximately HK\$2.8 million (31 December 2019: nil) for the acquisition of property, plant, and equipment.

Contingent Liabilities

The Directors confirm that there were no material contingent liabilities as of 31 December 2020. As at 31 December 2019, the Group provided corporate guarantee in connection with the banking facilities granted to Shell Electric Holdings Limited ("**Shell Holdings**") and the loan drawn down by Shell Holdings under such facilities amounted to HK\$87 million. Such corporate guarantee was released upon listing.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Segment Information

Segment information for the Group is presented as disclosed in note 7 to the consolidated financial statements.

Significant Investments/Material Acquisitions and Disposal

During the period from the Listing Date to 31 December 2020, the Group had not made any significant investments or material acquisitions and disposals of subsidiaries.

Employees and Remuneration Policy

As of 31 December 2020, the total number of employees of the Group is 140 (31 December 2019: 163), which are stationed in the PRC and Hong Kong. The Group regularly reviews remuneration and benefits to its employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including social insurance, employee provident fund schemes and discretionary incentive.

PLEDGE OF ASSETS

As of 31 December 2020, the Group did not have any assets which were pledged as security for the Group's borrowings (31 December 2019: nil).

USE OF PROCEEDS FROM THE SHARE OFFER

The net proceeds from the share offer (after deducting the underwriting fees and related expenses) amounted to approximately HK\$42.5 million. The Directors had evaluated the Group's business plan and considered that, as at the date of this report, there is no modification of the business plan regarding the use of proceeds as described in the prospectus of the Company (the "Prospectus") date 19 May 2020 and the proceeds are to be used as intended as disclosed in the Prospectus.

The Group had utilised approximately HK\$2.4 million of the net proceeds as at 31 December 2020. The unused net proceeds have been placed as interest-bearing deposits with licensed banks in Hong Kong. Set out below is a summary of the utilisation of the net proceeds:

	Allocation of net proceeds HK\$ million	Actual utilised amount as at 31 December 2020 HK\$ million	Unutilised amount as at 31 December 2020 HK\$ million	Expected timeline for use of unutilised proceeds
Improvement of efficiencies	6.3	0.8	5.5	31 December 2021
Expand manufacturing capabilities	25.9	1.6	24.3	30 June 2022
Devoting resources on new products	10.3	–	10.3	30 June 2022
Set up of e-commerce sales function	–	–	–	30 June 2022
	42.5	2.4	40.1	

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Leung Chun Wah (梁振華), aged 74, 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 65, 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 25 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 is currently a non-executive director of PFC Device Inc., which shares are listed on the GEM of the Stock Exchange (stock code: 8231).

Non-executive Director

Mr. Yung Kwok Kee, Billy (翁國基), aged 67, 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 Electric Holdings Limited since 2009. Mr. Yung is also a non-executive Director and chairman of PFC Device Inc. which shares are listed on the GEM of the Stock Exchange (stock code: 8231). 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 80.47% 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Independent non-executive Directors

Mr. Leung Man Chiu, Lawrence (梁文釗), aged 72, 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 47 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), Pak Fah Yeow International Limited (stock code: 239), and PFC Device Inc. (stock code: 8231), all of which are listed on the Stock Exchange.

Mr. Leung ceased to be a non-executive director of World Super Holdings Limited with effect from 21 July 2020, whose shares are listed on the GEM of the Stock Exchange (stock code: 8612).

Mr. Poon Chak Sang, Plato (潘澤生), aged 75, 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.

Mr. Ho Chi Sing, Spencer (何志成), aged 61, 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 registered 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 Electric Holdings Limited 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 Hong Kong Listing Rules (the "**Listing Rules**") Governing the Listing of Securities on the Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Senior management

Mr. Lee Yen Lim (李炎林), aged 39, 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 11 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 realize 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 Lebu Victoria, Malaysia.

Mr. Chang Peng Tse (張鵬澤), aged 47, 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 14 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 61, 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, 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 since 2 June 2020. 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 maximizing the interests of our shareholders.

The Corporate Governance Code and Corporate Governance Report (the "**CG Code**") set out in Appendix 14 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 14 to the Listing Rules throughout the period from the Listing Date to 31 December 2020 (the "**Period**").

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

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

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.

The Board is responsible for performing the corporate governance duties set out in Code Provision D.3.1 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.

On 26 March 2021, 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.

CORPORATE GOVERNANCE REPORT (Continued)

Composition of the Board

The Board comprised two executive Directors, one non-executive Director 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

Non-executive Director

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

Independent non-executive Directors

Mr. Leung Man Chiu, Lawrence
Mr. Poon Chak Sang, Plato
Mr. Lam Sai Yu, Geoffrey (Resigned on 1 September 2020)
Mr. Ho Chi Sing, Spencer (Appointed on 1 September 2020)

Since the Listing Date and up to 31 December 2020, 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.

Board 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.

Since the Listing Date and up to 31 December 2020, three Board meetings (including two regular Board meetings) were held and the attendance of the individual Directors at these meetings is set out in the table below:

Name of Directors	Number of attendance/ number of Board meetings
<i>Executive Directors</i>	
Mr. Leung Chun Wah	3/3
Mr. Tang Che Yin	3/3
<i>Non-executive Director</i>	
Mr. Yung Kwok Kee, Billy	3/3
<i>Independent non-executive Directors</i>	
Mr. Leung Man Chiu, Lawrence	3/3
Mr. Poon Chak Sang, Plato	3/3
Mr. Lam Sai Yu, Geoffrey (Resigned on 1 September 2020)	0/1
Mr. Ho Chi Sing, Spencer (Appointed on 1 September 2020)	2/2

During the Period, Board Meetings were held approving the 2020 unaudited interim results of the Group, change of independent non-executive Director and letter of appointment of new independent non-executive Director and reviewing the 2020 3rd quarterly results of the Group and approving the connected transactions of the Company.

CORPORATE GOVERNANCE REPORT (Continued)

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.

Induction and Continuous Professional Development

Pursuant of Code Provision A.6.5, 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 Period, 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 Period are summarised as follows:

Name of Directors	Type of trainings
<i>Executive Directors</i>	
Mr. Leung Chun Wah	B
Mr. Tang Che Yin	B
<i>Non-executive Director</i>	
Mr. Yung Kwok Kee, Billy	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 A.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

Under Code Provision A.4.1, Non-executive Directors should be appointed for specific terms, subject to re-election. Currently, Non-executive Director, Mr. Yung, has entered into a service contract with the Company for an initial term of three years commencing from the Listing Date, and subject to retirement by rotation and re-election in accordance with the Articles of Association.

Each of Mr. Leung Man Chiu, Lawrence and Mr. Poon Chak Sang, Plato has entered into a letter of appointment with the Company for an initial term of three years, commencing from the Listing Date, and subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

Mr. Ho Chi Sing, Spencer has entered into a letter of appointment with the Company for an initial term of three years, commencing from 1 September 2020, 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 Mr. Leung 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)

- 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;
- to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter; and
- 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.

Since the Listing Date and up to 31 December 2020, one meeting of the Audit Committee was held and the attendance record of the Audit committee members is set out in the table below:

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

The Audit Committee was held on 27 August 2020 to review the 2020 interim results and recommended the same to the Board for approval and review the audit planning for the year ended 31 December 2020.

The Board also has adopted the arrangement for employees of the Company 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:

- to consult the chairman and/or chief executive about their remuneration proposals for other executive Directors;
- 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;
- to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management;
- to make recommendations to the Board on the remuneration of non-executive Directors;
- to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

CORPORATE GOVERNANCE REPORT (Continued)

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; and
9. to ensure that no Director or any of his associates is involved in deciding his own remuneration.

Since the Listing Date and up to 31 December 2020, one meeting of the Remuneration Committee was held and the attendance record of the Remuneration Committee members is set out in the table below:

	Number of attendance/ number of meetings
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 27 August 2020 to determine the policy for the remuneration of new independent non-executive Director, approving the terms of appointment letter of new independent non-executive Director.

The remuneration of senior management by band for the year ended 31 December 2020 are set out in note 14(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.

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.

CORPORATE GOVERNANCE REPORT (Continued)

Since the Listing Date and up to 31 December 2020, one meeting of the Nomination Committee was held and the attendance record of the Nomination Committee members is set out in the table below:

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

The Nomination Committee was held on 27 August 2020 to make recommendations to the Board on the appointment of new independent non-executive Director and has reviewed the structure, size, and composition of the Board.

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 recognizes 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, 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.

Currently the Board does not have female directors. In recognising the particular importance of gender diversity, the nomination committee will identify and recommend at least one female candidate to the Board for consideration of her appointment as a Director within two years from the Listing Date. The Company will commit 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.

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.

CORPORATE GOVERNANCE REPORT (Continued)

AUDITOR'S REMUNERATION

BDO Limited (“BDO”) was appointed as the Company’s auditors to audit the financial statements of the Company for the year ended 31 December 2020 prepared in accordance with Hong Kong Financial Reporting Standards. The remuneration in respect of audit and non-audit services provided by BDO to the Company are as follows:

	Fees paid/payable for the services rendered	
	2020 HK\$'000	2019 HK\$'000
Annual audit	680	265
Non-audit services (note)	1,011	1,432
	1,691	1,697

Note: The significant non-audit services provided by BDO are related to the listing of the Company’s shares on the Stock Exchange.

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 2020, 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 2020 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.

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. The primary corporate contact person in the Company is Mr. Leung Chun Wah, the Executive Director.

During the year ended 31 December 2020, 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.

CORPORATE GOVERNANCE REPORT (Continued)

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.

CONSTITUTIONAL DOCUMENTS

The Company's Memorandum and Articles of Association are available on both the Company's and the Stock Exchange's websites. Since the Listing Date and up to 31 December 2020, 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 and meetings with investors and shareholders. New update of the Group's business development and operation are also available on the Company's website. The forthcoming annual general meeting which will be held on 18 June 2021 is the first general meeting of the Company since the Listing Date.

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.

CORPORATE GOVERNANCE REPORT (Continued)

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 unauthorized 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 Company had engaged external consultants to perform a review of the internal control and risk management systems of the Group. With the assistance by consultants, the Board is able to assess the Group's internal control systems in general and its compliance with the relevant rules under the Listing Rules.

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; and
- Select strategy or formulate relevant policy in response to mitigate or minimize the relevant risk;
- Monitor and review the appropriateness and effectiveness of such controlling procedures.

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

- The Group established an organizational 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.

The Board has conducted a review of the effectiveness of the risk management and internal control systems adopted by the Company and its subsidiaries for the year ended 31 December 2020 and considered such systems are effective and adequate.

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.

On 26 March 2021, the Audit Committee reviewed the internal audit report of the Group and provided independent review on effectiveness of the risk management and internal control systems of the Group and gives their recommendation to the Board.

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

Scope of the Report

The Board of Directors of SMC Electric Limited and its subsidiaries are delighted to present the first Environmental, Social and Governance (“ESG”) Report (the “Report”), which details our management approach, related policies, activities, performance and contribution that drive sustainable business development of the Group from 1 January 2020 to 31 December 2020 (the “Reporting Period”). The Report enhances stakeholders’ understanding of the Group’s progress and development direction on sustainable development issue.

The Group’s production site is located in Shunde, Foshan, Guangdong Province, the PRC where environmental and safety laws and regulations are becoming more stringent. The Report covers the manufacturing and selling operations of the Group in the PRC and Hong Kong.

Reporting Standard

The Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide under Appendix 27 of the Listing Rules (“HKEx ESG Reporting Guide”). The Report has been reviewed and approved by the Board of the Group.

During the Reporting Period, the Group complied with and did not violate any relevant laws and regulations relating to environment, labor, health and safety, fair trade, anti-corruption and manufacturing environment of the regions where it operates.

In the future, the Group will continue to devote operating and financial resources to environmental compliance as required under applicable laws and regulations.

ESG STRATEGY AND REPORTING

In compliance with the ESG Reporting Guide and the Corporate Governance Code, the Board has taken up an overall responsibility for formulating the Group’s ESG strategy and ensuring that appropriate and effective ESG-related risk management and internal control systems are in place.

Key management personnel are responsible to execute the policies and evaluate the performance in different aspects such as environmental, occupational health and safety, labor standards and product responsibilities in the ESG aspects.

Every department of the Group participates in the coordination and implementation of appropriate policies and measures in its daily operation to realize the Group’s policies and strategies on environmental, social and governance issues.

Looking ahead, the Group will review the scope of our Report in a regular manner and gradually expand the scope of disclosure based on the principle of materiality to provide stakeholders with more comprehensive information.

Mission and Vision

The Group is committed to a better understanding of customer needs, innovating and delivering safe and environmentally-friendly products of good quality, which are manufactured with the goal of conserving natural resources. While committed to the pursuit of profit, the Group also strives to reduce any negative impacts on the environment, its workforce and business partners, and the community.

There is a growing concern about sustainable operations of the market, and demands for sustainable products and services surge these days. As regulators and investors are increasingly concerned about sustainability issues and related risks, the Group will continue to review its sustainability governance strategy and refine relevant policies and measures.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

ESG STRATEGY AND REPORTING (Continued)

Management Approach & Strategy

During the year, the Group endeavored to improve operational efficiency and also reduce resource consumption by adopting various strategies, including automation, streamlining of manpower, and improvement in manufacturing processes.

During the Reporting Period, through the internal stakeholder meetings, the Group is able to collect the employees' opinions on the business operation and convey the corporate development target and strategy to them. Externally, the Group communicates with the peers, suppliers and customers actively to maintain interflow with them.

We hope to enhance the transparency of the corporate culture and governance through the establishment of various communication channels and collect various suggestions to promote the improvement in corporate sustainability. We maintain close contact with our stakeholders so that we understand their views on the Group's sustainable development efforts. The opinions of stakeholders are conducive to the Group's further improvement of business growth and management.

Stakeholder Engagement

We value the importance of communication with its stakeholders, and maintains open communication channels with them in order to build trust and long-term relationship.

The following table summarizes our key stakeholders and the main channels through which we maintain daily communication with them.

External Stakeholders	Communication Channels	Issues of concern
Shareholders	Annual general meeting Annual and interim report Announcement and circulars Company website	Investment returns Sustainable operations Corporate governance and risk control
Government and regulatory bodies	Regular meetings Regulatory documented information	Compliance with relevant laws and regulations Business integrity and ethics
Customers	Regular meetings Support service team	High quality and safety products Customer data and privacy protection
Suppliers	Regular meetings Procurement process	Supplier evaluation and management Business integrity
Community and the public	Company website Company's announcement	Environmental issues of Greenhouse gas Emission and Waste Management Social concern and charity events
Internal Stakeholders	Communication Channels	Issues of concern
Directors and senior management	Regular meetings Training	Emergency response plan Business development
Employees	Employee trainings and meetings Performance appraisals	Occupational health and safety Training and development

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

ESG STRATEGY AND REPORTING (Continued)

Objectives & Priorities – Sustainability

The Group highly values the governance for sustainability. We take sustainable development as one of our important tasks.

We believe that the Group's sustainable development plan relies on the opinion of the stakeholders. The group's business operation may affect its shareholders, employees, customers, suppliers, and the government, and in turn, they may have their expectations and opinions on our operation and strategies. We actively seek solutions to improve energy and production efficiency, continuously enhance employees' working environment and encourage employees to be part of our sustainable development. On the other hand, we also maintain our attention to the voices of various social groups, and participate in the promotion of community development.

We believe that ESG Report is one of the channels to convey the Group's sustainability strategy, management direction and performance to the stakeholders, and promotes the integration of sustainability concept into the Group's business.

MATERIALITY ASSESSMENT

Based on the materiality of each of the ESG topics expressed by the stakeholders, the ESG topics are prioritised and shown as below.

	Significance of Stakeholders (including shareholders, customers, suppliers, employees, government and regulatory bodies)			Significance of the Group's business operation		
	High Priority	Medium Priority	Low Priority	High Priority	Medium Priority	Low Priority
Energy efficiency		✓			✓	
Use of materials	✓			✓		
Environmental compliance	✓			✓		
Labour rights	✓				✓	
Diversity and equal opportunity	✓			✓		
Employment and labour policy	✓			✓		
Occupational health and safety	✓			✓		
Employee training		✓			✓	
Prevention of child labour and forced labour	✓			✓		
Responsible supply chain management	✓			✓		
Quality control of production material	✓			✓		
Customer satisfaction	✓			✓		
Customer service quality and complaints handling	✓			✓		
Intellectual property	✓			✓		
Customer privacy and data protection	✓			✓		
Product quality	✓			✓		
Prevention of bribery, extortion, fraud and money laundering	✓			✓		
Community Investment		✓			✓	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

EMISSIONS

All products manufactured at our production site will conform to environmental safety standards as well as meeting our customers' quality requirement. Our production processes have been scrutinized to make sure full environmental compliance is met, to achieve optimal waste reduction and energy conservation workplace.

During the Year 2020, the Group was not aware of any material non-compliance with relevant laws and regulations that have a significant impact relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

Emission – Gas

Our operations do not generate large amount of air pollutants. The group's major sources of air pollutants are (1) limited amount of volatile organic compound gases released during production processes and (2) gas emissions from consumption of fuels from goods vehicles.

- (1) Regarding the emission of volatile organic compound gases, the Group take all measures to ensure strict compliance with the national regulations on environmental protection management of construction projects, before our relevant pollutant discharge and treatment facilities being put into production or use.

The emission amount and quality was assessed by a third-party consultant to ensure compliance with the Law of the PRC on Prevention and Control of Atmospheric Pollution (<中華人民共和國大氣污染防治法>), Integrated Emission Standard of Air Pollutants (<大氣污染物綜合排放標準>) and the Part 2 of the Occupational Exposure Limits for Hazardous Agents in the Workplace (<工作場所有害因素職業接觸限值第二部份物理因素>).

The Group had also declared to the national environmental protection administrative department the relevant pollutant discharge and treatment facilities, as well as the type, quantity and concentration of pollutants discharged and measures to prevent air pollution. We had obtained the pollution discharge permit on December 3, 2018. The validity period of the pollution discharge permit (exhaust gas) for the Group is: 2018/12/3-2021/12/2.

To the best of the Group's knowledge, no material amount of harmful gas were generated during the Reporting Period.

The Group strives to reduce the harmful gas generated from its operations by performing regular performance and condition check to ensure the equipments are conducted in good condition without excessive emissions. In addition, operation manual and trainings are provided to workers to enhance the effectiveness and efficiency of using equipments, which help to reduce unnecessary emissions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

EMISSIONS (Continued)

Emission – Gas (Continued)

(2) During the Reporting Period, the air emissions from goods vehicles, in terms of nitrogen oxides (NOx), sulphur oxides (SOx) and Particulate Matter (PM) are illustrated in the table below:

Air Emissions	Unit	2020	2019
NOx	kg	239.70	199.01
SOx	kg	0.13	0.11
PM	kg	16.36	13.21

In the Reporting Period, the greenhouse gas emissions data in CO2 are set out below:

Greenhouse Gas Emissions Data	Unit	2020	2019
Scope 1 – Direct Emissions			
Consumption of fuels (Goods Vehicles)	tonnes	20.94	18.16
Scope 2 – “Energy Indirect” Emissions			
Electricity	tonnes	236.61	259.54
Scope 3 – Other Indirect Emissions			
Business air travel by employees	tonnes	1.07	1.42

Scope 1 refers to the direct emissions from consumption of fuels from goods vehicles used by the Group

Scope 2 refers to the indirect emissions resulting from the purchased or acquired electricity consumed within the Group

Scope 3 refers to other indirect emissions including business air travel by employees

The group had encouraged our sales team to reduce the number of overseas trips and meet customers via video conferencing in an effort to reduce carbon emission.

Emissions – Waste

In carrying out industrial production, not only is it necessary to strictly control emissions, but also to deal properly with waste in order to avoid polluting soil and water sources with chemical pollutants. The waste management practice of the Group is compliant with laws and regulations relating to environmental protection in the PRC.

The group adopts two main principles for our waste management – minimization and making the best use of resources to reduce waste disposal and its environmental impacts and maximize resource efficiency.

Besides, the Group has designed various e-cards for the festive blessing to reduce the use of paper to encourage our staff to celebrate with minimal ecological footprints.

Wastes produced by the Group from production site, warehouses and offices are stored and disposed of by categories of “recyclable”, “non-recyclable” and “hazardous waste”. The waste generated by the Group mainly comes from a small amount of leftovers, tin slag and staff’s domestic waste during the production process. The leftovers and tin slag are collected and sold to recyclers. The domestic waste is stacked in a centralized manner and cleaned and transported by the environmental sanitation department in time. After the above treatment, the adverse effects of waste on the environment can be basically eliminated.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

EMISSIONS (Continued)

Hazardous Wastes

The Group's business, by nature, generates small amount of hazardous wastes throughout the production process. To the best of the Group's knowledge, no material amount of hazardous wastes were generated.

The Group has implemented stringent policy in place to reduce the use of hazardous wastes:

- Control the use of oil rags during machine operation.
- Improve the production procedures to reduce the consumption of chemical and oil.
- All of the hazardous waste should be sorted by category to avoid mixing up with other incompatible waste and stored in designated collection points.
- Proper chemical labels should be attached on the containers for waste identification and safety caution.

The following measures are adopted to handle the disposal of hazardous waste generated during production:

- 1/ The hazardous waste generated during production mainly contains waste wipes and waste engine oil, which are all temporarily stored in the hazardous waste workshop, and they are further processed by licensed environmental service providers in the PRC.
- 2/ The floor of the hazardous waste temporary storage site has been hardened and anti-overflow weir is set up to meet the requirements of anti-seepage, windproof and rainproof.
- 3/ A sign of obvious hazardous waste is set up, which meets the relevant requirements of the <Hazardous Waste Storage Pollution Control Standard>.
- 4/ The Group already set up special posts for hazardous waste management and transfer records.

During the Reporting Period, the Group strictly abides by the Laws of the PRC on Prevention and Control of Environmental Pollution by Solid Waste and was not aware of any material non-compliance with relevant laws and regulations relating to generation of hazardous waste.

Non-Hazardous Wastes

During the Reporting Period, approximately 430 tonnes of non-hazardous wastes was generated. The table below shows the quantity of waste produced in the Group's operation:

Non-Hazardous waste	Unit	2020	2019
Paper and carton boxes	tonnes	533	535
Reusable plastic	tonnes	12	12

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

USE OF RESOURCES

Under the premise of not compromising our products' strict international quality standards, we strive to improve the efficiency of resource use.

The Group mainly utilizes raw materials (copper wire, rubber and plastic) and packaging materials for production.

Raw materials

Measures are adopted in the procurement process through avoiding over-ordering to reduce wastes produced.

The group recognizes the importance of waste reduction at source and hence requires all departments to purchase accurate amount of raw materials to avoid over-ordering, and contribution to the wastage due to materials deterioration and damage. Substandard materials will all be returned to suppliers.

Packing materials

We reuse packaging materials from the suppliers as much as possible and reduce the use of packaging materials by utilizing automatic transportation lines.

The Group's packaging materials mainly include paper, carton paper box and packaging blister. The usage of each are set out below respectively:

Packaging Materials Used	Unit	2020	2019
Paper & carton paper box	tonnes	533	535
Packaging blister	tonnes	12	12

Energy and water consumption

The energy and water consumption of the Group are set out below:

Energy consumption	Unit	2020	2019
Total Electricity Consumption	kWh	372,807	411,970
Electricity consumption intensity Per million quantity shipped	kWh/unit	260,300	260,442
Water consumption	Unit	2020	2019
Total Water Consumption	Tonnes	4,731	3,663
Water consumption intensity Per million quantity shipped	Tonnes/unit	3,303	2,315

Energy use efficiency

The Group reviews the use of resources from time to time and implements improvement measures when necessary. From an operational perspective, we look for ways in which we can further optimize our efficiency in terms of resources management. Through actively promoting various environmentally friendly measures, the Group encourages an efficient use of resources, including energy, paper, water and other raw materials.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

USE OF RESOURCES (Continued)

Water sourcing

The Group attaches great importance to energy and water resource conservation. Under the water supply of municipal governments, the Group has no difficulty in obtaining water resources and the business is not water intensive. Therefore, water consumption is not the most material environmental topic to business operation.

No wastewater was generated in our production process. The Group's wastewater discharge mainly comes from domestic wastewater from canteens, dormitories and kitchens. The Group encourages all employees and customers to develop the habit of conserving water consciously. Pantry and washrooms are posted with environmental messages to remind employees the importance and urgency of water conservation. Apart from education, the utility facilities are maintained regularly for service, to ensure that water seepage or leaking pipelines are replaced or repaired on a timely basis.

THE ENVIRONMENT AND NATURAL RESOURCES

The air pollutants, greenhouse gas and hazard wastes generated from the business can be destructive to the ecosystem. Therefore, the Group is committed to integrate the concept of environmental protection into its production management and daily operation.

Through the above-mentioned measures elaborated in Section "Emission" and Section "Use of Resources", the Group endeavors to minimize the negative environmental footprint and the potential impacts of the operation on the environment and natural resources. In the future, the Group will continue its commitment in environmental protection and strive to build a greener and healthier environment to fulfil the responsibilities as a member of the community. The Group encourages employees to reuse, reduce and recycle to minimise wastage in daily operations.

The Group strives to increase energy efficiency in general and reduce our dependence on direct and indirect energy. Therefore, we conserve energy in respect of lighting, heating and indoor temperature adjustment, as follows:

- Reduce the use of air-conditioning system by limiting the hours of operation and setting temperature at 25 degree Celsius to maintain optimal temperature
- Replace lightings with LED lights
- Organize training on saving energy regularly
- Repair timely when there is dripping, spraying and leaky faucets
- Keep the faucets off when they are not in use
- Conduct regular inspection of faucets
- Promote e-platform for internal information circulation
- Encourage the use of recycled paper and double-sided printing
- Encourage all employees to "think before print"
- Switch off lighting and electrical office equipment when they are not in use
- Recycle used ink cartridges
- Promote green procurement practices, such as opting for refillable ball pens and energy-efficient office equipment

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

EMPLOYMENT AND LABOUR PRACTICES

Employee Profile

The Group has recorded a detailed diverse workforce portfolio. As at 31 December 2020, the Group employed 140 employees primarily responsible for management, sales and marketing, shipping, procurement, finance and accounting, engineering and production.

The employee turnover rate of year 2020 was 1.49%. Due to the business nature of the manufacturing operation, the turnover rate is concentrated in the manufacturing-based operations.

The breakdowns of employees by gender, age groups and geographical region are as listed below:

	No. of employees			
	Under 30	30-40	41-50	Above 50
Male (PRC)	1	8	1	4
Female (PRC)	3	16	53	19
Male (HK)	1	4	8	10
Female (HK)	0	2	6	4

Employee by age group

	5	30	68	37
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Ratio of male to female employees 1: 2.78

The number and proportion of employee turnover by gender, employee category, age group and geographical region is listed below:

	No. of employees			
	Under 30	30-40	41-50	Above 50
Employee turnover by age group	2 (3%)	10 (3%)	6 (1%)	7 (2%)

Total no. of employee turnover of male employees is 5 (1%); female employees is 20 (2%); Hong Kong employees is 1 (0.24%); PRC employees is 24 (2%).

Employment Practices

The Group believes attracting and retaining talents is the key to our business sustainability development; thus, employee development, employment conditions and workplace standards have always been our prime concerns. We seek to maintain a stable, motivated and supportive workforce underpins the diverse, fair and respectful corporate culture. We strive to make sure employees comply with laws and regulations, follow ethical business practices and respect equal opportunity in employment.

The Group provides equal opportunities for all personnel in respect of recruitment, remuneration, training and development, promotion and other terms of employment. Our practice covers fair reward and compensation, anti-discrimination, safety of workplace and ethical behavior. We value our employees' contributions to the Group's growth and success, and believe they are the Group's most important asset.

During the Reporting Period, the Group has strictly complied with the relevant rules and regulations of the PRC, Hong Kong and other relevant jurisdictions relating to labor standard, and we did not record any significant non-compliance with relevant laws and regulations in the PRC and Hong Kong relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination, and other benefits and welfare, including the Labor Law of the PRC (《中華人民共和國勞動法》) (the "Labor Law"), Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) (the "Labor Contract Law") and Employment Ordinance (Cap. 57).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

EMPLOYMENT AND LABOUR PRACTICES (Continued)

Equal opportunities, Anti-discrimination, Diversity

We are committed to offering an ethical and fair workplace for our people. As a Group that adheres to the principle of equal opportunity, we hire people based on merits and on no occasion accept or tolerate any form of discrimination in the workplace, and ensure that employee's employment, remuneration, training, promotion and dismissal does not differ because of age, gender, race, marital status, religion, disability, sexual orientation, political inclination, socioeconomic status or other factors.

With periodic assessments of employee performance, the employees are evaluated on contribution, skills, learning and development and work attitude to reflect the performance of the employees. The results of appraisal form the basis for salary adjustment and promotion and the basis for improving human resource management.

To promote equality and anti-discrimination, standard interview and evaluation criteria are established, also promotion and salary increment are benchmarked against individuals' performance. The Group may also recruit disabled people with working ability based on its need, and make appropriate arrangement in terms of job allocation.

During the Reporting Period, we did not receive any complaints from employees regarding labor practices, discrimination and harassment.

Recruitment and Compensation

The Group abides by the Labor Law and the Labor Contract Law of the PRC as well as other relevant regulations and takes into account practical circumstances, to serve as a framework for setting staff remuneration and benefits.

Recruitment was conducted mainly through job posting. Recruitments of employees at all levels of the Group are conducted in a fair and transparent manner that candidates are hired according to the needs of the position and solely based on their education qualifications, abilities, attitude, knowledge, experience, integrity, physical fitness, and performance.

Meanwhile, every employee is provided with an equal opportunity in recruitment, transfer, promotion, performance appraisal, training, benefits as well as compensation. Candidates are vetted by human resources department and reviewed by the heads of the hiring department. All recruitments are submitted to general manager for approval to ensure the decisions are fair and reasonable.

Human Resources policies, including working hour, leave entitlement and reward and compensation system, are communicated to employees through the circulation of employee handbook <僱員手冊> upon commencement of employment and at anytime during employment period when there are updates.

The Group has entered into individual employment contracts with the employees that comply with the Employment Ordinance and other applicable laws.

Promotion

Employees with outstanding performance are offered promotion opportunities. Employees who meet the requirements may also make application.

We endeavor to ensure that all candidates and current employees are not subject to any form of discrimination, and each employee can be treated fairly.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

EMPLOYMENT AND LABOUR PRACTICES (Continued)

Termination of employment

Either employees or the Group can propose to terminate the labor contract in accordance with the provisions of the labor contract and the specific notice period.

The Human Resources Department conducts voluntary exit interviews with resigning employees to understand their reasons for resigning, so the Group's talent management system can be optimized.

Review of employment practices

The employment practices are regularly reviewed and monitored by the Administrative Department to ensure that the latest industry's standards and applicable laws and regulations are followed.

Staff benefits

The Group offer competitive remuneration packages with a variety of benefits to our employees for attraction and retention. The remuneration package includes basic salary, discretionary bonus, statutory annual and sick leaves, allowances and other welfare and interests.

Employees working in the PRC region enjoy welfare schemes concerning pension insurance, unemployment insurance, maternity insurance, occupational injury insurance and medical insurance in accordance with the local regulations including the Labor Law and the Social Insurance Law of the PRC (〈中華人民共和國社會保險法〉).

All the full-time employees working in the Hong Kong office enjoy medical insurance, disability and invalidity coverage, maternity leave, Mandatory Provident Fund Scheme and various paid leaves.

The Group determines and adjusts the remuneration and welfare of the employees upon regular performance appraisals which are based on job nature, qualifications and responsibilities of staff, work performance and market conditions.

The Group's standard wage for employees is not lower than the level set by the national "Provisions on Minimum Wages" (<最低工資規定>) and local minimum wage standards, and wages are adjusted irregularly according to the corporate economic and personal performance.

Employees who have worked continuously for more than one year are entitled to paid annual leave. Apart from the statutory holidays and paid annual leave, all our staff are also entitled to various paid leaves such as marriage leave, maternity leave, compassionate leave and jury duty leave.

Overtime work is not encouraged though overtime pays will be granted to employees.

During the Financial Year, the Group is not aware of any material non-compliance with relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare.

Health and safety approach

The production personnel face certain health and safety risks when they are working on the production lines. The Group is responsible for the work safety of its staff members. We aim to provide a healthy and safe working environment to the employees and protect employees from potential occupational hazards and health and safety risks, in order to achieve zero tolerance of accidents and injuries. Our management team would try their best endeavor to create a safe work place for all employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

EMPLOYMENT AND LABOUR PRACTICES (Continued)

Health and safety approach (Continued)

We strictly abide by all laws and regulations that are of significance to the Group, related to workplace safety, and that help employees guard against occupational hazards.

During the Reporting Period, we were not aware of any material breach of relevant laws and regulations in the PRC and Hong Kong pertaining to providing a safe working environment and protect employees from occupational hazards, such as the Work Safety Law of the PRC, the Prevention and Control of Occupational Diseases of the PRC, Fire Control Law of the PRC, Occupational Safety and Health Ordinance (Cap. 509) and Employees' Compensation Ordinance (Cap. 282). We have not been subjected to any fines or other penalties due to non-compliance with health and safety regulations. We will continue to monitor and review the level of work-related injuries, carry out regular inspections and rectification of potential safety threats to ensure the safety of our employees in the workplace.

Safety risks and their related measures

The identified safety risks and their related measures of the manufacturing operation are summarized below:

Fire

- Attach safety signs in conspicuous zones
- Regular inspection of firefighting equipment
- Establish emergency plans, reporting networks and evacuation routes
- Conduct fire drills and training regularly

Electric Shock

- All machine operations should be licensed and qualified
- Provision of personal protective equipment
- All machines are under regular inspection and maintenance

Equipment Malfunction

- Installation of shielding layers for machines that pose great safety risks
- Regular inspection for equipment abrasion and damage
- Conduct training about operational safety regularly

Noise

- Imposition of sound cap in the workplace (<85dB)
- Shift working arrangement
- Provision of protective equipment, such as earplugs, masks and protective glasses
- Arrangement of regular occupational health check

Workplace

- Maintaining air ventilation system in the workplace regularly;
- Arranging dust prevention measures to protect the well-being of the workers;
- Prohibiting smoking and abuse of alcohol and drugs in the workplace;
- Providing clean and tidy rest area such as corridors and pantry;
- Providing adjustable chairs and monitors for eye protection;
- Setting up posters or warning labels for near areas of potential hazards in the production site;
- The lighting lamp should be installed above the aisle, and the stacking must be kept at a distance of more than 50 cm from the lighting lamp head; and
- Providing first aid kits and fire extinguishers in the workplace in response to emergencies.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

EMPLOYMENT AND LABOUR PRACTICES (Continued)

Safety risks and their related measures (Continued)

All of the work injury cases are required to be reported to the Administrative Department, by which a comprehensive accident investigation will be carried out in order to find out the root cause(s) of the accident, and rectify the existing safety conditions, management approaches and safety practices.

Apart from eliminating similar accident occurrence, the Group enables our employees receive appropriate medical treatment and proper compensation under the social insurance after accidents.

Safety inspection and factory audits

Our Production Department is responsible for ensuring compliance with local laws and regulations, and for conducting regular safety inspections at our production site.

In the Reporting Period, the Sales Department had worked closely with our customers to conduct safety inspections and factory audits. Without exceptions, we passed our factory audits and safety inspections, and we are in full compliance with relevant laws and regulations in the PRC and Hong Kong pertaining to providing a safe working environment and protect employees from occupational hazards.

Safety equipment

There are sufficient safety equipment on every floor of the workplace for use when necessary, such as emergency response instructions, a gas detection fire alarm, fire extinguishers, and an eye washing station.

All of these safety equipment meets the local Fire Department requirement and will be checked regularly to avoid malfunctioning and obsolescent parts that would lead to safety hazard.

In order to address the identified potential safety risks, including noise air pollution, chemical hazard and machine usage, workers exposed to such risks are provided with protective equipment and machines that pose safety risks have been installed with safety protection measures.

Safety trainings and guidelines

Occupational safety is managed by comprehensive procedures and guidelines that aim to improve safety standard which keeps up with the pace of the industrial development.

The Group has established various policies and manuals in workplace, including fire safety, office safety, warehouse safety, canteen safety and hygiene, etc., to provide sufficient health and safety guidance on essential procedures of production and other daily operations.

Safety inspection and maintenance on daily operation and machines are conducted regularly. Rectification action will be taken promptly if there is any non-compliance.

To ensure all employees understand the safety requirement, all new employees are required to attend induction programs and safety training programs such that they can be familiar with the corporate policies in relation to health and safety matters upon joining our Group, and they need to pass our internal safety tests before they were assigned to their job positions at the production facilities.

Besides, the Group conducts regular training which covers the use of personal protective equipment, inherent hazards in the sites, emergency procedures and chemical handling, to raise their awareness on workplace safety.

In addition, we provide emergency training and drills regularly to enhance employees' safety awareness and incident handling capabilities, and communicate important safety issues to employees through bulletin boards.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

EMPLOYMENT AND LABOUR PRACTICES (Continued)

Work injury

With our great dedication to workplace safety and employee's wellbeing, there was no work-related fatality for the past two Reporting Periods, but 1.5 (2019: 5) lost days in total which is attributed to 3 (2019: 1) cases of work injury in FY2020 were recorded.

The Group has not recorded any material non-compliance cases with relevant laws and regulation during the Reporting Period.

Improvements for the work-related injury

The Group holds regular work-related injury meeting to follow up on any improvements for the work related injury of previous periods and review the incidents for the current period. Furthermore, relevant rectification and improvement will be made with a view to reducing reoccurrence.

Development and Training

The Group acknowledges the importance of vocational skills training of its employees, and provides various training opportunities according to the needs of the Group and its employees to enhance their competitiveness in the market.

The Group in addition believes it is of predominant importance for our people to maintain and advance their skills and knowledge, to adapt to the industry's current regulations and practices, business environment, and the Group's business direction and strategy in order to enhance the work efficiency.

We offer internal training opportunities for our staff. Performance-based appraisals were conducted regularly for our people to receive constructive feedback from their supervisors.

In-house Training

The Group sees each position to be of unique professional and technical needs. Thus, comprehensive trainings are in place to provide support and coaching to the employees.

We provide in-house training for our employees, with topics ranging from work-related skills and techniques and operational procedures to workplace safety in accordance with their job duties. Product trainings will be given to salespersons when new brand of products are launched to help them to acquire product knowledge. Each department provides training for employees based on its training needs, so that employees can further develop their talents, meet department requirements and overcome their challenges. The effectiveness of the training programs will be assessed and the work performance of trainees will be evaluated regularly for our continuous improvement for the training plan.

To facilitate new employees to understand the the corporate background and culture, staff remuneration and benefits, code of conducts and operational practices, rules and regulations, job positions, product identification, quality policy, restriction of hazardous substances (RoHS) and occupational safety, etc., all new hires are required to receive induction training. These training programs aim to assist the new hires in adapting to the Group's working environment efficiently. Mentoring and guidance in relation to the operating procedures and technical production requirements will be provided by senior staff or supervisor in each production unit.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

EMPLOYMENT AND LABOUR PRACTICES (Continued)

In-house Training (Continued)

Type of training included:

- 1/ Induction training – Company profile, company policies and objectives, basic knowledge of fire protection, safety and hygiene, and knowledge of management system
- 2/ On-board training and transfer training – Skills training, job specific requirements and safety operating procedures
- 3/ On-the-job training – Manufacturing procedures and operational procedures of equipment

The KPIs in the development and training of the Group are illustrated in the table below:

	2020	2019
Percentage of employees receiving trainings:	78%	82%
Total number of hours of training received by employees	4,839	9,310
By Gender		
Female	3,779	7,840
Male	1,060	1,470
Average hours of training per employee	35	57

During the Reporting Period, the Group has provided 4,839 training hours to our employees and the average training hour completed by employees was approximately 35 hours.

Labour Standards

The Group prohibits any form of child labor and forced labor at our production site, and requests our suppliers to adhere to the same principles.

During the Reporting Period, the Group was not aware of any breach of relevant laws and regulations in the PRC and Hong Kong related to the prevention of child and forced labor, including Labor Law, Provisions on the Prohibition of Using Child Labor of the PRC (<禁止使用童工規定>) and Employment Ordinance (Cap. 57).

We conduct the recruitment process and daily operations in strict compliance with relevant national and local laws, regulations and international standards.

Voluntary and fair employment

All employees are required to enter into labor contracts on a voluntary and fair basis and are free to leave their position with proper notifications.

We conclude labor contracts for the establishment of a labor relationship with workers of the Group according to the Labor Law, and the Labor Contract Law.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

EMPLOYMENT AND LABOUR PRACTICES (Continued)

Measures to avoid child and forced labour

All candidates qualified for employment must have reached the statutory required age and have been in possession of valid identification documents which are examined by the Human Resources Department during the recruitment and upon employment.

The Group has set out policies and procedures to ensure adequate background check is performed on candidates.

Prior to official appointment, Human Resources Department is responsible to verify the identities of the candidates to prevent the employment of child and forced labor.

All new employees are required to submit identity documents at their induction to ensure that they have met the legal working age for complying with relevant laws and regulations including the “Provisions on the Prohibition of Using Child Labor” in PRC, Hong Kong, and other jurisdictions where the Group operates.

Recruiters should strictly review the entry documents including medical examination certificates, academic certificates and identity cards.

To further protect human rights throughout the production chain, the Group does not cooperate with suppliers that employ child or forced labor.

During the Reporting Period, the Group did not identify cases related to child and forced labor along our internal operation and supply chain.

OPERATING PRACTICES

Supply Chain Management

Our procurement team evaluates suppliers’ reliability based on their quality, reputation, delivery punctuality, experience and scale of operation through on-site visits.

In addition, we also evaluated ethics and social compliance, such as evaluating the suppliers’ and contractors’ track record relating to legal and regulatory compliance which include safeguarding workers’ health and safety, and mitigating environmental impacts.

The Group has developed a supplier selection mechanism which requires potential suppliers to comply with all applicable laws and regulations.

All suppliers and contractors manufacturing products for the Group must comply fully with all applicable national and local laws and regulations, including, but not limited to laws and regulations relating to:

- Labor
- Health and safety
- Environment
- Fair trade
- Anti-corruption and anti-bribery
- Modern slavery and human trafficking
- Manufacturing environment

We conduct simple regular assessment for our existing suppliers through constant communications. The records of the suppliers and products will be updated according to the assessment results. If the supplier does not meet the requirement, the Group will consider terminating its supplier agreement. Our general manager can decide whether to disqualify the suppliers with poor performance and of no signs of improvement.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

OPERATING PRACTICES (Continued)

No. of suppliers by geographical region

In FY2020, a total of 165 suppliers (Hong Kong: 7.88%, PRC: 89.7%, Others: 2.42%) are engaged in our operations, all of which are under our supply chain management policies.

The breakdown of the number of our suppliers by geographical region is as follows:

Number of Suppliers	2020	2019
By region		
– Hong Kong	13	17
– PRC	148	151
– Overseas	4	2

Selection of suppliers

The materials purchased by the Group mainly include motors, electronic materials, hardware, packaging materials, rubber and plastics.

The Group regulates the procurement process and ensures that all selected suppliers can meet our demands on materials and production.

Guidelines & Procedures for Engaging Suppliers:

- Suppliers who have been accredited by the Quality Management System (ISO9001), the Environmental Management System (ISO14001) and with good reputation or monopoly in the industry.
- Suppliers designated by customers or suggested by Directors.
- When new suppliers are introduced, they are required to fill in a supplier information form and return with supporting document, such as catalogue, declaration of conformity, company profile to the business development team for assessment.
- When selecting suppliers, we make assessments in terms of their background, product price, their compliance and quality of materials and services.
- Suppliers submit quality data on their products to the Group, or submit samples for testing.
- Materials procured must comply with the requirements of Hazardous Substances Free (HSF). Quality suppliers are required to submit agreements and third-party test reports on strict use of hazardous substances.
- the Purchasing Department should make a trial run order for the products in small quantity.
- Suppliers who meet the criterion of quality and safety can be included in the list of approved Suppliers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

OPERATING PRACTICES (Continued)

Product Responsibility

Since customer satisfaction is one of the top material issues of the Group, according to our materiality assessment, it is of tremendous importance to focus strategically on bringing quality products and services. Understanding that our customers demand for product quality, the Group endeavors to uphold the highest requirements of quality from engaging suppliers to sale along our production chain. Industry standards and customers' specific requirements are our top priority.

The Group sets standards for raw materials, plant, equipment, hygiene and personnel training, and gradually improves the quality management of the manufacturing process and products to meet the requirements relating to safety and quality standards. Meanwhile, the Group has formulated product inspection and certification management procedures to ensure that the products meet quality standards in the process of research and development, manufacturing and sales.

Product safety is one of our top priorities in product design. Our products are required to be tested to ensure that they pass the national safety and quality standards. In order to reduce the probability of product failure during use, we have established relevant standards on product defect. We take corrective and preventive measures to prevent any recurring problem.

During the Reporting Period, the Group was not aware of material non-compliance with relevant laws and regulations relating to health and safety, advertising, labelling and privacy matters relating to products and services provided, including the Product Quality Law of the PRC.

Recall products sold

There are no sold or shipped products of the Group subject to recalls for safety and health reasons in the Reporting Period.

Products related complaints

We work to satisfy customers' needs; however, we sometimes receive complaints from customers; therefore, relevant procedures and after-sales service systems are in place to ensure complaints are handled properly. In FY2020, the number of complaints related to our products and services decreased by 40% to 3 when compared to that in FY2019. We will continue to live up to customers' expectations.

The Group analyzes, improves and verifies problems of the complaints. Follow up actions and feedback on the status are made to the customers to ensure that the complaints are effectively handled and to sustain their satisfaction.

Intellectual property rights

To protect our intellectual properties, we are entitled to applying for patents for all the inventions, creations, technical innovations, products or formulas during our service.

On the other hand, we do not infringe other companies' intellectual properties. If any infringement is discovered, the staff concerned would be subjected to severe punishment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

OPERATING PRACTICES (Continued)

Quality assurance and recall procedures

Product defect analysis is conducted, in case of product defects, to understand causes and identify solutions to eliminate defects in the future.

The Group also regularly carries out sampling inspection for products to ensure that the products meet the requirements of safety manufacturing standards.

If it is found that certain raw materials or products do not meet the relevant requirements, the Group needs to identify problematic raw materials, auxiliary materials, parts and products, and evaluate, control and isolate them and keep relevant records.

Relevant departments of the Group also formulate corresponding solutions for the substandard products and follow up to avoid misuse of substandard products.

If a product does not meet customer requirements and expectations and needs to be returned, the Group will process and recall relevant substandard products.

After receiving the returned goods, the Manufacturing Department sets up a team with the Quality Control Department to analyze and evaluate the returned goods, and repair the batch of products as required.

Meanwhile, the Manufacturing Department also needs to conduct review to prevent the occurrence of similar incidents.

Consumer data protection and privacy policies

The Group often gains access to trade secrets and non-public technical information in the course of business.

All of our staff are required to follow the general provision of confidential information protection stipulated in our employee handbook.

Our staff must comply with the relevant requirements of the Group and perform the corresponding duty of confidentiality.

Employees are prohibited from copying, transferring and disclosing the restricted information, such as clients' information and intellectual property information without prior consent from the management or customers.

Employees are required to sign a confidentiality agreement for a shared understanding and restricted from disclosing sensitive information to external parties. In case of breaching confidentiality, we will take corrective actions promptly and the employees involved may be subject to dismissal or legal actions.

During the Reporting Period, we were not aware of any material non-compliance with laws and regulations relating to privacy matters, including the Personal Data (Privacy) Ordinance (Cap. 486), when providing products and services in Hong Kong and PRC. The Group is committed to compliance with the privacy laws and regulations.

The Group has separated the customer data from other ordinary information to protect customers' privacy. Meanwhile, the Group regulates that only authorized personnel can access the personal data collected from the Group's customers. Through the internal training and confidential agreements with employees, the Group emphasizes confidentiality obligations and the legal consequences of the breaches of relevant rules.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

OPERATING PRACTICES (Continued)

Anti-corruption

In our effort to eradicate corruption, we follow the Hong Kong's Independent Commission Against Corruption Code of Conducts to avoid conflicts of interest, bribery and corruption in the workplace, and work with local authorities in the PRC to eliminate any types of bribery, corruption, fraud and misconducts that are socially unacceptable behavior.

Employees are strictly prohibited from offering or accepting any forms of advantages such as gifts, entertainment, rewards or commission under any circumstances from customers, suppliers or any other business partners as stipulated in our employee handbook. Employees must declare if such offering and acceptance are irresistible.

Employees are expected to avoid taking and offering any actual or interests, including direct or indirect involvement in or maintaining a relationship with another business concern or organization when such involvement or relationship may affect or influence the business conduct of the Group and is in conflict with the best interests of the Group.

Guidelines have been established on situations and behaviors employees should be aware of. Employees who do not declare their conflict of interests promptly may subject to dismissal or other disciplinary actions.

The Group enacts zero tolerance to any anti-competitive practices such as cartels and market power abuse in its business dealings.

COMMUNITY

Community Investment

The Group encourages employee to actively participate in volunteer activities to strengthen the relationship with local communities in an effort to build a sustainable and harmonious society.

In the critical period of fighting against COVID-19 epidemic, the Group supported Beijiao Hospital in Shunde by donating one batch medical thermometers.

To promote community health, the Group donated total HK\$1,000,000 to Community Chest during the Reporting Period.

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 2020.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the Cayman Islands and has its registered office is 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. 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 6 and 37 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 7 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 28 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 29 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As of 31 December 2020, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amount to approximately HK\$116,644,000. This includes the Company's share premium in the amount of approximately HK\$78,695,000 as at 31 December 2020, 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 17 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 four financial years is set out on page 112.

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 is set out on pages 20 to 39 of this annual report.

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

Non-Executive Director

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

Independent Non-Executive Directors

Mr. Leung Man Chiu, Lawrence
Mr. Poon Chak Sang, Plato
Mr. Lam Sai Yu, Geoffrey (Resigned on 1 September 2020)
Mr. Ho Chi Sing, Spencer (Appointed on 1 September 2020)

On 1 September 2020, Mr. Ho Chi Sing, Spencer was appointed as an independent non-executive Director and Mr. Lam Sai Yu, Geoffrey resigned as an independent non-executive Director due to his other business commitment.

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. Tang Che Yin, Mr. Yung Kwok Kee, Billy, Mr. Leung Man Chiu, Lawrence, Mr. Poon Chak Sang, Plato and Mr. Ho Chi Sing, Spencer shall retire 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 HK0.4 cents (2019: nil) per ordinary share for the year ended 31 December 2020. Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company, the proposed final dividend will be payable on Friday, 13 August 2021 to the shareholders whose names appear on the register of members of the Company on Tuesday, 29 June 2021.

CHARITABLE DONATIONS

During the year ended 31 December 2020, the Group made charitable donations of HK\$1,000,000.

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 14 to the consolidated financial statements.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and non-executive Director have entered into a service contract with the Company for a term of three years, commencing from the Listing Date. 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. 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.

DIRECTORS' REPORT (Continued)

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 2020.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

To the best knowledge of the Directors, none of the Directors has any interest in any business, which compete 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 2020, 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 10 to the Listing Rules were as follows:

I. Interests in issued shares

Name of Director	Capacity/Nature of interest	Number of shares held/ interested in the Company	Percentage of shareholding as at 31 December 2020
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 80.47% interest in Shell Holdings. Accordingly, Mr. Yung is deemed to be interested in the shares held by Shell Holdings by virtue of the SFO.

II. Interests in the shares of associated corporation

Name of Director/chief executive	Name of associated corporation	Capacity/ Nature of interest	Number of shares in associate corporation	Percentage of shareholding as at 31 December 2020
Mr. Yung	Shell Holdings	Interest in a controlled corporation (<i>Note</i>)	421,121,126	80.47%

Note:

Shell Holdings is owned as to 80.47% 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.

DIRECTORS' REPORT (Continued)

Save as disclosed above, as at 31 December 2020, 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 2020, 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 2020
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 ("Mr. Oei")	Interest in a controlled corporation	180,090,000 (<i>Note 3</i>)	Long	9.00%

Notes:

- Mr. Yung holds the entire issued share capital of Red Dynasty, which, in turn, holds 80.47% interest in Shell Holdings. Accordingly, Mr. Yung is deemed to be interested in the shares held by Shell Holdings by virtue of the SFO.
- 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.
- 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.

Save as disclosed above, as at 31 December 2020 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.

DIRECTORS' REPORT (Continued)

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.

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).

DIRECTORS' REPORT (Continued)

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.
- (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).

DIRECTORS' REPORT (Continued)

- (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 32 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 Period, 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.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Prospectus, the Group have entered into certain connected transactions and continuing connected transaction in the ordinary and usual course of business of the Group, and on normal commercial terms, and are fair and reasonable and in the interest of the Company and the shareholders as a whole. These transactions are fully exempt from the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules. For further details, please refer to the sections headed "Connected Transactions" and "Continuing Connected Transactions" of the Prospectus dated on 19 May 2020.

DIRECTORS' REPORT (Continued)

During the financial year, the Group have renewed certain 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:	26 November 2020
Parties:	Landlord – Shunde SMC Multi-Media Products Company Limited (“ MMSD ”) Tenant – SMC Electric (China) Limited (“ SMC Electric China ”)
Property:	Factory spaces situated at 3rd Floor, Block A, 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 2021 to 31 December 2022
Rent:	RMB56,823 per calendar month

2. New Tenancy Agreement 2

Date:	26 November 2020
Parties:	Landlord – Shell Holdings Tenant – SMC Electric (HK) Limited (“ SMC Electric HK ”)
Property:	Portion of the 1st Floor (3,611 sq. ft.) and portion of the 4th Floor (7,679 sq. ft.) and a car parking space located in Shell Industrial Building, 12 Lee Chung Street, Chai Wan, Hong Kong
Term:	From 1 January 2021 to 31 December 2022
Rent:	HK\$158,602 per calendar month

3. New Tenancy Agreement 3

Date:	26 November 2020
Parties:	Landlord – Shell Holdings Tenant – SMC Electric HK
Property:	4th Floor of Kantone Centre, 1 Ning Foo Street, Chai Wan, Hong Kong
Term:	From 1 January 2021 to 31 December 2022
Rent:	HK\$83,490 per calendar month

In accordance with HKFRS 16 “Leases” applicable to the Group, the Group recognised the rental payment commitments as right-of-use assets taking into account the aggregate discounted amount of the rental payments, which is estimated to be approximately HK\$7,091,000. 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.

DIRECTORS' REPORT (Continued)

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 is an 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 subsidiaries. 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 is less than 25.0% 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.

For further details, please refer to the announcements "Connected Transactions – Renewal of Tenancy Agreements" dated on 26 November 2020 and the "Supplemental Announcement Connected Transactions – Renewal of Tenancy Agreements" dated on 8 December 2020.

The details of the related party transactions during the year are set out in note 32(a) to the consolidated financial statements. The related party transactions are also the connected transactions and have been complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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 2020, the five largest customers of the Group accounted for approximately 91.1% (2019: approximately 86.7%) of the total revenue of the Group, of which 65.9% (2019: 64.2%) was attributable to the largest customer.

For the year ended 31 December 2020, the five largest suppliers of the Group accounted for approximately 52.9% (2019: approximately 52.5%) of the total purchases of the Group, of which 22.8% (2019: 17.7%) was attributable to the largest supplier.

During the year ended 31 December 2020, 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.

DIRECTORS' REPORT (Continued)

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 Period.

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 2020.

AUDITORS

The consolidated financial statements for the year ended 31 December 2020 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, 26 March 2021

INDEPENDENT AUDITOR'S REPORT



Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th 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 56 to 111, which comprise the consolidated statement of financial position as at 31 December 2020, 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 a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, 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 6(a), 21(a) and 37(a) to the consolidated financial statements)

As at 31 December 2020, the Group had trade receivables with a gross carrying amount of HK\$80,709,000, against which an allowance for expected credit loss (“**ECL**”) of HK\$483,000 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

BDO Limited, a Hong Kong limited company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

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:

- 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;
- Obtaining a list of receivables which were past due and assessing the recoverability of these outstanding receivables beyond credit period with provision made through discussion with management and with reference to supporting information provided by management, such as historical payment trend of the customers;
- Assessing the recoverability of these balances by considering, among others, subsequent settlements and aging analysis of trade receivables;
- Testing the accuracy of ageing of trade receivables balances at year end to the underlying invoices on a sample basis; and
- Assessing whether the receivables are credit-impaired which include how reasonably 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.

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

Lee Ming Wai

Practising Certificate no. P05682

Hong Kong, 26 March 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Revenue	8	249,409	277,974
Cost of revenue		(173,170)	(190,515)
Gross profit		76,239	87,459
Other income	9	5,941	5,390
Selling and distribution expenses		(2,554)	(3,359)
Administrative and other operating expenses		(27,637)	(24,368)
(Impairment loss)/Reversal of impairment loss on financial assets	21(a)	(92)	53
Listing expenses		(4,822)	(9,147)
Other (losses)/gains	10	(2,031)	1,628
Finance costs	11	(208)	(649)
Profit before income tax	12	44,836	57,007
Income tax expense	13	(8,483)	(11,640)
Profit for the year attributable to owners of the Company		36,353	45,367
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange difference arising from translation of overseas operations		1,251	(487)
Total comprehensive income for the year attributable to owners of the Company		37,604	44,880
		HK Cents	HK Cents
Earnings per share	16		
– Basic and diluted		1.928	2.630

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	17	4,520	3,977
Right-of-use assets	18	7,123	3,005
Prepayments for acquisition of property, plant and equipment		1,996	506
		13,639	7,488
Current assets			
Inventories	20	22,127	15,385
Trade and other receivables, deposits and prepayments	21	85,828	91,301
Amount due from a fellow subsidiary	22	–	135,458
Tax prepaid		647	–
Cash and bank balances	23	77,464	19,291
		186,066	261,435
Current liabilities			
Trade and other payables and accruals	24	47,616	53,693
Lease liabilities	18	3,552	3,066
Amount due to ultimate holding company	25	–	6,499
Amounts due to fellow subsidiaries	25	193	326
Tax payable		1,326	10,934
Bank borrowings	26	–	14,572
		52,687	89,090
Net current assets		133,379	172,345
Total assets less current liabilities		147,018	179,833
Non-current liabilities			
Lease liabilities	18	3,614	–
Net assets		143,404	179,833
CAPITAL AND RESERVES			
Share capital	28	20,000	–
Reserves	29	123,404	179,833
Total equity		143,404	179,833

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 2020

	Share capital HK\$'000	Share premium* HK\$'000 (note 29(a))	Merger reserve* HK\$'000 (note 29(b))	Capital contribution* HK\$'000 (note 29(c))	Translation reserve* HK\$'000 (note 29(d))	Dividend reserve* HK\$'000 (note 29(e))	Retained earnings* HK\$'000 (note 29(e))	Total HK\$'000
At 1 January 2019	-	-	-	8,254	(1,164)	-	127,863	134,953
Profit for the year	-	-	-	-	-	-	45,367	45,367
Other comprehensive income for the year								
- Exchange difference arising from translation of overseas operations	-	-	-	-	(487)	-	-	(487)
Total comprehensive income for the year	-	-	-	-	(487)	-	45,367	44,880
At 31 December 2019 and 1 January 2020	-	-	-	8,254	(1,651)	-	173,230	179,833
Profit for the year	-	-	-	-	-	-	36,353	36,353
Other comprehensive income for the year								
- Exchange difference arising from translation of overseas operations	-	-	-	-	1,251	-	-	1,251
Total comprehensive income for the year	-	-	-	-	1,251	-	36,353	37,604
Arising from group reorganisation (note 28(c))	380	45,572	(45,952)	-	-	-	-	-
Issue of shares on Listing Date (note 28(d))	2,750	66,000	-	-	-	-	-	68,750
Capitalisation issue (note 28(e))	16,870	(16,870)	-	-	-	-	-	-
Listing fees attributable to issue of shares	-	(16,007)	-	-	-	-	-	(16,007)
Deemed distribution (note 15(b))	-	-	-	-	-	-	(135,458)	(135,458)
Reimbursement of listing fees by shareholder (note 29(c))	-	-	-	8,682	-	-	-	8,682
Proposed final dividend (note 15(a))	-	-	-	-	-	8,000	(8,000)	-
At 31 December 2020	20,000	78,695	(45,952)	16,936	(400)	8,000	66,125	143,404

* 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 2020

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
Cash flows from operating activities			
Profit before income tax		44,836	57,007
Adjustments for:			
Interest income		(166)	(139)
Finance costs		208	649
Depreciation on property, plant and equipment		1,083	680
Depreciation on right-of-use assets		3,052	3,013
Reversal of allowance for inventories		(48)	(1,185)
Impairment loss/(Reversal of impairment loss) on financial assets		92	(53)
Exchange difference		1,583	(99)
Operating profit before working capital changes		50,640	59,873
Increase in inventories		(5,934)	(591)
Decrease in trade and other receivables, deposits and prepayments		5,509	1,542
(Decrease)/Increase in trade and other payables and accruals		(7,691)	1,892
(Decrease)/Increase in amounts due to fellow subsidiaries		(140)	227
Increase in amount due from a fellow subsidiary		–	(48,675)
Cash generated from operations		42,384	14,268
Income tax paid		(18,778)	(2,444)
Net cash generated from operating activities		23,606	11,824
Cash flows from investing activities			
Interest received		166	139
Purchase of property, plant and equipment		(2,877)	(2,026)
Net cash used in investing activities		(2,711)	(1,887)
Cash flows from financing activities			
Interest paid for bank borrowings and amount due to ultimate holding company		(158)	(520)
Proceeds from bank borrowings	31	26,322	62,406
Repayment of bank borrowings	31	(40,826)	(57,837)
Payment of principal element of lease liabilities	31	(3,073)	(2,997)
Payment of interest element of lease liabilities	31	(50)	(129)
(Decrease)/Increase in amount due to ultimate holding company	31	(6,499)	1,566
Proceeds from issue of shares	28(d)	68,750	–
Listing fees attributable to issue of shares		(16,007)	–
Reimbursement of listing fees by shareholder	29(c)	8,682	–
Net cash generated from financing activities		37,141	2,489
Net increase in cash and cash equivalents		58,036	12,426
Cash and cash equivalents at the beginning of year		19,291	6,889
Effect of foreign exchange rate change on cash and cash equivalents		137	(24)
Cash and cash equivalents at the end of year		77,464	19,291
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		77,464	19,291

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

SMC Electric Limited (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 “**Listing Date**”).

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

The Company is an investment holding company. The principal activities carried out by the Company and its subsidiaries are manufacturing and selling of electric tools and sourcing and selling of electric fans (the “**Electrical Appliances Business**”).

The directors of the Company consider its ultimate holding company to be Shell Electric Holdings Limited (“**Shell Holdings**”), a company incorporated in Bermuda. Shell Holdings and its subsidiaries are collectively referred to as “Shell Holdings Group”.

Particulars of the Company’s subsidiaries as at 31 December 2020 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 (“ BVI ”)/ Hong Kong	United States dollars (“ US\$ ”) 1	100%	–	Investment holding
SMC Electric (HK) Limited	Hong Kong	Hong Kong dollars (“ HK\$ ”) 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 (note)	The People Republic of China (“ PRC ”)	US\$999,958.50	–	100%	Manufacturing and trading of electric tools

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

The financial statements for the year ended 31 December 2020 were approved and authorised for issue by the board on 26 March 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

2. REORGANISATION AND BASIS OF PRESENTATION

2.1 Reorganisation

Historically, the Electrical Appliances Business was conducted through the sub-groups of Shell Holdings Group, namely Fan Group and Multi-Media Group. Fan Group was responsible for sourcing and selling of electric fans ("**Fan Business**"), whereas the Electrical Appliances Division of Multi-Media Group was responsible for manufacturing and selling of other electrical appliances including work lights, vacuum cleaners as well as hearing aid devices ("**Other Electrical Appliances Business**").

Fan Group comprised of Shell Electric Mfg. (HK) Company Limited ("**Shell HK**") and its wholly-owned subsidiaries including Shell Electric Mfg. (China) Company Limited ("**Shell China**"), Quanta Global Limited ("**Quanta Global**"), Speed Power Limited ("**Speed Power**") and certain dormant companies. Multi-Media Group comprised of SMC Multi-Media Products Company Limited ("**SMC Multi-Media**") and its wholly-owned subsidiaries including SMC Multi-Media Trading Company Limited ("**MM Trading**"), SMC Multi-Media (H.K.) Limited ("**MMHK**") and 佛山市順德區蜆華多媒體製品有限公司 (Shunde SMC Multi-Media Products Company Limited*) ("**MMSD**").

For the purpose of preparing for the Listing of the Company's shares on the Main Board of the Stock Exchange, the Group underwent a reorganisation (the "**Reorganisation**") to streamline the group structure.

As a result of the Reorganisation, the Fan Business and the Other Electrical Appliances Business are held directly by SMC Electric Holdings Limited ("**SMC Electric Holdings**") which was set up in March 2016. The major effects of the Reorganisation to the Fan Business are that Shell HK is no longer the holding company of the Fan Business and that those dormant companies are not included in the Group ("**New Fan Group**"). After the Reorganisation, New Fan Group comprises of Shell China, Quanta Global and Speed Power. As to the Other Electrical Appliances Business, the major effect is that it is no longer conducted by Multi-Media Group but is carried on by SMC Electric (HK) Limited ("**SMC Electric HK**") and its wholly-owned subsidiary, SMC Electric (China) Limited ("**SMC Electric China**").

The Reorganisation comprises the following principal steps:

1. SMC Electric Holdings was incorporated in the BVI on 23 March 2016 and is wholly-owned by Shell Holdings.
2. SMC Electric HK was incorporated in Hong Kong on 26 February 2016. One subscriber share of SMC Electric HK which was wholly-owned by the initial subscriber was subsequently transferred to SMC Electric Holdings at HK\$1.00 on 10 May 2016.
3. SMC Electric China was established in the PRC on 16 November 2017 which is wholly-owned by SMC Electric HK.
4. MM Trading and a customer of the Other Electrical Appliances Business entered into a contract manufacturing agreement (the "**Manufacturer Agreement**") whereby MM Trading would manufacture products for the customer in accordance with the terms of the Manufacturer Agreement. By a comprehensive amendment to the Manufacturer Agreement entered into by and among the customer, MM Trading and SMC Electric HK in January 2018, MM Trading passed all purchase orders to SMC Electric HK and SMC Electric HK undertook all obligations from MM Trading with effect from 1 January 2018.

On 8 March 2017, MMHK and another customer of the Other Electrical Appliances Business, entered into a contract manufacturing agreement (the "**CMA**") whereby MMHK would manufacture products for the customer in accordance with its terms. By an assignment agreement and novation of purchase orders dated 18 December 2017 entered into by and among the customer, SMC Electric HK and MMHK, the CMA was assigned to SMC Electric HK and SMC Electric HK assumed MMHK's obligations in the CMA with effect from 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

2. REORGANISATION AND BASIS OF PRESENTATION (Continued)

2.1 Reorganisation (Continued)

5. On 2 January 2018, Shell HK transferred 100 shares, representing the entire issued shares of Shell China to SMC Electric Holdings for a consideration of US\$1,000.
6. On 2 January 2018, Shell HK transferred 1 share, representing the entire issued share of Quanta Global to SMC Electric Holdings for a consideration of US\$1.00.
7. On 12 January 2018, Shell HK transferred 2 shares, representing the entire issued shares of Speed Power to SMC Electric Holdings for a consideration of HK\$2.00.
8. SMC-台山華夏電器有限公司 (SMC-Taishan Huaxia Electrical Appliances Company Limited*) (“**Huaxia**”) is an equity joint venture established in the PRC and is an investee of the Group in which Quanta Global held 19% equity interest. By a sale and purchase agreement dated 28 October 2018 entered into by Quanta Global and Mr. Chan Lai Shun (陳禮舜) (“**Mr. Chan**”), Quanta Global agreed to sell and Mr. Chan agreed to purchase 19% equity interest in Huaxia at a consideration of US\$1.00. The transaction was completed on 20 November 2018.
9. On 6 December 2018, MMSD and SMC Electric China entered into an agreement pursuant to which MMSD agreed to transfer certain machinery and equipment and inventories (the “**Assets Transfer**”) for manufacturing of electric tools to SMC Electric China. The total consideration (include value-added tax (“**VAT**”)) for the transfer of machinery and equipment is RMB4,361,000. The consideration (include VAT) for the transfer of inventories is RMB6,151,000. The Assets Transfer was completed on 31 December 2018.
10. On 5 December 2018, the Company was incorporated in the Cayman Islands. The initial authorised share capital was HK\$380,000 divided into 38,000,000 shares of par value HK\$0.01 each. On the same date, the Company allotted and issued one share at par to Reid Services Limited, which was subsequently transferred to Mr. Yung Kwok Kee, Billy (“**Mr. Yung**”). The one share was subsequently transferred to Shell Holdings on 2 January 2019. Mr. Yung is the ultimate controlling shareholder of Shell Holdings.
11. On 7 February 2020, a share swap agreement (the “**Share Swap Agreement**”) was entered into between Shell Holdings as vendor and the Company as purchaser pursuant to which Shell Holdings agrees to sell, and the Company agrees to purchase one share, being the entire issued share capital of SMC Electric Holdings from Shell Holdings. The consideration for the acquisition of the entire issued share capital in SMC Electric Holdings was satisfied by the Company allotting and issuing 37,999,999 shares, credited as fully paid up, to Shell Holdings (the “**Share Swap**”).

* for identification purpose only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

2. REORGANISATION AND BASIS OF PRESENTATION (Continued)

2.2 Basis of presentation

Upon completion of the Share Swap as mentioned in note 2.1 above, the results of the subsidiaries are consolidated into the financial statements of the Company. The Group is regarded as a continuing entity resulting from the Share Swap since the insertion of a new holding company for SMC Electric Holdings has not resulted in any change in economic substance. Accordingly, the financial statements have been prepared using merger basis of accounting as if the Share Swap had occurred at the beginning of the financial periods. The consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the years ended 31 December 2020 and 2019 have included the results, changes in equity and cash flows of the companies now comprising the Group from the earliest date presented or since their respective dates of incorporation, whichever was shorter, as if the current group structure had been in existence throughout the years ended 31 December 2020 and 2019. The consolidated statements of financial position of the Group as of 31 December 2020 and 2019 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates. No adjustment is made to reflect fair values, or recognise any new assets or liabilities as a result of the Share Swap.

The historical financial information of the Other Electrical Appliances Business have been prepared on a carve-out basis from the consolidated financial statements of Shell Holdings for the purpose of presenting the financial position and financial performance and cash flows of the Other Electrical Appliances Business.

Historically, the Other Electrical Appliances Business was conducted by the Electrical Appliances Division of Multi-Media Group, which is not a separate legal entity. After the Reorganisation, the Other Electrical Appliances Business is carried on by SMC Electric HK and its wholly-owned subsidiary, SMC Electric China. Multi-Media Group, SMC Electric HK and SMC Electric China are owned and controlled by Shell Holdings. Accordingly, for the purpose of presenting the historical financial information of the Other Electrical Appliances Business, the Electrical Appliances Division is carved out from the Multi-Media Group and combined with SMC Electric HK and its wholly-owned subsidiary, SMC Electric China with reference to the principles of merger accounting under Hong Kong Accounting Guideline 5 *Merger Accounting for Common Control Combinations* ("AG 5") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The consolidated statements of comprehensive income and the consolidated statements of cash flows for the years ended 31 December 2020 and 2019 included the results and cash flows of the Electrical Appliances Division of Multi-Media Group and the results and cash flows of SMC Electric HK and its wholly-owned subsidiary, SMC Electric China for the years ended 31 December 2020 and 2019. The consolidated statements of financial position as at 31 December 2020 and 2019 included the assets and liabilities of the Electrical Appliances Division of Multi-Media Group and the assets and liabilities of SMC Electric HK and SMC Electric China at the respective dates. The items on the financial statements have been combined using their existing book values from Shell Holdings' perspective. Following the completion of the business transfer and the Assets Transfer by 31 December 2018 as mentioned in note 2.1 above, the Other Electric Appliances Business was largely or entirely carried out by SMC Electric HK and SMC Electric Cihna during the years ended 31 December 2019 and 2020. Thus, the results, cash flows and assets and liabilities of the Electric Appliances Division consolidated in the financial statements for the years ended/as at 31 December 2020 and 2019 were insignificant or nil.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

3. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”)

3.1 Application of new or revised HKFRS – effective on 1 January 2020

The HKICPA has issued a number of new or revised HKFRS that are first effective for the current accounting period of the Group:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The adoption of the above new or revised HKFRS that are effective from 1 January 2020 does not have any significant impact on the Group’s financial results and financial position.

3.2 New or revised HKFRS that have been issued but are not yet effective

The following new or revised HKFRS, potentially relevant to the Group’s 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 HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to HKFRS 16	COVID-19 Related Rent Concessions ²
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 ³
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use ⁴
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ⁴
Annual Improvements to HKFRSs 2018-2020	Amendment to HKFRS 9 Financial Instruments and Amendment to illustrative examples accompanying HKFRS 16 Leases ⁴
Amendments to HKFRS 3	Reference to the Conceptual Framework ⁵
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ⁶
HK Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ⁶

¹ Mandatory effective date is yet to be determined but available for adoption

² Effective for annual periods beginning on or after 1 June 2020

³ Effective for annual periods beginning on or after 1 January 2021

⁴ Effective for annual periods beginning on or after 1 January 2022

⁵ Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022

⁶ Effective for annual periods beginning on or after 1 January 2023

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 new or revised standards on the Group’s results and financial position in the first year of application. The directors consider that these new standards and amendments are unlikely to have a material impact to the Group’s financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

4. BASIS OF PREPARATION

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

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

The 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 6.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (note 5.2). 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.

5.2 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 dividend received and receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.3 Associates

An associate is an entity over which the Group has significant influence and that 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 value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment in associate. 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.

5.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses (note 5.13).

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. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.5 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.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable and are recognised as other revenue, rather than reducing the related expense.

5.6 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 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 leases for which at the commencement date have a lease term of 12 months or less. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The 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 the right-of-use assets by applying a cost model. Under the cost model, the Group measures the 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 shorter of the remaining lease term or estimated useful life.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.6 Lease (Continued)

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The 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.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments:

- (i) fixed lease payments less any lease incentives receivable;
- (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date;
- (iii) amounts expected to be payable by the lessee under residual value guarantees;
- (iv) exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and
- (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the 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.

5.7 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, for an item not at fair value through profit or loss, 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 regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.7 Financial instruments (Continued)

(i) Financial assets (Continued)

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the financial asset.

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 collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. 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.

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

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.7 Financial instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

The Group considers a financial asset to be in default when the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to action such as realising security (if any is held); or the financial asset is more than 90 days past due.

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 considers a financial asset to be credit-impaired when:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

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. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(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, amounts due to ultimate holding company and fellow subsidiaries and bank borrowings. 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 accordance with the Group's accounting policy for borrowing costs (note 5.14).

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

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.7 Financial instruments (Continued)

(v) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the loss allowance, being the ECLs provision measured in accordance with principles of the accounting policy set out in note 5.7(ii); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15 *Revenue from Contracts with Customers* (“**HKFRS 15**”).

(vi) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vii) Derecognition

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.

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

5.8 Inventories

Inventories are initially recognised at cost, and subsequently 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 calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

5.9 Revenue and other income recognition

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

Revenue from contracts with customers is recognised when control of goods or services 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 or services, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.9 Revenue and other income recognition (Continued)

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception.

Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

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

(i) Sales of electrical appliances

Revenue is recognised when the customers take possession of the products and title has been passed.

(ii) Rendering of handling services

Handling fee income is recognised over time as those services are provided.

(iii) 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.

Contract liabilities

A contract liability represents the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.10 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 the business combination which affect neither accounting nor taxable profits; 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income tax levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

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.

5.11 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.11 Foreign currency (Continued)

On consolidation, income and expense items of foreign operations 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 foreign operations 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 foreign exchange 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 the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

5.12 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

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.13 Impairment of assets (other than 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 or amortisation) had no impairment loss been recognised. A reversal of such impairment is credited to profit or loss in the period in which it arises.

5.14 Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

5.15 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

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

5.16 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.

For the purpose of the statement of cash flows, bank overdrafts that are repayable on demand and that form an integral part of the Group's cash management are included in cash and cash equivalents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.17 Segment reporting

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.

5.18 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.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

6. 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.

Key sources of estimation uncertainty

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

(a) Loss allowance for financial assets

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

At the end of each reporting period, the Group assesses whether there has been a significant increase in credit risk on receivables since initial recognition by comparing the risk of default occurring over the expected life. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. 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.

Details of the ECL assessment are set out in note 37(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 reversal of allowance of inventories are disclosed in notes 20 and 12 respectively.

(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, the timing of payment of the related taxation and the implementation of these taxes. The Group recognised income tax and other taxes 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 liabilities are disclosed in notes 13 and 27 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

7. SEGMENT INFORMATION

(a) Operating segment information

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

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

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

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 2020

7. 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
Year ended 31 December 2020			
Reportable segment revenue recognised at a point in time	214,691	34,718	249,409
Reportable segment profit	64,482	11,757	76,239
Corporate and unallocated income [^]			5,941
Corporate and unallocated expenses [^]			(37,344)
Profit before income tax			44,836
	Non-SMC segment HK\$'000	SMC segment HK\$'000	Total HK\$'000
Year ended 31 December 2019			
Reportable segment revenue recognised at a point in time	224,169	53,805	277,974
Reportable segment profit	71,308	16,151	87,459
Corporate and unallocated income [^]			5,390
Corporate and unallocated expenses [^]			(35,842)
Profit before income tax			57,007

[^] 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 as well as listing expenses incurred up to the respective year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

7. 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
Year ended 31 December 2020				
Depreciation of property, plant and equipment	700	51	332	1,083
Depreciation of right-of-use assets	561	–	2,491	3,052
Reversal of allowance for inventories	–	48	–	48
(Reversal of impairment loss)/ Impairment loss on financial assets	(87)	179	–	92
Additions to specified non-current assets*	3,992	211	5,769	9,972
Year ended 31 December 2019				
Depreciation of property, plant and equipment	435	25	220	680
Depreciation of right-of-use assets	554	–	2,459	3,013
Reversal of allowance for inventories	–	1,185	–	1,185
Reversal of impairment loss on financial assets	8	45	–	53
Additions to specified non-current assets*	488	516	5,950	6,954

* 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 2020

7. 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:

	2020 HK\$'000	2019 HK\$'000
United States	102,418	107,223
Canada	6,843	4,553
Mexico	43,512	47,379
Other countries in Americas	427	450
Americas	153,200	159,605
Hong Kong (place of domicile)	7,480	8,058
Other regions of the PRC	2,413	8,838
Other countries in Asia	10,628	26,180
Asia	20,521	43,076
Australia	48,254	43,438
Other countries in Oceania	6,675	6,757
Oceania	54,929	50,195
Europe	9,381	11,131
Africa	11,378	13,967
	249,409	277,974

(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:

	2020 HK\$'000	2019 HK\$'000
Customer I*	164,405	178,511
Customer II*	47,175	40,817

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

8. REVENUE

The Group is principally engaged in the manufacturing and selling of electric tools and sourcing and selling of electric fans. Revenue from contracts with customers derived from the Group's principal activities comprises the following:

	2020 HK\$'000	2019 HK\$'000
Sales of electric fans and electric tools:		
– Fans	121,203	140,529
– Vacuum cleaners	89,058	82,606
– Work lights	36,038	49,997
– Others	3,110	4,842
	249,409	277,974

9. OTHER INCOME

	2020 HK\$'000	2019 HK\$'000
Interest income from:		
– Bank deposits	166	41
– Others	–	98
	166	139
Handling fee income	1,201	1,019
Sales of spare parts and sample products	1,063	2,984
Government subsidies*	2,682	–
Sundry	829	1,248
	5,941	5,390

* Government subsidies mainly include a subsidy amounting to RMB2,000,000 (equivalent to approximately HK\$2,252,000) received from the municipal and district levels of the PRC government as a reward to SMC Electric China for the Listing. As assessed by the directors, there is reasonable assurance that the Group would comply with the conditions attached to the subsidy including not to change the controlling shareholder and place of registration of SMC Electric China for five years.

10. OTHER (LOSSES)/GAINS

	2020 HK\$'000	2019 HK\$'000
Exchange (loss)/gain, net	(2,031)	1,628

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

11. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Interest expenses on:		
– Bank and other borrowings	158	520
– Lease liabilities	50	129
	208	649

12. PROFIT BEFORE INCOME TAX

	2020 HK\$'000	2019 HK\$'000
Profit before income tax is arrived at after charging/(crediting):		
Auditors' remuneration:		
– Current year	696	265
Cost of inventories recognised as expense		
– Carrying amount of inventories consumed	173,218	191,700
– Reversal of allowance for inventories	(48)	(1,185)
	173,170	190,515
Depreciation of property, plant and equipment	1,083	680
Depreciation of right-of-use assets	3,052	3,013
Employee benefit expenses (including directors' emoluments)*		
– Salaries, wages and other benefits	24,085	26,094
– Contribution to defined contribution retirement plans	917	1,786
	25,002	27,880

* During the year, the Group successfully applied for funding support from Employment Support Scheme set up by the Hong Kong Government. The purpose of the Employment Support Scheme is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all of the funding on paying wages to their employees. There were no unfulfilled conditions or contingencies relating to this funding support amounting to approximately HK\$1,705,000 which reduced the employee benefit expenses for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

13. INCOME TAX EXPENSE

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

	2020 HK\$'000	2019 HK\$'000
Current tax		
– Hong Kong Profit Tax		
– tax for the year	6,420	8,758
– over provision in respect of prior year	(88)	(165)
– Other regions of the PRC		
– Enterprise Income Tax (“EIT”)	2,151	3,047
Income tax expense	8,483	11,640

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

For the years ended 31 December 2020, Hong Kong Profits Tax was calculated at 16.5% on the estimated assessable profits derived from Hong Kong. For the year ended 31 December 2019, Hong Kong Profits Tax was calculated at 16.5% on the estimated assessable profits derived from Hong Kong, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, first HK\$2 million of assessable profits of the qualifying entity is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

EIT arising from other regions of the PRC is calculated at 25% (2019: 25%) on the estimated assessable income.

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:

	2020 HK\$'000	2019 HK\$'000
Profit before income tax	44,836	57,007
Tax on profit at the tax rates applicable to the profits in the jurisdictions concerned	8,189	10,501
Income tax on concessionary rate	–	(165)
Tax effect of income not taxable for tax purpose	(408)	(87)
Tax effect of expenses not deductible for tax purpose	1,014	1,442
Tax losses not recognised	–	203
Utilisation of previously unrecognised tax losses	(277)	(134)
Over provision in prior year	(88)	(165)
Other	53	45
Income tax expense	8,483	11,640

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

14. 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
Year ended 31 December 2020					
<i>Executive Directors</i>					
Mr. Leung Chun Wah	12	1,885	2,000	94	3,991
Mr. Tang Che Yin	12	399	–	20	431
<i>Non-Executive Director</i>					
Mr. Yung	12	–	–	–	12
<i>Independence Non-Executive Directors</i>					
Mr. Leung Man Chiu, Lawrence	105	–	–	–	105
Mr. Poon Chak Sang, Plato	105	–	–	–	105
Mr. Lam Sai Yu, Geoffrey (resigned on 1 September 2020)	45	–	–	–	45
Mr. Ho Chi Sing, Spencer (appointed on 1 September 2020)	60	–	–	–	60
	351	2,284	2,000	114	4,749

	Fees HK\$'000	Salaries, allowances and other benefits HK\$'000	Discretionary bonus HK\$'000	Pension scheme contribution HK\$'000	Total HK\$'000
Year ended 31 December 2019					
<i>Executive Directors</i>					
Mr. Leung Chun Wah	–	1,852	–	93	1,945
Mr. Tang Che Yin	–	388	–	19	407
<i>Non-Executive Director</i>					
Mr. Yung	–	–	–	–	–
	–	2,240	–	112	2,352

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 2020 (2019: nil). In addition, none of the directors waived or agreed to waive any emoluments for the year ended 31 December 2020 (2019: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

14. 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 one (2019: one) director of the Company, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2019: four) highest paid individuals are as follows:

	2020	2019
	HK\$'000	HK\$'000
Salaries, allowances and other benefits	2,591	2,490
Discretionary bonus	68	158
Pension scheme contribution	114	113
	2,773	2,761

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

	2020	2019
	Numbers of	Numbers of
	individuals	individuals
Nil to HK\$1,000,000	4	4

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 (2019: nil).

(c) Senior management's emoluments

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

	2020	2019
	Numbers of	Numbers of
	individuals	individuals
Nil to HK\$1,000,000	3	4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

15. DISTRIBUTIONS

(a) Dividends

Final dividend of HK\$0.004 (2019: nil) per ordinary share, amounting to HK\$8,000,000 (2019: nil), has been proposed by the directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

(b) Deemed distribution

In February 2020, the Group effected a deemed distribution of approximately HK\$135,458,000 to settle the current account due from a fellow subsidiary, SMC Multi-Media (note 22).

16. 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:

	2020 HK\$'000	2019 HK\$'000
Profit		
Profit for the year attributable to owners of the Company	36,353	45,367
	2020 Number of shares '000	2019 Number of shares '000
Number of shares		
Weighted average number of ordinary shares in issue during the year	1,885,041	1,725,000

The weighted average number of ordinary shares used for the purpose of calculating basic earnings per share represented the weighted average number of ordinary shares in issue during the year, after giving effect of the capitalisation issue as disclosed in note 28(e), as if the capitalisation issue had occurred on 1 January 2019.

(b) Diluted earnings per share

The diluted earnings per share is the same as the basic earnings per share as there were no potential dilutive ordinary shares in issue during the year (2019: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

17. 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
Cost					
At 1 January 2019	10,218	1,454	11	130	11,813
Translation difference	(232)	(32)	(15)	(6)	(285)
Additions	725	–	842	189	1,756
At 31 December 2019 and 1 January 2020					
	10,711	1,422	838	313	13,284
Translation adjustment	711	92	56	20	879
Additions	1,329	–	62	–	1,391
At 31 December 2020					
	12,751	1,514	956	333	15,554
Accumulated depreciation					
At 1 January 2019	7,574	1,255	1	–	8,830
Translation adjustment	(173)	(27)	(1)	(2)	(203)
Depreciation	459	21	73	127	680
At 31 December 2019 and 1 January 2020					
	7,860	1,249	73	125	9,307
Translation adjustment	534	81	17	12	644
Depreciation	750	20	223	90	1,083
At 31 December 2020					
	9,144	1,350	313	227	11,034
Net carrying amount					
At 31 December 2020	3,607	164	643	106	4,520
At 31 December 2019	2,851	173	765	188	3,977

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

18. LEASES

The Group entered into a lease agreement with MMSD for the leasing of factory located at Shunde, the PRC and also entered into lease agreements with Shell Holdings for the leasing of office premises, warehouse and carpark space 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 space at the end of the year are as follows:

	Factory, office premises, warehouse and carpark space HK\$'000
Cost	
At 1 January 2019	1,150
Translation difference	(25)
Additions	4,928
At 31 December 2019 and 1 January 2020	6,053
Translation difference	149
Effect of lease modification	7,091
At 31 December 2020	13,293
Accumulated depreciation	
At 1 January 2019	46
Translation difference	(11)
Depreciation	3,013
At 31 December 2019 and 1 January 2020	3,048
Translation difference	70
Depreciation	3,052
At 31 December 2020	6,170
Net carrying amount	
At 31 December 2020	7,123
At 31 December 2019	3,005

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

18. LEASES (Continued)

Lease Liabilities

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

	2020 HK\$'000	2019 HK\$'000
As at 1 January	3,066	1,150
Addition	–	4,928
Effect of lease modification	7,091	–
Finance cost	50	129
Lease payments	(3,123)	(3,126)
Translation difference	82	(15)
As at 31 December	7,166	3,066

Maturity analysis

	2020 HK\$'000	2019 HK\$'000
Within one year (current liabilities)	3,552	3,066
More than one year but not exceeding two years (non-current liabilities)	3,614	–
	7,166	3,066

Minimum lease payment due

	2020 HK\$'000	2019 HK\$'000
Within one year	3,648	3,116
More than one year but not exceeding two years	3,648	–
	7,296	3,116
Less: Future finance charges	(130)	(50)
	7,166	3,066

For the year ended 31 December 2020, the total cash payments for the Group's lease arrangements (including repayment of lease liabilities) amounting to HK\$3,123,000 (2019: HK\$3,126,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

19. INVESTMENT IN AN ASSOCIATE

	2020 HK\$'000	2019 HK\$'000
Unlisted shares, at cost less impairment losses	–	–

Details of the associate held by the Group as at 31 December 2020 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.

20. INVENTORIES

	2020 HK\$'000	2019 HK\$'000
Raw materials	13,243	9,996
Work-in-progress	1,220	826
Finished goods	7,664	4,563
	22,127	15,385

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2020 HK\$'000	2019 HK\$'000
Trade receivables	80,709	61,761
Less: Provision for impairment	(483)	(391)
Trade receivables, net (note (a))	80,226	61,370
Other receivables	1,724	668
Prepaid listing expenses	–	4,637
Other prepayments and deposits (note (b))	3,878	24,626
	85,828	91,301

Notes:

(a) The movements in the allowance for impairment of trade receivables during the year are as follows

	2020 HK\$'000	2019 HK\$'000
At the beginning of the year	391	444
Impairment losses recognised during the year	180	3
Impairment losses reversed during the year	(88)	(56)
At the end of the year	483	391

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

	2020 HK\$'000	2019 HK\$'000
0 – 30 days	12,837	16,977
31 – 60 days	19,490	11,419
61 – 90 days	18,235	10,666
Over 90 days	30,147	22,699
	80,709	61,761

The Group normally allows a credit period of 45 days to 180 days to its customers. Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 37(a).

(b) Included in the amount as at 31 December 2020 was prepayment of HK\$245,000 (2019: HK\$20,387,000) to the associate for purchases of goods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

22. AMOUNT DUE FROM A FELLOW SUBSIDIARY

The amount due from a fellow subsidiary is as follows:

Fellow subsidiary	As at 1 January 2020 HK\$'000	As at 31 December 2020 HK\$'000	Maximum outstanding balance during the year HK\$'000
SMC Multi-Media	135,458	–	135,458

Fellow subsidiary	As at 1 January 2019 HK\$'000	As at 31 December 2019 HK\$'000	Maximum outstanding balance during the year HK\$'000
SMC Multi-Media	87,485	135,458	136,906

This current account with SMC Multi-Media mainly resulted from combining the results of Electrical Appliances Division of Multi-Media Group on carve-out basis as disclosed in note 2.2. The amount due mainly represented profits generated from the operations of the Electrical Appliances Division. Such amount is unsecured, interest-free, and repayable on demand. In February 2020, the current account was settled by way of a deemed distribution (note 15(b)) which was accounted for as an equity transaction.

23. CASH AND BANK BALANCES

	2020 HK\$'000	2019 HK\$'000
Cash at banks and in hand	32,835	19,291
Short-term bank deposits	44,629	–
	77,464	19,291

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 0.21% to 0.25% per annum as at 31 December 2020. These deposits have maturity period 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 period at their inception.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

24. TRADE AND OTHER PAYABLES AND ACCRUALS

	2020 HK\$'000	2019 HK\$'000
Trade payables (note (a))	25,818	22,893
Accruals and other payables	20,411	27,785
Contract liabilities (note (b))	1,387	3,015
	47,616	53,693

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

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

	2020 HK\$'000	2019 HK\$'000
0 – 30 days	16,748	14,205
31 – 60 days	7,629	3,517
61 – 90 days	459	3,195
Over 90 days	982	1,976
	25,818	22,893

(b) 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:

	2020 HK\$'000	2019 HK\$'000
At the beginning of the year	3,015	1,562
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	(3,015)	(1,562)
Increase in contract liabilities as a result of receiving deposits and advances during the year, the performance obligations for which orders had not be satisfied	1,387	3,015
	1,387	3,015

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

25. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

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

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

26. BANK BORROWING

The Group's bank borrowings as at 31 December 2019 were denominated in US\$ and HK\$ and interest-bearing at floating rates. The annual interest rates of the Group's outstanding bank borrowings ranged from 3.28% to 4.18%. These bank borrowings are scheduled for repayment within one year after the end of the reporting period. In addition, the related facilities agreements contain a clause that provides the respective banks with an unconditional right to demand repayment at any time at its own discretion. There was no bank borrowings as at 31 December 2020.

The Group's bank borrowings as at 31 December 2019 were secured by a corporate guarantee executed by Shell Holdings and the personal guarantee executed by Mr. Yung. The guarantees provided by Shell Holdings and Mr. Yung were released and replaced by a guarantee from the Company upon the Listing.

27. DEFERRED TAX LIABILITIES

Deferred tax liabilities of approximately HK\$709,000 (2019: HK\$383,000) have not been recognised for withholding taxation that would be payable on the remaining unremitted earnings of the relevant PRC subsidiary as at 31 December 2020, as in the opinion of the directors, it is probable that this subsidiary will not distribute such earnings in the foreseeable future. Such unremitted earnings amounted to approximately HK\$14,178,000 as at 31 December 2020 (2019: HK\$7,656,000).

As of 31 December 2020, the Group had unused tax losses amounting to approximately HK\$14,360,000 (2019: HK\$16,011,000), 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

28. SHARE CAPITAL

Details of the movements in the authorised and issued and fully paid share capital of the Company during the period from 5 December 2018 (date of incorporation) to 31 December 2020 are summarised as follows:

Ordinary shares	Par value HK\$	Number of ordinary shares	Amount HK\$'000
Authorised:			
Upon incorporation and at 31 December 2019 (<i>note (a)</i>)	0.01	38,000,000	380
Increased in authorised share capital (<i>note (b)</i>)	0.01	4,962,000,000	49,620
At 31 December 2020	0.01	5,000,000,000	50,000
Issued and fully paid:			
Issue of share upon incorporation and at 31 December 2019 (<i>note (a)</i>)	0.01	1	–
Issue of shares under Share Swap Agreement (<i>note (c)</i>)	0.01	37,999,999	380
Issue of shares upon the Listing (<i>note (d)</i>)	0.01	275,000,000	2,750
Issue of shares by capitalisation of share premium (<i>note (e)</i>)	0.01	1,687,000,000	16,870
At 31 December 2020	0.01	2,000,000,000	20,000

Notes:

- (a) The Company was incorporated on 5 December 2018 with an initial authorised share capital of HK\$380,000 divided into 38,000,000 shares of par value HK\$0.01 each. On the same date, the Company allotted and issued one share at par to Reid Services Limited, which was subsequently transferred to Mr. Yung. The one share was subsequently transferred to Shell Holdings on 2 January 2019.
- (b) Pursuant to the written resolution passed by the then shareholders of the Company on 7 February 2020, the authorised share capital of the Company was increased from HK\$380,000 divided into to 38,000,000 ordinary shares to HK\$50,000,000 divided into 5,000,000,000 ordinary shares by the creation of an additional 4,962,000,000 ordinary shares of HK\$0.01 each.
- (c) Pursuant to the Share Swap Agreement as mentioned in note 2.1, the Company allotted and issued 37,999,999 shares to Shell Holdings as consideration to acquire the entire interest of SMC Electric Holdings. The share premium arising of HK\$45,572,000 represented the difference between the investment cost of SMC Electric Holdings of approximately HK\$45,952,000 and the par value of the shares issued by the Company totaling HK\$380,000.
- (d) On the Listing Date, the Company issued 275,000,000 new shares at HK\$0.25 per share comprising 125,000,000 new shares by way of placing and 150,000,000 new shares by way of public offer.
- (e) Upon completion of issuing the new shares as mentioned in note (d) above, the Company issued 1,687,000,000 ordinary shares of HK\$0.01 each by the way of capitalising an amount of HK\$16,870,000 from the share premium account of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

29. 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 the reserves is as follows:

(a) Share premium

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

(b) Merger reserve

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

(c) Capital contribution

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

(d) Translation reserve

Translation reserve comprises foreign exchange differences arising from the translation of the financial statements of overseas operations.

(e) Retained earnings

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

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	(Accumulated losses)/ Retained earnings HK\$'000	Total HK\$'000
At 1 January 2019	-	-	-	-	-
Loss and total comprehensive income for the year	-	-	-	(14,469)	(14,469)
At 31 December 2019 and 1 January 2020	-	-	-	(14,469)	(14,469)
Profit and total comprehensive income for the year	-	-	-	43,736	43,736
Arising from group reorganisation (note 28(c))	45,572	-	-	-	45,572
Issue of shares on Listing date (note 28(d))	66,000	-	-	-	66,000
Capitalisation issue (note 28(e))	(16,870)	-	-	-	(16,870)
Listing fees attributable to issue of shares	(16,007)	-	-	-	(16,007)
Reimbursement of listing fees by shareholder (note 29(c))	-	8,682	-	-	8,682
Proposed final dividend (note 15(a))	-	-	8,000	(8,000)	-
At 31 December 2020	78,695	8,682	8,000	21,267	116,644

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

30. HOLDING COMPANY'S STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment in a subsidiary		45,952	–
Current assets			
Other receivables		272	–
Amounts due from subsidiaries		50,045	–
Cash and bank balances		42,367	–
		92,684	–
Current liabilities			
Other payables and accruals		760	–
Amounts due to subsidiaries		1,232	–
		1,992	–
Net current assets		90,692	–
Net assets		136,644	–
CAPITAL AND RESERVES			
Share capital	28	20,000	–
Reserves	29	116,644	–
Total equity		136,644	–

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 2020

31. 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.

	Amount due to ultimate holding company HK\$'000 (note 25)	Bank borrowings HK\$'000 (note 26)	Lease liabilities HK\$'000 (note 18)
At 1 January 2019	4,933	10,098	1,150
Changes from cash flows:			
Cash advanced from ultimate holding company	79,008	–	–
Cash paid to ultimate holding company	(77,442)	–	–
Proceeds from bank borrowings	–	62,406	–
Repayment of bank borrowings	–	(57,837)	–
Payment of principal element of lease liabilities	–	–	(2,997)
Payment of interest element of lease liabilities	–	–	(129)
	1,566	4,569	(3,126)
Non-cash changes:			
Recognition of lease liabilities	–	–	4,928
Interest expenses of lease liabilities	–	–	129
Exchange difference	–	(95)	(15)
	–	(95)	5,042
At 31 December 2019 and 1 January 2020	6,499	14,572	3,066
Changes from cash flows:			
Cash advanced from ultimate holding company	8,966	–	–
Cash paid to ultimate holding company	(15,465)	–	–
Proceeds from bank borrowings	–	26,322	–
Repayment of bank borrowings	–	(40,826)	–
Payment of principal element of lease liabilities	–	–	(3,073)
Payment of interest element of lease liabilities	–	–	(50)
	(6,499)	(14,504)	(3,123)
Non-cash changes:			
Recognition of lease liabilities	–	–	7,091
Interest expenses of lease liabilities	–	–	50
Exchange difference	–	(68)	82
	–	(68)	7,223
At 31 December 2020	–	–	7,166

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

32. RELATED PARTY TRANSACTIONS

The prepayment to the associate is disclosed in note 21(b) whereas the amounts due from or to related parties are disclosed in notes 22 and 25.

Save as disclosed elsewhere in this financial statement, 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	
			2020 HK\$'000	2019 HK\$'000
Shell Holdings	Ultimate holding company	Building management fee charged by the related party for office premises, warehouse and carparks space	374	374
MMSD	Fellow subsidiary	Rental fee charged by the related party for leasing of staff quarter	158	117
MMSD	Fellow subsidiary	Building management fee charged by the related party for leasing of factory	117	118
PFC Device (HK) Limited	Fellow subsidiary	Purchase of raw materials from the related party	181	176
Sien Hua	Associate	Purchase of raw materials and goods from the related party	37,727	30,804

Note:

The Group entered into a lease agreement with MMSD for the leasing of factory and staff quarters located at Shunde, the PRC, for a period of 25 months effective on 1 December 2018 and such agreement was renewed during the year for a period of 24 months effective on 1 January 2021. In addition, the Group entered into lease agreements with Shell Holdings for the leasing of office premises, warehouse and carpark space located in Hong Kong for a period of 24 months effective on 1 January 2019 and such lease agreements were renewed during the year for a period of 24 months effective on 1 January 2021.

The Group recognised right-of-use assets and lease liabilities (note 18) in relation to the above-mentioned lease agreements for factory, office premises, warehouse and carpark space under HKFRS 16. For the year ended 31 December 2020, total undiscounted rental payments under these leases were approximately HK\$3,123,000 (2019: HK\$3,126,000). Building management fees charged by MMSD and Shell Holdings in respect of these leases are disclosed in the above table.

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 2020 amounted to RMB141,000 (equivalent to approximately HK\$158,000) (2019: RMB103,000, equivalent to approximately HK\$117,000).

The above transactions were conducted on mutually-agreed terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

32. RELATED PARTY TRANSACTIONS (Continued)

(b) Guarantees

During the year ended 31 December 2019, the Group signed new banking facilities. The Group's new banking facilities and the Group's bank borrowings as at 31 December 2019 which were drawn down under the new bank facilities were secured by corporate guarantee executed by Shell Holdings and personal guarantee executed by Mr. Yung. The guarantee provided by Shell Holdings and Mr. Yung were released and replaced by the guarantee from the Company upon the Listing.

Before the Group entered into the above banking facilities, certain subsidiaries of the Group engaging in Fan Business shared with Shell Holdings and certain other subsidiaries of Shell Holdings the banking facilities (the "**Shared Facilities**") granted by certain banks. The Shared Facilities are subject to corporate guarantee provided by Shell Holdings and certain fellow subsidiaries and one of the Shared Facilities is subject to personal guarantee executed by Mr. Yung and a charge over the investment securities of a fellow subsidiary.

(c) 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:

	2020 HK\$'000	2019 HK\$'000
Salaries, allowances and other benefits	5,933	3,880
Pension scheme contribution	171	169
	6,104	4,049

33. GUARANTEE

The Group provided corporate guarantee to a bank in connection with the banking facilities granted to Shell Holdings and the loan drawn down by Shell Holdings under such facilities and outstanding as at 31 December 2019 amounted to HK\$87,000,000. The corporate guarantee was released upon the Listing.

34. CAPITAL COMMITMENTS

	2020 HK\$'000	2019 HK\$'000
Contracted for but not provided in the financial statements		
– Acquisition of property, plant and equipment	2,832	–

35. 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 monitor its capital structure on the basis of net debt to equity ratio. Net debt includes bank borrowings and advances from ultimate holding company, less cash and bank balances. Equity represented total equity of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

35. CAPITAL MANAGEMENT (Continued)

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 net debt to equity ratio as of 31 December 2020 and 2019 was as follows:

	2020 HK\$'000	2019 HK\$'000
Bank borrowings	–	14,572
Amount due to ultimate holding company	–	6,499
Less: cash and bank balances	(77,464)	(19,291)
Net debt	N/A	1,780
Total equity	143,404	179,833
Net debt to equity ratio	N/A	1.0%

The Group monitors its net debt to equity ratio and 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.

36. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

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

	2020 HK\$'000	2019 HK\$'000
Financial assets at amortised costs		
– Trade and other receivables and deposits	82,459	62,038
– Amount due from a fellow subsidiary	–	135,458
– Cash and bank balances	77,464	19,291
	159,923	216,787
Financial liabilities at amortised costs		
– Trade and other payables and accruals	46,229	50,678
– Lease liabilities	7,166	3,066
– Amount due to ultimate holding company	–	6,499
– Amounts due to fellow subsidiaries	193	326
– Bank borrowings	–	14,572
	53,588	75,141

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

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

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and other receivables, deposit, cash and bank balances, trade and other payables and accruals, lease liabilities, bank borrowings and balances with related companies. Due to their short-term nature except for lease liabilities, 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.

(b) Financial instruments measured at fair value

As at 31 December 2020 and 2019, the Group did not have any financial instruments measured at fair value and accordingly, no analysis on fair value hierarchy is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

37. 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 and other receivables including amount due from a fellow subsidiary and bank balances.

In respect of trade and other 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 the receivables regularly and on a case-by-case basis for the determination of any loss allowance for the receivables by taking into account the customers' or debtors' 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 98% of the Group's trade receivables as at 31 December 2020 and 2019, was due from the Group's two largest customers.

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 customer's ability to meet its debt obligations.
- Actual or expected significant changes in the operating results of the customers.
- Significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customer in the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

37. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

- Actual or expected significant adverse change in the regulatory, economic, or technological environment in which the customer operates that results in a significant change in the customer'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, without recourse by the Group to actions such as realising security (if any is held); 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 the debtor and current market condition in relation to each debtor's exposure and 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 the debtors to settle the trade receivables. Trade receivables have been grouped based on shared credit risk characteristics and the days past due. At each reporting date, 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 2020

37. 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
As at 31 December 2020		
Current	0.24%	60,762
Past due less than 30 days	1.14%	12,459
Past due for 30 or more but less than 60 days	2.07%	3,385
Past due for 60 or more but less than 90 days	3.07%	2,808
Past due for 90 days or more	3.92%	812
		80,226
As at 31 December 2019		
Current	0.36%	47,228
Past due less than 30 days	1.56%	13,715
Past due for 30 or more but less than 60 days	2.71%	–
Past due for 60 or more but less than 90 days	3.71%	427
Past due for 90 days or more	4.31%	–
		61,370

Movements in the loss allowance in respect of the trade receivables are as follows:

	2020 HK\$'000	2019 HK\$'000
At the beginning of the year	391	444
Impairment losses recognised during the year	180	3
Impairment losses reversed during the year	(88)	(56)
At the end of the year	483	391

In respect of the amount due from a fellow subsidiary as at 31 December 2019, the Group considered that the fellow subsidiary has a low risk of default and a strong financial capacity to meet its contractual cash flows. The Group assessed that the expected credit loss for the balance was immaterial under the 12-month expected credit losses method. Accordingly, no loss allowance provision was recognised during the year ended 31 December 2019. In February 2020, the current account was settled by way of a deemed distribution.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

37. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

As disclosed in note 33, as at 31 December 2019, the Group provided corporate guarantee to a bank in connection with the banking facilities granted to Shell Holdings and the loan drawn down by Shell Holdings under such facilities and outstanding as of 31 December 2019 amounted to HK\$87,000,000. As assessed by the directors, it was not probable that the bank would demand the Group to repay the outstanding loan drawn down by Shell Holdings and any interest thereon in light of the financial conditions of Shell Holdings and the securities in place over such loan. Accordingly, the Group's exposure to credit risk in respect of such guarantee was low and no loss allowance for expected credit losses was recognised for the such guarantee during the year ended 31 December 2019. The corporate guarantee was released upon the Listing.

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 mainly arises from bank borrowings and bank deposits.

Bank borrowings arranged at floating rate expose the Group to cash flow interest rate risk. The Group did not have bank borrowings as at 31 December 2020. The Group's bank borrowings as at 31 December 2019 mainly comprised of short-term borrowing drawn down under the invoice financing facilities. The Group is subject to cash flow interest rate risk as the interest rates on the invoice financing loans fluctuate on the dates of each drawdown. The interest rates and repayment terms of the bank borrowings outstanding as of 31 December 2019 are disclosed in note 26.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

37. FINANCIAL RISK MANAGEMENT (Continued)

(b) Interest rate risk (Continued)

The following sensitivity analysis demonstrates the Group's exposure to a reasonably possible change in interest rates on its bank borrowings as of 31 December 2019 with all other variables held constant at the end of reporting period (in practice, the actual trading results may differ from the sensitivity analysis and the difference could be material):

	2020 HK\$'000	2019 HK\$'000
(Decrease)/Increase in profit for the year and retained earnings		
+50 basis points	N/A	(61)
-10 basis points	N/A	12

The changes in interest rates do not affect the Group's other components of equity. The above sensitivity analysis is prepared based on the assumption that bank borrowings outstanding at the end of the reporting period remain outstanding throughout a financial year of 12 months. The assumed changes in interest rate is considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate over the period until the next annual reporting period.

The Group's bank balances expose it to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The directors consider the Group's exposure to interest rate risk in respect of bank balances is not significant due to the low level of market 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.

(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 and the PRC. The functional currencies of the Company and the Group's operating entities are mainly HK\$ and RMB with certain of their business transactions being settled in 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. All in all, the Group's risk exposure to foreign exchange rate fluctuations remains not material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

37. FINANCIAL RISK MANAGEMENT (Continued)

(c) Currency risk (Continued)

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 2020 and 2019 are as follows:

	2020 HK\$'000	2019 HK\$'000
Net monetary assets/(liabilities) denominated in foreign currencies		
US\$ (functional currency being HK\$)	94,991	42,332
US\$ (functional currency being RMB)	332	9,416
RMB (functional currency being HK\$)	(1,605)	(1,775)

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	
	2020 HK\$'000	2019 HK\$'000
Net monetary assets/(liabilities) denominated in foreign currencies		
US\$ appreciated by 5%	12	353
RMB appreciated by 5%	(67)	(74)

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 2020

37. 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 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, amounts due to related companies and its financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain a prudent liquidity risk management which is to maintain sufficient cash and cash equivalents as well as to make available of fund 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. Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is, if the bank was to invoke its unconditional rights to call the borrowings with immediate effect. The maturity analysis for other financial liabilities is prepared 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	More than 1 year but less than 2 years HK\$'000
As 31 December 2020				
Non-derivative				
Trade and other payables and accruals	46,229	46,229	46,229	–
Amounts due to fellow subsidiaries	193	193	193	–
	46,422	46,422	46,422	–
Lease liabilities	7,166	7,296	3,648	3,648
As 31 December 2019				
Non-derivative				
Trade and other payables and accruals	50,678	50,678	50,678	–
Amount due to ultimate holding company	6,499	6,499	6,499	–
Amounts due to fellow subsidiaries	326	326	326	–
Bank borrowings	14,572	14,572	14,572	–
	72,075	72,075	72,075	–
Lease liabilities	3,066	3,116	3,116	–
Derivative				
Financial guarantee issued	–	87,000	87,000	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

37. FINANCIAL RISK MANAGEMENT (Continued)

(d) Liquidity risk (Continued)

The following table summarises the maturity analysis of bank borrowings with a repayment on demand clause based on agreed schedule repayments set out in relevant loan agreements. The amounts include interest payment computed using contractual rates. Taking into account the Group's financial position, the directors consider that it is not probable that these banks will exercise their discretion to demand immediate repayment. At 31 December 2019, the directors believed that these bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Carrying amount HK\$'000	Total contractual undiscounted cash flows HK\$'000	Within 1 year or on demand HK\$'000
At 31 December 2019			
Bank borrowings	14,572	14,587	14,587

The contractual financial guarantee provided by the Group as at 31 December 2019 is disclosed in note 33. As assessed by the directors, it was not probable that the ultimate holding company would default a repayment of the bank borrowings drawn down under the related facilities. In addition, it was not probable that the bank would claim the Group for losses in respect of the guarantee due to other security in place for the underlying bank borrowings. Accordingly, as at 31 December 2019, it was remote that the Group would incur an outflow of cash which affected its liquidity as a result of the guarantee.

The liquidity policies have been followed by the Group throughout the reporting period and are considered to have been effective in managing liquidity risks.

38. SUBSEQUENT EVENTS

The World Health Organisation declared COVID-19 a global health emergency on 30 January 2020. Since then, the Group has experienced some degree of disruption to its operations such as interruptions to manufacturing activities, closure of factory temporarily and disruptions in the supply of raw materials from major suppliers. The directors believe that business operations of the Group will recover from the COVID-19 pandemic eventually as vaccine will certainly be available for extensive distribution later in 2021. The Group will remain cautious and stay vigilant and react to the evolving situation accordingly.

FINANCIAL SUMMARY

For the year ended 31 December 2020

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

RESULTS

	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000
Revenue	249,409	277,974	266,056	250,982
Profit before income tax	44,836	57,007	44,778	38,876
Income tax expense	(8,483)	(11,640)	(10,150)	(7,670)
Profit for the year attributable to owners of the Company	36,353	45,367	34,628	31,206

ASSETS AND LIABILITIES

	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000
Non-current assets	13,639	7,488	4,323	3,286
Current assets	186,066	261,435	201,081	156,947
Current liabilities	52,687	89,090	69,867	65,704
Net current assets	133,379	172,345	131,214	91,243
Total assets less current liabilities	147,018	179,833	135,537	94,529
Non-current liabilities	3,614	–	584	2
Net assets	143,404	179,833	134,953	94,527