SMC ELECTRIC LIMITED
蜆壳電業有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2381

Share Offer

Sole Sponsor

紅日資本有限公司
RED SUN CAPITAL LIMITED

Joint Bookrunners

富途證券

民銀證券
CMBC SECURITIES COMPANY LIMITED

安信國際
ESSENCE INTERNATIONAL

第一上海
FIRST SHANGHAI GROUP

國信證券(香港)
GUOSEN SECURITIES (HK)

紅日資本有限公司
RED SUN CAPITAL LIMITED

國泰君安國際
GUOTAI JUNAN INTERNATIONAL
Guotai Junan Securities (Hong Kong) Limited

山證國際
SHANXI SECURITIES INTERNATIONAL

If you are in any doubt about the contents of this prospectus, you should obtain independent professional advice.

SMC ELECTRIC LIMITED
蜆壳電業有限公司

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SHARE OFFER

Number of Offer Shares	**:**	**375,000,000 Shares comprising 187,500,000 New Shares and 187,500,000 Sale Shares**
Number of Public Offer Shares	**:**	**187,500,000 Shares (subject to re-allocation)**
Number of Placing Shares	**:**	**187,500,000 Shares comprising 187,500,000 Sale Shares (subject to re-allocation)**
Offer Price	**:**	**Not more than HK$0.38 per Offer Share and expected to be not less than HK$0.335 per Offer Share, plus 1% brokerage, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal value	**:**	**HK$0.01 per Share**
Stock code	**:**	**2381**

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A copy of this prospectus, having attached thereto the documents specified in the subsection headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VI to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding up and Miscellaneous Provisions) Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between the Company (for itself and on behalf of the Selling Shareholder) and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on the Price Determination Date or such other date as may be agreed by the Company (for itself and on behalf of the Selling Shareholder) and the Joint Bookrunners (for themselves and on behalf of the Underwriters) but in any event no later than Friday, 13 March 2020 (Hong Kong time). The Offer Price will be not more than HK$0.38 per Offer Share and is currently expected to be not less than HK$0.335 per Offer Share, unless otherwise announced. Applicants for Public Offer Shares are required to pay, on application, the maximum Offer Price of HK$0.38 for each Public Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK$0.38 per Offer Share.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, with the consent of the Company, reduce the number of Offer Shares being offered under the Share Offer and/or the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such case, a notice of reduction of the number of Offer Shares and/or the indicative Offer Price range will be announced on the Stock Exchange's website at **www.hkexnews.hk** and the Company's website at **www.smcelectric.com.hk**. If applications for Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offer, in the event that the number of Offer Shares and/or the indicative Offer Price range is so reduced, such applications can subsequently be withdrawn. Further details are set out in the sections headed "Structure of the Share Offer" and "How to Apply for Public Offer Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed between the Company (for itself and on behalf of the Selling Shareholder) and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before Friday, 13 March 2020 (Hong Kong time), the Share Offer (including the Public Offer) will not proceed and will lapse immediately.

Prior to making an investment decision, prospective investors should consider carefully all the information set out in this prospectus, including risk factors set out in the section headed "Risk Factors" in this prospectus. Pursuant to the Underwriting Agreements, the Joint Bookrunners (for themselves and on behalf of the Underwriters) have the right in certain circumstances to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of such circumstances are set out in the subsection headed "Underwriting Arrangements and Expenses — Public Offer — Grounds for termination" under the section headed "Underwriting" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or the securities laws of any state in the United States, and may not be offered, sold, pledged or transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable state securities laws in the U.S. The Offer Shares are being offered and sold only outside of the United States in offshore transactions in reliance on Regulations S of the U.S. Securities Act.

29 February 2020

If there is any change in the following expected timetable of the Share Offer, the Company will issue an announcement in Hong Kong to be published on the website of the Stock Exchange at **www.hkexnews.hk** and on the website of the Company at **www.smcelectric.com.hk**.

Public Offer commences and **WHITE** and **YELLOW** Application Forms available from . . . . 9:00 a.m. on Saturday, 29 February 2020

Latest time to complete electronic applications under **eWhite Form** service through the designated website **www.ewhiteform.com.hk** [Note 2] . . . . 11:30 a.m. on Friday, 6 March 2020

Application lists of the Public Offer open[Note 3] . . . . 11:45 a.m. on Friday, 6 March 2020

Latest time to lodge **WHITE** and **YELLOW** Application Forms and to give **electronic application instructions** to HKSCC[Note 4] . . . . 12:00 noon on Friday, 6 March 2020

Latest time to complete payment of **eWhite Form** applications by PPS payment transfer(s) . . . . 12:00 noon on Friday, 6 March 2020

Application lists of the Public Offer close[Note 3] . . . . 12:00 noon on Friday, 6 March 2020

Expected Price Determination Date[Note 5] . . . . Saturday, 7 March 2020

(1) Announcement of

- the Offer Price;
- the level of applications in the Public Offer;
- the indication of level of interest in the Placing; and
- the basis of allocation of the Public Offer Shares

on the Stock Exchange's website at **www.hkexnews.hk** and on the Company's website at **www.smcelectric.com.hk** on or before. . . . . Monday, 16 March 2020

(2) Announcement of results of allocations in the Public Offer (with successful applicants' identification document or business registration numbers, where appropriate) to be available through a variety of channels as described in the subsection headed "11. Publication of Results" under the section headed "How to Apply for Public Offer Shares" in this prospectus . . . . Monday, 16 March 2020

(3) A full announcement of the Public Offer containing (1) and (2) above to be published on the Stock Exchange's website at **www.hkexnews.hk** and the Company's website at **www.smcelectric.com.hk**(Note 6) from. . . . . Monday, 16 March 2020

Results of allocations for the Public Offer will be available on Company's website at **www.smcelectric.com.hk** and the website of the Stock Exchange at **www.hkexnews.hk** from . . . . Monday, 16 March 2020

Despatch/collection of Share certificates in respect of wholly or partially successful applications pursuant to the Public Offer on or before(Notes 7 and 9) . . . . Monday, 16 March 2020

Despatch/collection of **eWhite Form** e-Refund payment instructions/refund cheques in respect of wholly successful (where applicable) or wholly or partially unsuccessful applications pursuant to the Public Offer on or before(Notes 8 and 9) . . . . Monday, 16 March 2020

Dealings in the Shares on the Stock Exchange to commence at 9:00 a.m. on . . . . Tuesday, 17 March 2020

Notes:

1 All times and dates refer to Hong Kong local times and dates, except as otherwise stated. Details of the structure of the Share Offer, including its conditions are set out in the section headed "Structure of the Share Offer" in this prospectus.

2 You will not be permitted to submit your application through the designated website at **www.ewhiteform.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., on the last day for submitting applications, you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

3 If there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 6 March 2020, the application lists will not open or close on that day. Please see the subsection headed "10. Effect of Bad Weather on the Opening of the Application Lists" under the section headed "How to Apply for Public Offer Shares" in this prospectus.

4 Applicants who apply for the Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the subsection headed "6. Applying by Giving **Electronic Application Instructions** to HKSCC via CCASS" under the section headed "How to Apply for Public Offer Shares" in this prospectus for details.

5 The Price Determination Date is expected to be on or around Saturday, 7 March 2020 and, in any event, not later than Friday, 13 March 2020 (Hong Kong time). If, for any reason, the Offer Price is not agreed between the Company (for itself and on behalf of the Selling Shareholder) and the Joint Bookrunners (for themselves and on behalf of the Underwriters) by Friday, 13 March 2020, the Share Offer will not proceed.

6 None of the website or any of the information contained on the website forms part of this prospectus.

7 Share certificates will only become valid certificates of title at 8:00 a.m. on Tuesday, 17 March 2020 provided that the Share Offer has become unconditional in all respects and the Underwriting Agreements have not been terminated in accordance with its terms. Investors who trade Shares prior to the receipt of the Share certificates or the Share certificates becoming valid do so at their own risk.

8 e-Refund payment instructions or refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Public Offer and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Banks may require verification of an applicant's Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate the refund cheque.

9 Applicants who have applied on **WHITE** Application Forms or through the **eWhite Form** service for 1,000,000 or more Public Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or Share certificates in person from the Company's Hong Kong Branch Share Registrar, Boardroom Share Registrars (HK) Limited at 2103B, 148 Electric Road, North Point, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, 16 March 2020 or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who are eligible and opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who are eligible and opt for personal collection must attend through their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations' chop. Identification documents and (where applicable) authorisation documents acceptable to the Hong Kong Branch Share Registrar must be produced at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Public Offer Shares may collect their refund cheques, if any, in person but may not elect to collect their Share certificates, which will be deposited into CCASS for credit to their designated CCASS Participant's stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Forms applicants are the same as those for **WHITE** Application Forms applicants.

Applicants who have applied for Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the subsection headed "14. Despatch/Collection of Share Certificates and Refund Monies — Personal Collection — (iv) If you apply via electronic application instructions to HKSCC" under the section headed "How to Apply for Public Offer Shares" in this prospectus for details.

Applicants who have applied through the **eWhite Form** service and paid their applications monies through single bank accounts may have refund monies (if any) despatched to that bank account in the form of e-Refund payment instructions. Applicants who have applied through the **eWhite Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

Applicants who have applied for less than 1,000,000 Public Offer Shares and any uncollected Share certificates and/or refund cheques will be despatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications. Further information is set out in the subsections headed "13. Refund of Application Monies" and "14. Despatch/Collection of Share Certificates and Refund Monies" under the section headed "How to Apply for Public Offer Shares" in this prospectus.

The above expected timetable is a summary only. You should refer to the sections headed "Structure of the Share Offer" and "How to Apply for Public Offer Shares" in this prospectus for details of the structure of the Share Offer, including the conditions of the Share Offer, and the procedures for application for Public Offer Shares.

This prospectus is issued by the Company solely in connection with the Share Offer and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this prospectus pursuant to the Share Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions, and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. The Company, the Selling Shareholder, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers or representatives, or any other party involved in the Share Offer.

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*This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety, and should be read in conjunction with the full text of this prospectus. Information contained in the Group's website, located at **www.smcelectric.com.hk**, does not form part of this prospectus. You should read the whole prospectus including the appendices to this prospectus before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are summarised in the section entitled "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.*

BUSINESS OVERVIEW

The Group engages in the (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.

	FY2016			FY2017			FY2018			9M2018			9M2019		
	HK$'000	*HK$'000*	*%*	*HK$'000*	*HK$'000*	*%*	*HK$'000*	*HK$'000*	*%*	*HK$'000*	*HK$'000*	*%*	*HK$'000*	*HK$'000*	*%*
										(unaudited)					
Product type															
Cordless fans	—		—	7,819		3.1	27,439		10.3	14,242		7.1	40,070		17.5
Electric fans	119,293		55.0	110,641		44.1	100,609		37.8	78,744		39.1	77,872		34.1
Fans *(Note 1)*		119,293	55.0		118,460	47.2		128,048	48.1		92,986	46.2		117,942	51.6
Vacuum cleaners		49,294	22.7		64,102	25.5		75,411	28.4		59,510	29.6		63,503	27.8
Work lights		43,859	20.2		59,718	23.8		54,333	20.4		42,809	21.3		43,189	18.9
Others *(Note 2)*		4,664	2.1		8,702	3.5		8,264	3.1		5,956	2.9		4,074	1.7
Total		217,110	100.0		250,982	100.0		266,056	100.0		201,261	100.0		228,708	100.0

Notes:

1. Fans comprise electric fans and cordless fans.
2. Others include hearing aids devices.

The products sold by the Group can generally be classified into the (i) selling of electric tools and electric fans to overseas customers under their respective brands and (ii) selling of electric fans under the Group's own brand "SMC" to the domestic and overseas markets. For the sales to the respective brand owners, the Group manufactures cordless fans, work lights and vacuum cleaners under the two brands for the U.S. Customer, a Fortune 500 company, in the U.S.. The Group also sources and sells different types of electric fans including ceiling fans, wall-mounted fans, stand up fans and orbital fans under the Group's "SMC" brand, and are sold to distributors and retailers mainly based in Asia, Africa and Oceania. The Group also sells electric fans under Customer A's brand to Customer A, a Fortune Global 500 company.

The following tables set forth the revenue generated by the Group by (i) product brands; (ii) business model; and (iii) geographical location during the Track Record Period:

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
							(unaudited)			
Brand										
Non-SMC	158,195	72.9	193,424	77.1	220,292	82.8	163,893	81.4	183,688	80.3
SMC	58,915	27.1	57,558	22.9	45,764	17.2	37,368	18.6	45,020	19.7
Total	217,110	100.0	250,982	100.0	266,056	100.0	201,261	100.0	228,708	100.0

The Group mainly manufactures the products for the U.S. Customer, while the products mainly sold under the Group's own "SMC" brand and under Customer A's brand are sourced from the Group's suppliers, which are manufacturers, and are then sold to different customers of the Group.

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Business model										
Manufacturing operations	97,817	45.1	140,341	55.9	165,447	62.2	122,517	60.9	150,836	66.0
Sourcing and selling of electric fans	119,293	54.9	110,641	44.1	100,609	37.8	78,744	39.1	77,872	34.0
Total	217,110	100.0	250,982	100.0	266,056	100.0	201,261	100.0	228,708	100.0

The Group's history can be traced back to the 1950s. Since then, it has developed, marketed and sold electric fans under its own "SMC" brand in Hong Kong and further expanded its electric fans market to overseas by selling its products to regions such as the Americas, Europe, Oceania, Africa and the rest of Asia. In 2003, at the request of the Group's U.S. based customer, started manufacturing and selling electric tools.

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Geographical Location										
Americas	82,227	37.9	124,954	49.8	145,286	54.6	105,224	52.3	133,415	58.3
Oceania	65,669	30.2	59,907	23.8	63,771	23.9	47,525	23.6	40,227	17.6
Asia	41,567	19.2	45,671	18.2	33,740	12.7	30,004	14.9	32,820	14.4
Europe	13,089	6.0	9,789	3.9	12,204	4.6	10,417	5.2	8,279	3.6
Africa	14,558	6.7	10,661	4.3	11,055	4.2	8,091	4.0	13,967	6.1
Total	217,110	100.0	250,982	100.0	266,056	100.0	201,261	100.0	228,708	100.0

Note:

The above table provides 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.

Electric fans sold under the Group's own "SMC" brand are principally sold to distributors and retailers in Asia, Africa and Oceania, where these distributors and retailers would then sell the electric fans to other retailers and end consumers. Further, a majority of the electric tools are sold to the Americas. As at 30 September 2019, the Group had 172 distributors and retailers in different parts of the world. The Group also directly sells its electric fans to end customers in Hong Kong.

The following table sets forth the revenue generated through sales of the Group's "SMC" electric fans to distributors and retailers and sales of non-"SMC" products to respective brand owners during the Track Record Period:

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Customer type										
Distributors	53,697	24.7	53,856	21.5	42,034	15.8	34,400	17.1	41,923	18.3
Retailers and individual customers	5,218	2.4	3,702	1.4	3,730	1.4	2,968	1.5	3,097	1.4
Subtotal	58,915	27.1	57,558	22.9	45,764	17.2	37,368	18.6	45,020	19.7
Sales to respective brand owners	158,195	72.9	193,424	77.1	220,292	82.8	163,893	81.4	183,688	80.3
Total	217,110	100.0	250,982	100.0	266,056	100.0	201,261	100.0	228,708	100.0

The Directors believe this business model is an effective way for the Group to maintain and expand its sales of its "SMC" products to overseas markets without incurring significant costs.

For FY2016, FY2017, FY2018 and 9M2019, the Group's revenue were approximately HK$217.1 million, HK$251.0 million, HK$266.1 million and HK$228.7 million, respectively, and its net profit were approximately HK$23.9 million, HK$31.2 million, HK$34.6 million and HK$42.1 million, respectively. The U.S. market and the Australian market are the Group's key export markets. Sales to the U.S. market accounted for approximately 25.4%, 38.0%, 37.6% and 38.8%, respectively, of the Group's revenue for each of FY2016, FY2017, FY2018 and 9M2019. Sales to the Australian market accounted for approximately 27.5%, 21.7%, 21.1% and 15.2%, respectively, of the Group's revenue for each of FY2016, FY2017, FY2018 and 9M2019.

BUSINESS MODEL

The Group manufactures and sells a wide range of electric tools including cordless fans, work lights, vacuum cleaners and other electric tools mainly to the U.S. and sources and sells electric fans for Customer A and under the Group's own brand name, "SMC".

The Group chooses to manufacture electric tools sold to its U.S. customers due to the relatively more stringent quality standard required by its customers, and a relatively higher level of technical difficulty needed in the products' production process. However, as the design and production of the Group's electric fans have matured and stabilised, the Group has outsourced the production process to its suppliers, who are manufacturers, to help produce such electric fans.

Manufacturing operations

The Group develops, manufactures and sells electric tools according to the requirements of its customers. The Group has been producing and selling electric tools to the U.S. Customer since 2003. Under manufacturing operations, customers would provide the Group with a general concept for the type of electric tools that they want or specific requirements for production, such as the requirements of fulfilling particular quality standards or restrictions on hazardous materials. The Group then develops custom-made prototypes for the customers' selection. The customers place orders after they decide on the design and specifications of the products. Upon receipt of sales orders, the Group commences manufacturing of the products under the customers' own brands.

Sourcing and selling of electric fans

Under sourcing and selling of electric fans, electric fans are sold under the Group's own brand, namely, "SMC" to the Asian and African markets and under Customer A's brand for Customer A to the Australian market. The Group outsources both the production of electric fans branded under "SMC" and Customer A's brand to its suppliers in the PRC. For electric fans sold under the "SMC" brand, the customers would provide the Group with an indicative price range of fans they would be willing to purchase, and the Group would offer models that include different functionalities for the electric fans whilst maintaining a certain level of profit margin or specific models of electric fans they want to order. Once customers confirm their orders for the electric fans, production is outsourced to the Group's suppliers. During FY2016, FY2017, FY2018 and 9M2019, the average selling price of the Group's electric fans was maintained stable at approximately HK$185.3 per electric fan, HK$181.0 per electric fan, HK$192.6 per electric fan and HK$189.0 per electric fan, respectively while the sales volume was approximately 621,000, 587,000, 504,000 and 396,000, respectively. Such decreasing sales volume during the Track Record Period was mainly a result of the decrease in purchase order from Customer A.

PRODUCTION FACILITIES AND PROCESS

The Group's manufacturing facilities are located in Shunde, Foshan, Guangdong Province, the PRC, which were leased from MMSD. Please refer to the section headed "Business — Properties" and the section headed "Continuing Connected Transactions — Continuing Connected transactions — Tenancy agreement and management fee agreement between MMSD and SMC Electric China" in this prospectus for further details. As at 30 September 2019, the Group operated 1 production line for cordless fans, 2 production lines for work lights, 1 production line for vacuum cleaners and 1 production line for other electric tools. These production facilities occupied a combined area of approximately 3,666 sq. m. with an annual designed production capacity of approximately 163,000 pieces of cordless fans, 1,053,000 pieces of work lights, 249,000 pieces of vacuum cleaners and 249,000 pieces of other electric tools as at 30 September 2019. The Group's production lines for electric tools includes, among others, surface mount systems and soldering machines.

The following table sets out the designed production capacity, actual production volume and utilisation rate for each of the Group's product types during the Track Record Period:

	FY2016	FY2017	FY2018	9M2018	9M2019
Cordless fans					
— Designed production capacity *(pieces)*	—	69,200	149,760	112,320	122,460
— Actual production volume *(pieces)*	—	30,301	110,451	56,938	173,075
— Utilisation rate	N/A	43.8%	73.8%	50.7%	141.3%
— Average selling price per item *(HK$)*	N/A	258.0	248.4	250.1	231.5
Work lights					
— Designed production capacity *(pieces)*	1,053,269	1,053,269	1,053,269	789,953	789,953
— Actual production volume *(pieces)*	640,885	900,508	792,100	653,268	656,905
— Utilisation rate	60.8%	85.5%	75.2%	82.7%	83.2%
— Average selling price per item *(HK$)*	44.3	34.5	43.1	46.6	45.1
Vacuum cleaners					
— Designed production capacity *(pieces)*	208,000	249,600	249,600	187,200	187,200
— Actual production volume *(pieces)*	166,478	222,369	274,110	220,414	259,551
— Utilisation rate	80.0%	89.1%	109.8%	117.7%	138.6%
— Average selling price per item *(HK$)*	296.1	288.3	275.1	270.0	244.7
Other electric tools					
— Designed production capacity *(pieces)*	208,000	208,000	249,600	187,200	187,200
— Actual production volume *(pieces)*	59,164	102,800	85,728	62,120	29,200
— Utilisation rate	28.4%	49.4%	34.3%	33.2%	15.6%
— Average selling price per item *(HK$)*	78.8	84.7	96.4	95.9	139.5

The Group received increasing orders of cordless fans and vacuum cleaners in 9M2019 and it was mainly attributable to (i) additional models of cordless fans orders were placed by the U.S. Customer in 9M2019; and (ii) relatively significant increase in orders of one particular model of vacuum cleaners placed by the U.S. Customer in 9M2019. The average selling price of cordless fans and vacuum cleaners decreased during the Track Record Period which was mainly the combined result of (i) the general decline in price of the vacuum cleaners in 9M2019; (ii) the significant increase in the lower price models; and (iii) the decrease in the higher price models placed by the U.S. Customers in 9M2019. The average selling price of work lights was lower during FY2017 as the U.S. Customer requested the Group to sell its work lights in parts instead of a whole product, thereby lowering the price per item during the year.

The Group received decreasing order of other electric tools in 9M2019 and it was mainly attributable to fewer models of other electric tools orders were placed by Customer B. The average selling price of other electric tools increased from approximately HK$96.4 per item in FY2018 to approximately HK$139.5 per item in 9M2019 which was mainly the result of the significant decrease in the lower price models placed by Customer B in 9M2019.

SUPPLIERS

All of the Group's suppliers are located in Hong Kong or the PRC. The payments made to the suppliers are primarily in HK$, US$ or RMB by remittance. The suppliers generally offer the Group a credit term of up to 120 days from the time when the goods are received from them. During the Track Record Period, the Group did not encounter any major difficulty in the procurement of raw materials and finished products from its suppliers.

In order to reduce the Group's dependence on any single supplier, the Group generally maintains more than one supplier for its major raw materials.

For FY2016, FY2017, FY2018 and 9M2019, purchases from Sien Hua (a joint venture entity held by the Group), the single largest supplier and also a customer, accounted for approximately 25.0%, 24.4%, 22.8% and 17.3% of the Group's total purchases, respectively, purchases from Huaxia (a joint venture entity disposed by the Group in November 2018), the Group's supplier and also a customer, accounted for approximately 3.2%, 2.0%, 2.7% and 1.3% of the Group's total purchases, and purchases from the five largest suppliers together accounted for approximately 60.3%, 54.0%, 48.8% and 53.1% of the Group's total purchases, respectively. The reason for disposing the 19.0% equity interest in Huaxia was that the Group considered that historically Huaxia has not provided any returns to the Group and the Directors would like to focus its resources on the operation of the Group. As the investment cost was already written off in the Group's financial statements, the Directors consider that the disposal of 19.0% equity interest in Huaxia does not have material impact on the Group's business and financial performance. The five largest suppliers during the Track Record Period were mainly suppliers of electric fans, mold and plastic products and switches.

Except for Sien Hua, all of the Group's five largest suppliers during the Track Record Period are Independent Third Parties. Please refer to the section headed "History, Reorganisation and Corporate Structure — Corporate development — Sien Hua" in this prospectus for further details of Sien Hua.

CUSTOMERS

The end customers of the Group's products sold under its manufacturing operations are mainly overseas consumers who tend to have greater demands regarding the quality and functionality of electric tools. The customers of the Group's products are mainly some of the largest electric tools brand owners in the U.S..

For electric fans under Customer A's brand, the Group has been helping to source and sell such fans since 2008. The fans are sold to Australia due to the high demand and reputation of the brand. For electric fans sold under the Group's own SMC brand, the Group engages suppliers, who are manufacturers, to manufacture for the Group's different electric fan models which the Group mainly sells to customers in Asia, Africa and Oceania, with some sold in Hong Kong.

For FY2016, FY2017, FY2018 and 9M2019, sales to the Group's five largest customers in aggregate amounted to approximately HK$174.0 million, HK$205.2 million, HK$235.1 million and HK$199.2 million, respectively, representing approximately 80.1%, 81.8%, 88.4% and 87.1%, respectively, of the Group's total revenue. For FY2016, FY2017, FY2018 and 9M2019, sales to the largest customer, the U.S. Customer, amounted to approximately HK$93.2 million, HK$131.6 million, HK$157.1 million and HK$146.6 million, representing approximately 42.9%, 52.4%, 59.1% and 64.1%, respectively, of the Group's total revenue. Please refer to the section headed "Business — Customers" in this prospectus for further details between the Group and the U.S. Customer.

MARKETING

The Directors believe that brand awareness and recognition of the Group's brands are critical to its success. The Group conducts its marketing activities of its SMC products mainly through its agents, distributors and retailers, and through its sales and marketing staff.

COMPETITION

The Group's competitors are mainly PRC-based electric tools manufacturers. According to the Ipsos Report, the electric tools manufacturing industry in the PRC is considered mature and fragmented with a large number of players, with approximately 24,200 manufacturers of electrical machinery and equipment in 2018. The Group competes with these PRC-based electric tools manufacturers principally on product quality, value added services and relationship with suppliers and customers. The Directors believe that the Group's competitive strengths, details of which are set out in the subsection headed "Competitive strengths" under this section, distinguish the Group from its competitors.

For details of the competitive landscape and the Group's market share in the respective products' manufacturing industry in the PRC, please refer to the section headed "Industry Overview" in this prospectus.

None of the Directors, their respective close associates or any Shareholder who, to the knowledge of the Directors, owns more than 5% of the issued Shares, had any interest in any of the Group's competitors during the Track Record Period and up to the Latest Practicable Date.

COMPETITIVE STRENGTHS

The Directors believe that the following competitive strengths, which have been the key factors for the Group's success and will enable it to maintain its market position and capture the anticipated future growth in its target markets, comprise (i) long history in the PRC-based electric tools and electric fans export industry; (ii) stringent quality control; (iii) established relationships with reputable overseas customers; (iv) close relationships with customers and reliable suppliers; (v) cost effective production operations; and (vi) highly experienced professional management team. For further details, please refer to the section headed "Business — Competitive Strengths" in this prospectus.

BUSINESS STRATEGIES

The Group intends to maintain and further strengthen its position in the electric fans and electric tools export industry and to expand its business by implementing the following business strategies:

- Improve the Group's efficiencies in its daily operations
- Strategically expand the Group's manufacturing capabilities through vertical integration, including investing in the manufacturing process for DC motors, battery pack and LED lights production
- Devote resources on new products and applications
- Set up an e-commerce sales function to improve the reach of the Group's sales network

CONTROLLING SHAREHOLDERS

Immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account any Share which may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme), Shell Holdings will be beneficially interested in 75% of the issued share capital of the Company which is entitled to exercise or control the exercise of 25% or more of the voting power at general meetings of the Company. Shell Holdings is owned as to 80.4% by Red Dynasty which is wholly-owned by Mr. Yung.

SUMMARY OF COMBINED FINANCIAL INFORMATION

The below summary of combined financial information for FY2016, FY2017, FY2018, 9M2018 and 9M2019 should be read together with the Accountants' Report as set out in Appendix I to this prospectus, together with the accompanying notes, which have been prepared in accordance with HKFRSs.

	FY2016	FY2017	FY2018	9M2018	9M2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Revenue	217,110	250,982	266,056	201,261	228,708
Cost of revenue	(156,613)	(179,927)	(185,317)	(141,912)	(156,882)
Gross profit	60,497	71,055	80,739	59,349	71,826
Other income	2,939	3,040	4,848	3,243	4,901
Other gains or losses	457	(1,250)	1,404	1,530	1,949
Selling and distribution expenses	(3,823)	(4,078)	(3,005)	(2,199)	(2,665)
Administrative and other operating expenses	(29,903)	(29,491)	(33,155)	(22,376)	(17,822)
Listing expenses	—	—	(5,340)	(1,069)	(5,502)
Finance costs	(540)	(400)	(713)	(489)	(477)
Profit before income tax	29,627	38,876	44,778	37,989	52,210
Income tax expense	(5,710)	(7,670)	(10,150)	(6,962)	(10,144)
Profit for the year/period	23,917	31,206	34,628	31,027	42,066

In terms of business segments, in FY2016 and FY2017, the increase in revenue was mainly driven by the increase in revenue from non-"SMC" brands of approximately HK$35.2 million. Such increase was mainly a result of the increase in production and sales volume due to the increase in purchase orders from the U.S. Customer for work lights, vacuum cleaners and other products. The increase in revenue of the Group was partially offset by the decrease in revenue from "SMC" brands of approximately HK$1.3 million. In FY2017 and FY2018, the increase in revenue was mainly driven by the increase in revenue from non-"SMC" brand segment of approximately HK$26.9 million. Such increase was mainly a result of the increase in production and sales volume due to the increase in purchase orders from the U.S. Customer for cordless fans and vacuum cleaners and partially offset by the decrease in purchase orders from the U.S. Customer for work lights. The revenue from "SMC" brand was decreased by approximately HK$11.8 million, which was a result of the decrease in sales order of electric fans from customers. In 9M2018 and 9M2019, the increase in revenue was mainly driven by the increase in revenue from non-"SMC" brand segment of approximately HK$163.9 million for 9M2018 to approximately HK$183.7 million for 9M2019. Such increase was mainly due to increase in production and sales volume due to the increase in sales of cordless fans, vacuum cleaners and work lights. The revenue from "SMC" brand also increased to approximately HK$45.0 million for 9M2019 as compared to that for 9M2018 of approximately HK$37.4 million.

The following table sets forth the gross profit and gross profit margin of products and the percentage of total gross profit for the periods indicated:

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Brand										
Non-SMC	41,994	26.5	54,657	28.3	66,909	30.4	48,086	29.3	57,990	31.6
SMC	18,503	31.4	16,398	28.5	13,830	30.2	11,263	30.1	13,836	30.7
	60,497	27.9	71,055	28.3	80,739	30.3	59,349	29.5	71,826	31.4

In terms of business segments, in FY2016 and FY2017, the increase in gross profit was mainly driven by the increase in gross profit from non-"SMC" brand of approximately HK$12.7 million. Such increase was in line with the increase in sales from non-"SMC" segment. The gross profit margin of non-"SMC" brands increased from approximately 26.5% in FY2016 to approximately 28.3% in FY2017. Such increase was mainly due to economies of scale as reflected by the fact that the Group started to produce cordless fans in FY2017, and the utilisation rate of work lights, vacuum cleaners and other electric tools increased. For further details of production facilities of the Group, please refer to the section headed "Business — Production facilities and process". In FY2017 and FY2018, the increase in gross profit was mainly driven by the increase in gross profit from non-"SMC" brand of approximately HK$12.2 million. Such increase was in line with the increase in sales from non-"SMC" segment. The gross profit margin of non-"SMC" brand remained stable at approximately 30.4% in FY2018. In 9M2018 and 9M2019, the increase in gross profit was mainly driven by the increase in gross profit from non-"SMC" brand of approximately HK$9.9 million. Such increase was in line with the increase in sales from non-"SMC" segment. The gross profit margin of non-"SMC" brand increased from approximately 29.3% for 9M2018 to approximately 31.6% for 9M2019 which was mainly due to (i) the Group obtained bulk purchase discount on some raw materials; and (ii) the decrease in the exchange rate of RMB against the HKD, reducing the Group's cost of sales, during the period.

Please refer to the subsection headed "Principal components of results of operation" under the section headed "Financial Information" in this prospectus for detailed analysis of fluctuations of gross profit and gross profit margin of the products sold by the Group and the percentage of total gross profit during the Track Record Period.

Summary of combined statements of financial position

		As at 31 December		**As at 30 September**
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current assets	120,606	156,947	201,081	270,252
Current liabilities	61,505	65,704	69,867	100,510
Net current assets	59,101	91,243	131,214	169,742
Non-current assets	3,128	3,286	4,323	7,446
Non-current liabilities	2	2	584	774
Net assets/equity	62,227	94,527	134,953	176,414

As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 September 2019, the net assets of the Group were approximately HK$62.2 million, HK$94.5 million, HK$135.0 million and HK$176.4 million, respectively. The increase in total equity during the Track Record Period was mainly the result of accumulation of retained earnings.

Summary of combined statements of cash flows

	FY2016	FY2017	FY2018	9M2018	9M2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Operating cash flows before movements in working capital	30,436	39,668	46,534	38,643	53,949
Net cash generated from/(used in) operating activities	12,110	(3,195)	6,090	6,605	(170)
Net cash flow (used in) investing activities	(1,265)	(266)	(469)	(221)	(927)
Net cash flow(used in)/generated from financing activities	(8,242)	1,893	(1,856)	(1,004)	23,137
Net increase/(decrease) in cash and cash equivalents	2,603	(1,568)	3,765	5,380	22,040
Cash and cash equivalents at beginning of year/period	2,069	4,672	3,122	3,122	6,889
Effect of foreign exchange rate change on cash and cash equivalents	—	18	2	(301)	(24)
Cash and cash equivalents at end of year/period	4,672	3,122	6,889	8,201	28,905

The Group recorded net cash outflow from operating activities of approximately HK$3.2 million for FY2017 mainly due to (i) increase in trade and bills receivables, other receivables, deposits and prepayments of approximately HK$23.6 million which was in line with the increase in revenue; and (ii) the increase in amount due from a fellow subsidiary of approximately HK$19.2 million which mainly arose from profits generated from the operations of Electrical Appliances Division. The Group recorded net cash outflow from operating activities of approximately HK$0.2 million for 9M2019 mainly due to (i) the increase in trade and bills receivables, other receivables, deposits and prepayments of approximately HK$4.1 million; and (ii) the increase in amount due from a fellow subsidiary of approximately HK$48.6 million which mainly arose from profits generated from the operation of Electrical Appliances Division. After the Reorganisation, the trade receivable of Electrical Appliances Division as at 31 December 2018 were still settled through MM Trading and MMHK during 9M2019. Therefore, the amount due from a fellow subsidiary of the Group increased during 9M2019. Trade receivables of the Group generated since 1 January 2019 is collectable by the Group itself and, to the best knowledge of the Directors, the Group's cash flow position is improving as the Group will receive the relevant settlement directly from its customers afterwards. To maintain a healthy operating cashflow in the future, the Group will closely monitor cash flow position by reference to cash flow statements, cash flow forecasts, management accounts and other management reports on an ongoing basis and also the payment status of the Group's customers (including conducting regular reviews of the Group's accounts). Should the need arise, the Group will utilise its unutilised banking facilities to satisfy its cash outflow requirement. Please refer to the subsection headed "Liquidity and Capital Resources" under section headed "Financial Information" in this prospectus for detailed analysis of combined statements of cash flows of the Group.

KEY FINANCIAL RATIOS

	For the year ended/as at 31 December			For the period ended/as at 30 September
	2016	**2017**	**2018**	**2019**
Gross profit margin	27.9%	28.3%	30.3%	31.4%
Net profit margin	11.0%	12.4%	13.0%	18.4%
Return on equity	38.4%	33.0%	25.7%	N/A
Return on total assets	19.3%	19.5%	16.9%	N/A
Current ratio	2.0 times	2.4 times	2.9 times	2.7 times
Quick ratio	1.7 times	2.2 times	2.7 times	2.6 times
Gearing ratio *(Note)*	35.6%	25.9%	9.4%	12.7%
Net debt to equity ratio	28.1%	22.6%	6.0%	6.8%
Interest coverage	55.9 times	98.2 times	63.8 times	110.5 times

Note:

The gearing ratio is calculated by dividing interest-bearing liabilities with total equity as at the end of respective year multiplied by 100%.

For further information on the calculation of the key financial ratios, please refer to the section headed "Financial Information — Other key financial ratio" in this prospectus.

RECENT DEVELOPMENT AFTER THE TRACK RECORD PERIOD

Subsequent to the Track Record Period and up to the Latest Practicable Date, the Group had continued to focus on the manufacturing and selling of electric tools and the sourcing and selling of electric fans. To the best knowledge of the Directors, the industry in which the Group is operating remained relatively stable after the Track Record Period.

Upon completion of the Reorganisation, the Group is able to conduct business activities independently by itself. Hence, no further recharges are applicable thereafter in respect of the provision of head office and administrative support to the Group by Shell Holdings and Multi-Media Group. The Directors expected that the administrative and other operating expense of the Group will be decreased for the financial year ended 31 December 2019.

As at the Latest Practicable Date, the vacuum cleaners exported by the Group to the U.S. were on the list of products that are subject to tariffs while the proposed tariffs on cordless fans and work lights have been suspended indefinitely after the U.S. and the Chinese governments entered into the phase one deal on 15 January 2020. However, the forecast of upcoming orders given by the U.S. Customer to the Group will still result in a growth for the year ended 31 December 2019 and year ending 31 December 2020 when compared to the amount sold for FY2018. To the best knowledge of the Directors after making reasonable enquiries, the recent trade war between the U.S. and the PRC up to the Latest Practicable Date did not have any material adverse impact on the Group's financial conditions, results of operations and growth prospects because of the following reasons, namely (i) the year to date actual and forecast orders given by the U.S. Customer to the Group will still result in a steady growth for the year ended 31 December 2019 and the year ending 31 December 2020 when compared to the amount sold for FY2018; (ii) as at the Latest Practicable Date, none of the Group's customers have cancelled any orders as a result of the trade war; (iii) the Group will not be the party responsible for the payment of any tariffs as it ships its products to the U.S. Customer on an FOB basis; and (iv) although a large portion of the Group's sales from its manufacturing operations are to the U.S. Customer, the delivery country of the goods may not be to the U.S., thus avoiding tariffs on the Group's products.

Based on the above, the Directors are of the view that the trade war has had no material financial and/or operational impact on the Group as at the Latest Practicable Date. The Directors further confirm that, as at the Latest Practicable Date, the U.S. Customer has not indicated during regular meetings with the Group that they would decrease or cancel its orders as a result of the ongoing trade war, and that the U.S. Customer continues to purchase from the Group after the Track Record Period and that the Group will not voluntarily directly or indirectly bear some or all of the tariff payable by the U.S. Customer to remain competitive. The Directors further confirm that, as at the Latest Practicable Date, no employees of the Group has been infected with the Coronavirus COVID-19 and that the Coronavirus COVID-19 has so far not had a material impact on the Group's operations. According to the announcement made by the local government offices in which the Group's factory is located, stoppage of businesses in the area is to be extended till 9 February 2020. The Group's factory has resumed its operations on 15 February 2020 and as at 24 February 2020, none of the Group's customers have canceled any orders as a result of Coronavirus COVID-19. To the best knowledge, information and belief of the Directors, the Group's products will be delivered to its customers according to the schedule as agreed. As at 24 February 2020, 144 out of 162 employees have returned to their respective work stations and all of the production lines have resumed. To the best knowledge, information and belief of the Directors, a majority of the Group's major suppliers have resumed their operations on 11 February 2020. The Directors further confirm that as at 24 February 2020, there is no material delay in delivery from its suppliers. Assuming the hypothetical case in which there is delay in delivery from the Group's suppliers, although the Group does not carry significant stocks, the Directors consider there to be immaterial impact from such delay from its suppliers as the Group generally maintains more than one supplier for its major raw materials and most of the Group's major suppliers have resumed operations on 11 February 2020. In response to the Coronavirus COVID-19, the Group implemented hygiene and safety related measures such as (i) having sufficient number of masks and gloves; (ii) keeping records of the Group's employees travel and health records; (iii) establishing a quarantine area for any unwell employees; and (iv) daily sterilisation. Please refer to pages 31 and 34 in this prospectus in relation to the risks on the trade war and the Coronavirus COVID-19, respectively, and "Business — Customers — Trade war" in this prospectus for further details.

DIRECTORS' CONFIRMATION ON NO MATERIAL ADVERSE CHANGE

The Directors confirm that they have performed sufficient due diligence to ensure that, up to the date of this prospectus, save for the impact brought by the Listing expenses on the net profit for the year ended 31 December 2019, there had been no material adverse change in the financial position or prospects since 30 September 2019 (being the date up to which the Company's latest combined audited financial results were prepared) and there has been no event since 30 September 2019, which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

LISTING EXPENSES

The Directors estimate that the total amount of listing costs, including underwriting fees, in relation to the Listing is approximately HK$44.6 million (based on the Offer Price of HK$0.3575 per Offer Share, being the mid-point of the indicative Offer Price range), which represents approximately 33.3% of the gross proceeds of the Share Offer, with (i) an amount of approximately HK$27.0 million being directly attributable to the issue of the Share Offer; (ii) an amount of approximately HK$10.8 million has been charged to profit or loss account of the Group during the Track Record Period; and (iii) an amount of approximately HK$6.8 million is expected to be incurred and charged to the income statement for the three months ended 31 December 2019 and year ending 31 December 2020 and the abovesaid amounts will be borne by the Group and the Selling Shareholder in equal shares. With respect to the said HK$27.0 million directly attributable to the issue of the Share Offer, approximately half of which is expected to be accounted for as a deduction from equity by the Group upon Listing and the remaining half is to be borne by the Selling Shareholder. Besides, an amount of approximately HK$8.8 million borne by the Selling Shareholder are expected to be recognised as capital contribution upon Listing and receipt from the Selling Shareholder. As the accounting treatment of the reimbursement to be received by the Group from the Selling Shareholder cannot be used to directly offset the amount of Listing expenses recognised by the Group in its profit or loss account, the Group has to recognise the full amount of the Listing expenses in its profit or loss account and separately recognise a capital contribution from the Selling Shareholder upon Listing and receipt of the relevant reimbursement. Expenses in relation to the Listing are one-off and non-recurring in nature. The Board wishes to inform the Shareholders and potential investors that the Group's financial performance and results of operations for the year ended 31 December 2019 and the year ending 31 December 2020 will be affected by the estimated expenses in relation to the Listing.

USE OF PROCEEDS

The total amount of listing expenses and underwriting fees in connection with the Share Offer will be borne by the Group and the Selling Shareholder in equal share. On the basis that the Offer Price is HK$0.3575 (being the mid-point of the indicative range of the Offer Price), the Directors estimate that the net proceeds to be received from the Share Offer (after deducting underwriting fees, brokerage, the Stock Exchange trading fee and SFC transaction levy) by the Group will be approximately HK$44.7 million. The Directors presently intend to apply such net proceeds as follows:

- approximately 14.1% of the net proceeds or approximately HK$6.3 million, will be used for the improvement of the Group's efficiencies in its daily operations;
- (i) approximately 62.9% of the net proceeds or approximately HK$28.1 million and (ii) approximately HK$1.9 million of the Group's internal resources, for strategically expanding the Group's manufacturing capabilities; and
- approximately 23.0% of the net proceeds or approximately HK$10.3 million, for devoting resources on new products and applications.

In addition, the Group intends to apply approximately HK$7.4 million of its internal resources, for using to set up an e-commerce sales function to improve the reach of the Group's sales network.

Please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus for further details.

DIVIDEND

No dividend has been paid or declared by companies comprising the Group during the Track Record Period and up to the Latest Practicable Date.

DEEMED DISTRIBUTION

The Group proposed deemed distribution of approximately HK$135,500,000 to the then Shareholders of the Group in February 2020. This deemed distribution will be fully settled prior to the Listing Date and the Group will be offsetting the equivalent amounts in the relevant current accounts of amount due from a fellow subsidiary. Taking into account of the Group's available financial resources and the net proceeds from the Share Offer, the Directors consider that there is no material adverse impact on the Group's financial and liquidity position arising out of the deemed distribution.

PRIVATISATION OF ELECTRICAL APPLIANCES BUSINESS

As disclosed in the joint announcement dated 29 September 2009 made by China Overseas Land & Investment Limited ("**COLI**"), Shell Electric Mfg. and Red Dynasty, prior to the privatization of the Electrical Appliances Business, apart from Electrical Appliances Business, Shell Electric Mfg. was also engaged in property investment and development in the PRC. At that time, Shell Electric Mfg. held various properties in different cities in the PRC for investment, development and sale purpose (the "**Remaining Business**"). COLI is a leading property development and investment company in the PRC and is also engaged in other property-related business such as property management and construction design. It was COLI's intention to develop the Remaining Business in the PRC by leveraging its real estate investment and development expertise and they had no intention to develop the Electrical Appliances Business. As such, in the interest of the shareholders of Shell Electric Mfg. as a whole, Red Dynasty made the voluntary unconditional cash offer to acquire all the ordinary shares in Shell Holdings (the "**Privateco Offer**"). Upon the completion of the Privateco Offer, Shell Holdings holds the Electrical Appliances Business and since then, the Electrical Appliances Business is run by Shell Holdings.

SHELL HOLDINGS' CONTROLLING INTEREST IN PFC DEVICE INC.

As at the Latest Practicable Date, PFC Device Inc., the shares of which are listed on the Stock Exchange, is owned as to 58.65% by Shell Holdings. Shell Holdings is a controlling shareholder of PFC Device Inc.

Save as mentioned above, no dividend has been paid or declared by companies comprising the Group during the Track Record Period and up to the Latest Practicable Date. Subject to the Companies Law and the Memorandum and Articles of the Company, through a general meeting, the Company may declare dividends in any currency but no dividend may be declared in excess of the amount recommended by the Directors. The Group's Articles provide that dividend may be declared and paid out of profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Directors determined no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of the share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

The Group currently intends to adopt, after the Listing, a general annual dividend policy of declaring and paying dividends on an annual basis of a range between 20–40% of its distributable profits earned for any particular financial year. The Board has the absolute discretion to decide whether to recommend payment of dividends in any year. Such discretion is subject to the applicable laws and regulations including the Companies Law and the Group's Articles which also require the approval of the Shareholders. There is no assurance that dividends of such amount or any amount will be declared or distributed each year or in any year.

OFFERING STATISTICS

The following table sets forth the statistics under the Share Offer.

	Based on an Offer Price of HK$0.335 per Share	Based on an Offer Price of HK$0.38 per Share
Market capitalisation(1)	HK$503 million	HK$570 million
Unaudited pro forma adjusted combined net tangible assets of the Group(2)	HK$228 million	HK$236 million
Unaudited pro forma adjusted combined net tangible assets of the Group per Share(2)	HK$0.1523	HK$0.1570

Notes:

1 The calculation of market capitalisation is based on 1,500,000,000 Shares expected to be in issue following completion of the Share Offer.

2 The unaudited pro forma adjusted combined net tangible assets of the Group and the unaudited pro forma adjusted combined net tangible assets of the Group per Share have not taken into account the deemed distribution of approximately HK$135,500,000 to the then shareholders of the Group proposed in February 2020 (the "**Distribution**"), which is to be settled by offsetting the equivalent amounts in the relevant current accounts of a fellow subsidiary. The unaudited pro forma adjusted combined net tangible assets of the Group would have been decreased to HK$92,945,000 and HK$100,033,000 respectively based on the Offer Price of HK$0.335 per Offer Share and HK$0.38 per Offer Share, after taking into account the Distribution and as if the Distribution had taken place on 30 September 2019.

RISK FACTORS

There are certain risks involved in the Group's business operations, many of which are beyond the Group's control. Any of the factors set out in the section headed "Risk Factors" in this prospectus may limit the Group's ability to execute its strategies successfully. The Directors believe that the major risks that may have a material adverse impact on the Group, including (i) the Group's products exported from PRC production bases to the U.S. may be subject to high tariff rates under the trade war between the U.S. and the PRC, which could adversely affect the Group's sales volumes, profitability and results of operations; (ii) the Group depends on two customers (i.e. the U.S. Customer and Customer A) for a substantial portion of the Group's revenue; (iii) the Group rely significantly on the U.S. market and the Australian market, any changes in the economic and regulatory conditions and global trade policy of the U.S. or Australia or changes in the business strategy of U.S. or Australian customers may have an adverse effect on the Group's business; (iv) the Group could be adversely affected as a result of its operations and sales in countries that are subject to evolving economic sanctions by the U.S., the EU, the United Nations, Australia and other relevant sanctions authorities; and (v) the Group are vulnerable to future exchange rate fluctuations between the US$ and certain other currencies.

LEGAL COMPLIANCE

The Directors confirm that the Group had conducted its operations and carried out its business in material compliance with the relevant laws and regulations in the PRC and Hong Kong during the Track Record Period and up to the Latest Practicable Date.

PROFIT ESTIMATE FOR FY2019

The Directors have prepared the following profit estimate for FY2019.

Estimated combined profit attributable to owners of the Company . . . . Not less than HK$44.5 million

Unaudited pro forma estimated earnings per Share . . . . Not less than HK$0.029

The profit estimate, for which the Directors are solely responsible, has been prepared by them based on the audited combined results for 9M2019 in the Accountant's Report as set out in Appendix I to this prospectus and the unaudited combined results based on the management accounts of the Group for the three months ended 31 December 2019.

The calculation of the unaudited pro forma estimated earnings per Share for FY2019 is based on the estimated unaudited combined profit attributable to the owners of the Company for FY2019 and on the assumptions that a total number of 1,500,000,000 Shares had been in issue throughout FY2019.

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

"9M2018"	the nine months ended 30 September 2018
"9M2019"	the nine months ended 30 September 2019
"AED"	United Arab Emirates dirham, the lawful currency of United Arab Emirates
"Americas"	comprising the totality of the continents of North and South America
"Application Form(s)"	**WHITE** Application Form(s), **YELLOW** Application Form(s) and **GREEN** Application Form(s), or where the context so requires, any of them, relating to the Public Offer
"Articles of Association" or "Articles"	amended and restated articles of association of the Company conditionally adopted on 7 February 2020 which will become effective on the Listing Date, and as amended, supplemented and otherwise modified from time to time, a summary of which is set out in Appendix IV to this prospectus
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"AUD"	Australian dollar, the lawful currency of Australia
"Australia"	the Commonwealth of Australia
"Board" or "the Board"	the board of Directors
"Business Day"	any day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are open generally for normal banking business to the public
"Business Transfer Agreement"	the business transfer agreement dated 6 December 2018 entered into between MMSD and SMC Electric China, pursuant to which MMSD transferred its staff, assets, stocks and machineries of electric tools division to SMC Electric China at a consideration of RMB4,361,000
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Cambodia"	the Kingdom of Cambodia

"Capitalisation Issue"	the issue of Shares to be made upon capitalisation of certain sum standing to the credit of the share premium account of the Company referred to under the section headed "Statutory and General Information — A. Further Information about the Company — 4. Resolutions in writing of the sole Shareholder" in Appendix V to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"CEO"	chief executive officer of the Group
"Chairman" or "the Chairman"	the chairman of the Board
"China" or "PRC"	the People's Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires otherwise, references in this prospectus to "China" and the "PRC" do not apply to Hong Kong, Macau and Taiwan
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"Companies Law" or "Cayman Companies Law"	the Companies Law (as revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
"Companies Ordinance"	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time

"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Company"	SMC Electric Limited (蜆壳電業有限公司), a company incorporated under the laws of the Cayman Islands as an exempted company with limited liability on 5 December 2018 and registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 18 January 2019
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"connected transaction(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed thereto in the Listing Rules, and in this prospectus, insofar as it refers to the controlling shareholders of the Company, unless the context otherwise requires, means Mr. Yung, Red Dynasty and Shell Holdings
"Corporate Governance Code"	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules, as amended, supplemented or otherwise modified from time to time
"Counsel"	Mr. Yip Chi Ho, a barrister-at-law in Hong Kong
"Countries subject to International Sanctions"	countries regarding which governments such as the United States or Australia, or governmental organizations, the European Union or the United Nations, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organizations within such countries
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Deed of Indemnity"	the deed of indemnity dated 25 February 2020 and executed by each of the Controlling Shareholders in favour of the Company (for itself and as trustee for each of its subsidiaries) with particulars set forth in the section headed "Statutory and General Information — F. Other Information — 1. Tax and other indemnities" in Appendix V to this prospectus
"Director(s)"	the director(s) of the Company

"EIT Law"	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法), as enacted by the NPC on 16 March 2007 and effective on 1 January 2008, as amended, supplemented or otherwise modified from time to time
"electric fans"	electric fans the Group sells (excluding cordless fans)
"Electrical Appliances Business"	manufacturing and selling of electric tools and sourcing and selling of electric fans
"electric tools"	electric tools including cordless fans, work lights, vacuum cleaners, which are rechargeable devices, and other electric tools the Group manufactures and sells
"**eWhite Form**"	the application of Public Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website at **www.ewhiteform.com.hk**
"**eWhite Form** Service Provider"	the **eWhite Form** service provider designated by the Company, as specified on the designated website at **www.ewhiteform.com.hk**
"Excluded Businesses"	business owned by Mr. Yung or his respective close associates apart from the Group's business and the details are set out in the subsection headed "Relationship with Controlling Shareholders — Competition — Other investment held by the Controlling Shareholders" in this prospectus
"Excluded Group"	companies conducting the Excluded Businesses after the Reorganisation
"Formal Notice"	means the formal notice to be published in connection with the Public Offer on or around 29 February 2020, in substantially agreed form and in accordance with the requirements under Rule 12.02 of the Listing Rules (as amended or supplemented)
"FY2016"	the financial year ended 31 December 2016
"FY2017"	the financial year ended 31 December 2017
"FY2018"	the financial year ended 31 December 2018
"FY2019"	the financial year ended 31 December 2019
"**GREEN** Application Form(s)"	the application form(s) to be completed by the **eWhite Form** Service Provider

"Group"	the Company and all of its subsidiaries or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)
"HK$" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRSs"	Hong Kong Financial Reporting Standards
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Branch Share Registrar"	Boardroom Share Registrars (HK) Limited
"Huaxia"	SMC-台山華夏電器有限公司 (SMC-Taishan Huaxia Electrical Appliances Company Limited*), an equity joint venture established in the PRC on 11 October 2001 which was owned as to 19% by Quanta Global and 81% by 台山華東電器廠有限公司 (Taishan Huadong Electrical Appliances Co., Ltd*) prior to completion of the Reorganisation
"Independent Third Party(ies)"	person(s) or entity(ies) that is or are not connected person(s) (within the meaning of the Listing Rules)
"International Sanctions"	all applicable laws and regulations related to economic sanctions, export controls, trade embargoes and wider prohibitions and restrictions on international trade and investment related activities, including those adopted, administered and enforced by the U.S. Government, the European Union and its member states, the United Nations or the Government of Australia
"International Sanctions Legal Advisers"	Hogan Lovells, the Group's legal advisers as to International Sanctions laws in connection with the Listing
"Ipsos"	Ipsos Limited, an independent industry expert engaged by the Company
"Ipsos Report"	the industry report prepared by Ipsos commissioned by the Company

"Joint Bookrunners"	Futu Securities International (Hong Kong) Limited, CMBC Securities Company Limited, Essence International Securities (Hong Kong) Limited, First Shanghai Securities Limited, Guosen Securities (HK) Capital Company Limited, Guotai Junan Securities (Hong Kong) Limited, Red Sun Capital Limited and Shanxi Securities International Limited, acting as the joint bookrunners of the Share Offer
"Joint Lead Managers"	Guotai Junan Securities (Hong Kong) Limited, Quasar Securities Co., Limited, Pacific Foundation Securities Limited and Essence International Securities (Hong Kong) Limited, acting as the joint lead managers of the Share Offer
"KD"	Kuwaiti dinar, the lawful currency of Kuwait
"Latest Practicable Date"	19 February 2020, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
"Listing"	the listing of the Shares on the Main Board
"Listing Committee"	the listing committee of the Stock Exchange
"Listing Date"	the date, expected to be on or about Tuesday, 17 March 2020, on which dealings in the Shares first commence on the Main Board
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Macau"	the Macau Special Administrative Region of the PRC
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
"Memorandum of Association" or "Memorandum"	amended and restated memorandum of association of the Company, conditionally adopted on 7 February 2020 which will become effective on the Listing Date and as amended, supplemented or otherwise modified from time to time, a summary of which is set forth in Appendix IV to this prospectus
"MMHK"	SMC Multi-Media (H.K.) Limited 蜆壳多媒体(香港)有限公司, a company incorporated under the laws of Hong Kong with limited liability on 17 June 1993 and an indirect wholly-owned subsidiary of Shell Holdings

"MMSD"	佛山市順德區蜆華多媒體製品有限公司 (Shunde SMC Multi-Media Products Company Limited*), a company established in the PRC with limited liability on 12 June 1995 and an indirect wholly-owned subsidiary of Shell Holdings
"MM Trading"	SMC Multi-Media Trading Company Limited 蜆壳多媒體貿易有限公司, a company incorporated under the laws of Hong Kong with limited liability on 12 October 2010 and an indirect wholly-owned subsidiary of Shell Holdings
"MOFCOM" or "Ministry of Commerce"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Leung"	Mr. Leung Chun Wah (梁振華), an executive Director and CEO of the Company
"Mr. Tang"	Mr. Tang Che Yin (鄧自然), an executive Director of the Company
"Mr. Yung"	Mr. Yung Kwok Kee Billy (翁國基), a non-executive Director, the chairman of the Board and one of the Controlling Shareholders
"New Shares"	187,500,000 Shares to be issued under the Public Offer
"NPC" or "National People's Congress"	the National People's Congress of the PRC (中華人民共和國全國人民代表大會)
"OECD"	the Organisation for Economic Co-operation and Development
"OFAC"	the United States Department of Treasury's Office of Foreign Assets Control
"Offer Price"	the final offer price per Offer Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK$0.38 and expected to be not less than HK$0.335, such price to be agreed upon by the Company (for itself and on behalf of the Selling Shareholder) and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before the Price Determination Date
"Offer Shares"	the Public Offer Shares and the Placing Shares
"PBOC"	People's Bank of China (中國人民銀行), the central bank of China

"Placing"	the conditional placing of the Placing Shares by the Placing Underwriter(s) on behalf of the company for cash at the Placing Price as described in the section headed "Structure of the Share Offer" in this prospectus
"Placing Shares"	the 187,500,000 Sale Shares offered by the Selling Shareholder for purchase at the Offer Price under the Placing, (subject to re-allocation) as described in the section headed "Structure of the Share Offer" in this prospectus
"Placing Underwriter(s)"	the underwriter(s) of the Placing Shares, who are expected to enter into the Placing Underwriting Agreement to underwrite the Placing Shares
"Placing Underwriting Agreement"	the conditional placing underwriting agreement relating to the Placing expected to be entered into on or about the Price Determination Date by, among others, the Company, the executive Directors, the Controlling Shareholders, the Selling Shareholder, the Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriters
"PRC Legal Advisers"	Zhong Lun Law Firm, the legal advisers to the Company as to PRC law
"Predecessor Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014
"Price Determination Agreement"	the agreement expected to be entered into between the Company (for itself and on behalf of the Selling Shareholder) and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before the Price Determination Date to record the agreement on the Offer Price
"Price Determination Date"	the date, expected to be on or about Saturday, 7 March 2020, on which the Offer Price is to be fixed by agreement between the Company (for itself and on behalf of the Selling Shareholder) and the Joint Bookrunners (for themselves and on behalf of the Underwriters)

"Public Offer"	the conditional offer of the Public Offer Shares for subscription by members of the public in Hong Kong for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), payable in full on application, and subject to the terms and conditions described in this prospectus and the Application forms, details of which are described in the section headed "Structure of the Share Offer" in this prospectus
"Public Offer Shares"	the 187,500,000 New Shares offered by the Company for subscription under the Public Offer at the Offer Price, subject to re-allocation as described in the section headed "Structure of the Share Offer" in this prospectus
"Public Offer Underwriter(s)"	the underwriter(s) of the Public Offer listed in the section headed "Underwriting — Underwriters — Public Offer Underwriters" in this prospectus
"Public Offer Underwriting Agreement"	the conditional underwriting agreement dated 29 February 2020 relating to the Public Offer entered into among the Company, the executive Directors, the Controlling Shareholders, the Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters, particulars of which are summarised in the section headed "Underwriting" in this prospectus
"Quanta Global"	Quanta Global Limited, a company incorporated under the laws of BVI with limited liability on 20 January 1999 and a wholly-owned subsidiary of the Company
"Red Dynasty"	Red Dynasty Investments Limited, a company incorporated under the laws of BVI with limited liability on 27 July 2009, which is wholly-owned by Mr. Yung and is one of the Controlling Shareholders
"Regulation S"	Regulation S under the U.S. Securities Act
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC
"Reorganisation"	the corporate reorganisation of the Group in preparation for the Listing, particulars of which are set out in the section headed "History, Reorganisation and Corporate Structure" in this prospectus
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIC"	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)

"Sale Shares"	187,500,000 Shares to be offered by the Selling Shareholder for purchase at the Offer Price under the Placing
"Sanctioned Country" or "Sanctioned Countries"	countries regarding which governments such as the United Sates or Australia, or governmental organisations, such as EU or UN, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies, or persons, and/or organisations within such countries
"Sanctioned Persons"	certain person(s) and identity(ies) listed on OFAC's Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the United States, European Union, United Nations or Australia
"SAT"	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"SDN List"	the list of Specially Designated Nationals and Blocked Persons maintained by OFAC, which sets forth individuals and entities that are subject to its sanctions and restricted from dealing with U.S. persons
"Selling Shareholder"	Shell Holdings, which is one of the Controlling Shareholders and is expected to offer to sell the Sale Shares under the Placing
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary shares in the share capital of the Company of par value of HK$0.01 each
"Share Offer"	the Public Offer and the Placing
"Share Option Scheme"	the share option scheme conditionally approved and adopted by the Company on 7 February 2020, a summary of the principal terms of which is set out under the section headed "Statutory and General Information — E. Share Option Scheme" in Appendix V to this prospectus
"Share Swap"	Shell Holdings agreed to sell, and the Company agreed to purchase one share, being the entire issued share capital of SMC Electric Holdings from Shell Holdings pursuant to the Share Swap Agreement

"Share Swap Agreement"	the share swap agreement dated 7 February 2020 entered into between Shell Holdings as vendor and the Company as purchaser relating to sale and purchase of one share, being the entire issued share capital of SMC Electric Holdings, which was satisfied by allotment and issue of 37,999,999 Shares, credited as fully paid, to Shell Holdings
"Shareholder(s)"	holder(s) of the Share(s)
"Shell China"	Shell Electric Mfg. (China) Company Limited, a company incorporated under the laws of BVI with limited liability on 31 August 1987 and a wholly-owned subsidiary of the Company
"Shell Electric Mfg."	Shell Electric Mfg. (Holdings) Company Limited 蜆壳電器工業(集團)有限公司, now known as China Overseas Grand Oceans Group Ltd.
"Shell Group"	Shell Holdings and its subsidiaries
"Shell HK"	Shell Electric Mfg. (H.K.) Company Limited 蜆壳電器工業(香港)有限公司, a company incorporated under the laws of Hong Kong with limited liability on 8 June 1982 and a wholly-owned subsidiary of Shell Holdings
"Shell Holdings"	Shell Electric Holdings Limited, an exempted company incorporated under the laws of Bermuda with limited liability on 20 August 2009, which is owned as to 80.4% by Red Dynasty and is one of the Controlling Shareholders
"Sien Hua"	廣東蜆華電器製造有限公司 (Guangdong Sien Hua Electrical Appliance Manufacturing Company Limited*), a co-operative joint venture established in the PRC on 15 December 1987 which is owned as to 28.92% by Shell China and 71.08% by 佛山市順德區旭華電器實業有限公司 (Foshan Shunde District Xuhua Electric Company Limited*)
"SMC Electric China"	廣東蜆壳家電有限公司 (SMC Electric (China) Limited), a wholly-owned foreign enterprise established in the PRC on 16 November 2017 and a wholly-owned subsidiary of the Company
"SMC Electric HK"	SMC Electric (HK) Limited 蜆壳電業(香港)有限公司 (formerly known as Ever Express (H.K.) Limited 永匯(香港)有限公司), a company incorporated under the laws of Hong Kong with limited liability on 26 February 2016 and a wholly-owned subsidiary of the Company

"SMC Electric Holdings"	SMC Electric Holdings Limited (formerly known as Omen Glory Limited 兆傲有限公司), a company incorporated under the laws of BVI with limited liability on 23 March 2016 and a wholly-owned subsidiary of the Company
"Sole Sponsor" or "Sponsor"	Red Sun Capital Limited, a corporation licensed to engage in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the sponsor of the Listing
"Speed Power"	Speed Power Limited 崇力有限公司, a company incorporated under the laws of Hong Kong with limited liability on 1 November 1985 and a wholly-owned subsidiary of the Company
"sq. feet"	square feet
"sq. m."	square metres
"State" or "state"	the central government of China including all government subdivisions (including provincial municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Sunny Resource"	Sunny Resource Limited 潤泉有限公司, a company incorporated under the laws of Hong Kong with limited liability on 7 September 2009 and a wholly-owned subsidiary of Shell Holdings
"Takeovers Code"	the Codes on Takeovers and Mergers and Share Buy- backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
"Track Record Period"	the period comprising FY2016, FY2017, FY2018 and 9M2019
"Trademark Office"	the Trademark Office of the National Intellectual Property Administration of the PRC (中華人民共和國國家知識產權局商標局)
"UAE"	United Arab Emirates

"U.S." or "United States" or "USA"	the United States of America
"U.S. Customer"	the U.S. based customer which the Group produces electric tools for, including cordless fans, work lights and vacuum cleaners
"U.S. dollars" or "US$"	United States dollars, the lawful currency of the United States
"U.S. Securities Act"	the U.S. Securities Act of 1933, as amended
"Underwriters"	the Public Offer Underwriters and the Placing Underwriters
"Underwriting Agreements"	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
"**WHITE** Application Form(s)"	the form(s) of application for the Public Offer Shares for use by the public who require such Public Offer Shares to be Issued in an applicant's own name
"**YELLOW** Application Form(s)"	the form(s) of application for the Public Offer Shares for use by the public who require such Public Offer Shares to be deposited directly into CCASS
"%"	per cent.

In this prospectus, where otherwise specified:

- *All dates and times refer to Hong Kong dates and time.*
- *The English translation and/or transliteration of the names of PRC nationals, entities, enterprises, government authorities, departments, facilities, certificates, titles, laws and regulations included in this prospectus is included for identification purposes only. In the event of any inconsistency between the English translation and/or transliteration and the Chinese versions, the Chinese versions shall prevail.*
- *Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments.*
- *Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

* *for identification purpose only*

This glossary of technical terms contains terms used in this prospectus as they relate to the business of the Group. As such, these terms and their meanings may not always correspond to the standard industry meaning or usage of these terms.

"ABS"	Acrylonitrile-butadiene-styrene
"AC motor"	alternating current motor, the flow of electric charge that periodically reverses or alternates direction
"DC motor"	directive current motor, the flow of electric charge that always takes place in the same direction
"FM"	frequency modulation
"FOB"	free on board, i.e. delivery of goods on board the vessel at the named port of origin (loading) at the seller's expense. The buyer is responsible for main carriage/freight, cargo insurance and other costs and risks
"LED"	light emitting diodes
"lumen"	measurement unit of total quantity of visible lights emitted by a source

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. In some cases words such as "aim", "anticipate", "believe", "estimate", "expect", "intend", "may", "plan", "potential", "predict", "propose", "seek", "should", "will", "would" and other similar expressions are used to identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- the business strategies and the various measures to implement such strategies;
- the future plans;
- future developments, trends and conditions in the industry and markets in which the Group operates;
- general economic, political and business conditions in the markets in which the Group operates;
- changes to the political and regulatory environments in the industry and markets in which the Group operates;
- the Group's expectations with respect to the Group's ability to acquire and maintain regulatory licences or permits;
- the general industry outlook;
- the trend of the global economy in general;
- effects of the global financial markets and economic crisis;
- the Group's financial conditions and performance;
- the Group's dividend policy;
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends; and
- other factors beyond the Group's control.

These statements are based on numerous assumptions, including those regarding the present and future business strategy and the environment in which the Group will operate in the future. The Directors confirm that these bases and assumptions are made after due and careful considerations and are fair and reasonable. The future results could differ materially from those expressed or implied by such forward-looking statements. In addition, the future performance may be affected by various factors including, without limitation, those discussed in the sections headed "Risk Factors", "Business" and "Financial Information" in this prospectus.

Should one or more risks or uncertainties stated in the aforesaid sections materialise, or should any underlying assumptions be proven incorrect, actual outcomes may vary materially from those indicated. Prospective investors should therefore not place undue reliance on any of these forward-looking statements.

In this prospectus, statements of, or references to, the intentions of the Group or any of the Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments. Subject to the requirements of the applicable laws, rules and regulations, the Group does not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise.

Potential investors should consider carefully all the information set out in this prospectus and, in particular, should consider and evaluate the following risks and uncertainties associated with an investment in the Company before making any investment decision in the Shares. The Group's business, financial condition and results of operations could be materially and adversely affected by any of these risks and uncertainties. The trading price of the Shares could decline due to any of these risks, and you may lose all or part of your investment.

The Directors believe that an investment in the Shares involves certain risks, some of which are beyond the Group's control. These risks can be broadly categorised into (i) risks relating to the Group's business; (ii) risks relating to the electric tools and electric fans industries; (iii) risk relating to the Share Offer and the Shares; and (iv) risks relating to statements in this prospectus. Prospective investors in the Shares should consider carefully all the information set forth in this prospectus and, in particular, this section in connection with an investment in the Group.

RISKS RELATING TO THE GROUP'S BUSINESS

The Group generates a substantial portion of its revenue from the U.S. Customer and Customer A; and any decrease or loss of business from them could adversely and substantially affect the Group's operations and financial conditions.

For FY2016, FY2017, FY2018 and 9M2019, the revenue contributed by the U.S. Customer amounted to approximately HK$93.2 million, HK$131.6 million, HK$157.1 million and HK$146.6 million, respectively, which accounted for approximately 42.9%, 52.4%, 59.1% and 64.1% of the Group's total revenue for the corresponding periods. During the Track Record Period and as at the Latest Practicable Date, the Group had a five-year manufacturing agreement with the U.S. Customer which will expire in 30 September 2021. Although the Group's relationship with the U.S. Customer is mutually beneficial and the reliance, if any, is complementary, the Directors expect that the Group will continue to derive a significant amount of the Group's revenue from the U.S. Customer in the near future. Please also refer to the section headed "Business — Customers — Customer concentration" in this prospectus for further details.

For FY2016, FY2017, FY2018 and 9M2019, the revenue contributed by Customer A amounted to approximately HK$58.4 million, HK$52.9 million, HK$54.9 million and HK$32.9 million, respectively, which accounted for approximately 26.9%, 21.1%, 20.6% and 14.4% of the Group's total revenue for the corresponding periods. During the Track Record Period and as at the Latest Practicable Date, the Group had not entered into any long-term agreement with Customer A.

However, there is no assurance that the Group's relationship with the largest two customers will not deteriorate or the U.S. Customer will not terminate the manufacturing agreement with the Group in the future. There is no guarantee that the Group will be able to renew the manufacturing agreement with the U.S. Customer in a timely manner either. Any change or deterioration in the relationship with the U.S. Customer and Customer A may cause a significant adverse effect to the Group's business, financial condition and results of operations. As such, should there be any adverse development related to the U.S. Customer and Customers A's operations or any other reasons resulting in the termination of the business relationship with them, the Group's business, financial condition and results of operation may be materially and adversely affected.

Even if the Group manages to secure other customers with a level of revenue contribution to the Group comparable to the U.S. Customer and Customer A, it would take time and resources for the Group to develop relationship with such new customers. If the Group cannot secure other comparable customers, the Group's business, financial condition and results of operation could be adversely affected.

The Group's products exported from PRC production bases to the U.S. may be subject to high tariff rates under the trade war between the U.S. and the PRC, which could adversely affect the Group's sales volumes, profitability and results of operations.

A recent trade war has been initiated between the U.S. and the PRC, and trade flows for certain products exported from the PRC to the U.S. were impacted. For instance, in 2018, the export of machinery, vehicles, aircraft, vessels, electrical equipment, technological goods and chemicals, among other goods, from the PRC to the U.S. were subject to a tariff of 25%. For FY2016, FY2017, FY2018 and 9M2019, sales of the products with the U.S. as the destination for delivery amounted to HK$55.0 million, HK$95.4 million, HK$100.0 million and HK$88.8 million, respectively, which accounted for 25.4%, 38.0%, 37.6% and 38.8% of the total revenue for the same periods respectively. The U.S. government has announced on 13 December 2019 a 25% tariff would be maintained on approximately US$250 billion worth of Chinese goods. The list of goods announced include vacuum cleaners, which the Group produces and sells to a customer in the U.S.. For FY2016, FY2017, FY2018 and 9M2019, sales of vacuum cleaners to the U.S. amounted to HK$29.4 million, HK$42.4 million, HK$43.4 million and HK$30.6 million, respectively, which accounted for 13.5%, 16.9%, 16.3% and 13.4% of the total revenue for the same periods respectively. Furthermore, the U.S. government has also announced on 23 August 2019, a 15% tariff will be imposed on approximately US$300 billion worth of Chinese goods, which will become effective in two batches, on 1 September 2019 and 15 December 2019 respectively. After the U.S. and the PRC governments reached the phase 1 trade agreement on 13 December 2019 and subsequently signed on 15 January 2020, the U.S. government announced that the imposition of 15% tariff on the second batch of goods would be suspended indefinitely. The list of goods for which tariffs would originally be effective from 15 December 2019 included work lights and fans which the Group produces and sells to a customer in the U.S.. For FY2016, FY2017, FY2018 and 9M2019, sales of work lights to the U.S. amounted to HK$21.0 million, HK$36.6 million, HK$21.7 million and HK$17.7 million, respectively, which accounted for 9.7%, 14.6%, 8.2% and 7.8% of the total revenue respectively. Besides, for FY2016, FY2017, FY2018 and 9M2019, sales of fans to the U.S. amounted to nil, HK$7.7 million, HK$26.5 million and HK$36.4 million, respectively, which accounted for nil, 3.1%, 10.0% and 15.9% of the total revenue respectively. Though the U.S. had not announced any trade policies that may directly impact the hearing aids devices the Group produces or sells under the trade war as at the Latest Practicable Date, the Group cannot accurately predict whether any anti-dumping duties, tariffs or quota fees will be imposed on the Group's products by the U.S. in the future. Any trade restrictions imposed by the U.S. on electric tools and electric fans could significantly increase the customers' purchase costs of the Group's products manufactured at the PRC production bases, and the customers may use other manufacturers whose the production base is located in Vietnam or Cambodia instead of the Group for delivery to the U.S. in order to avoid cost increases resulting from any trade restrictions imposed by the U.S.. And hence, the Group's sales volumes, profitability and results of operations could be adversely affected.

The Group relies significantly on the U.S. market and the Australian market and (i) any changes in the economic and regulatory conditions and global trade policy of the U.S. or Australia; or (ii) changes in the business strategy of U.S. customers or Australian customers, may have an adverse effect on the Group's business.

Sales to the U.S. market and the Australian market accounted for approximately half of the revenue for FY2016, FY2017, FY2018 and 9M2019. The Group's performance depends significantly on general economic conditions in the U.S. and Australia and their impact on consumer confidence and discretionary consumer spending. The Group's sales and trade and bills receivables may decline due to the depreciation in the transaction currency US$ or appreciation in the HK$. Further, economic factors in the U.S. or Australia such as a reduction in the availability of credit, increased unemployment levels, higher oil and energy costs, rising interest rates, financial market volatility, recession, reduced consumer confidence, and other factors affecting consumer spending behaviour such as acts of terrorism or major epidemics could reduce demand for the Group's products. On the other hand, any change in the U.S. or the Australian global trade policy, including tightening regulatory restrictions, industry-specific quotas, tariffs, non-tariff barriers and taxes, may have the effect of limiting the Group's products exported from the PRC and, hence, an adverse effect on the Group's business.

If there is any change in the management or control of the Group's U.S./Australian customers, then the U.S./Australian customers may in turn change their business strategy which may cause their demand for electric tools to decrease, and this may have an adverse effect on the Group's business performance, financial condition and results of operations.

The Group's sales to customers are made on an order-by-order basis. As such, the Group's sales to customers are susceptible to economic factors affecting the demand from the customers. A serious downturn in the overall economy of the U.S./U.S. electric tools industry or Australia/Australian electric fans industry, measures that may be introduced to tighten the U.S. or Australian credit policy for controlling inflation in the U.S. or Australia, or unfavourable policies to the import of goods into the U.S. or Australia may all cause the financial conditions and purchasing powers of the customers in the U.S. or Australia to deteriorate. The Group's customers are not obliged to place orders with the Group, so order quantities may fluctuate depending on the profitability of customers' businesses and the spending power of the consumers. An economic downturn in the U.S. or Australia or continued uncertainties regarding future prospects that affect consumer spending habits in the U.S. may have an adverse effect on the placing of orders by the Group's customers. The Group can offer no assurance that it will be able to respond quickly to any economic, market or regulatory changes in the U.S. or Australian market, and any failure to do so may cause an adverse effect on its business performance, financial condition and results of operations.

The Group could be adversely affected as a result of any sales it makes to certain countries that are, or become subject to, sanctions administered by the United States, the European Union, the United Nations, Australia and other relevant sanctions authorities.

The United States and other jurisdictions or organisations, including the European Union, the United Nations and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries.

During the Track Record Period, the Group sold electric fans to certain customers in Iraq and Lebanon. Transactions with customers in Iraq and Lebanon were conducted in US$, and payments were generally made by telegraphic transfer. The revenue generated from sales of products to Iraq and Lebanon was approximately HK$4,847,000, HK$6,633,000, HK$6,150,000 and HK$3,145,000, representing approximately 2.2%, 2.6%, 2.3% and 1.4% of the Group's total revenue for FY2016, FY2017, FY2018 and 9M2019, respectively. Iraq and Lebanon were subject to targeted sanctions during the Track Record Period.

The Company has undertaken to the Stock Exchange that it will not use the proceeds from the Share Offer, as well as any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any countries subject to International Sanctions or any other government, individual or entity sanctioned by the United States, the European Union, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions. In addition, the Company has undertaken not to enter into any future business that would cause itself, the Stock Exchange, HKSCC, HKSCC Nominees or its Shareholders and investors to violate or become a target of sanctions laws by the United States, the European Union, the United Nations or Australia. The Company will also disclose on the respective websites of the Stock Exchange and itself if it believes that the transactions the Group entered into in countries subject to International Sanctions or with Sanctioned Persons would expose the Company or its Shareholders and investors to risks of being sanctioned, and in the Company's annual reports or interim reports its efforts on monitoring its business exposure to sanctions risk, the status of future business, if any, in countries subject to International Sanctions and with Sanctioned Persons and the Group's business intention relating to countries subject to International Sanctions and with Sanctioned Persons. If the Company is in breach of such undertakings to the Stock Exchange, the Company would be subject to the risk of possible delisting of its Shares on the Stock Exchange.

While the Group has implemented internal control measures to minimize its risk exposure to International Sanctions, sanctions laws and regulations are constantly evolving, and new persons and entities are regularly added to the list of Sanctioned Persons. Further, new requirements or restrictions could come into effect which might increase the scrutiny on the Group's business or result in one or more of its business activities being deemed to have violated sanctions. The Group's business and reputation could be adversely affected if the authorities of United States, the European Union, the United Nations, Australia or any other jurisdictions were to determine that any of its future activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of the Group. For details of the Group's business operations in the countries subject to International Sanctions and the Company's undertakings to the Stock Exchange and its related group companies, please refer to the section headed "Business — Business activities in countries subject to International Sanctions" in this prospectus.

The outbreak of any severe communicable disease, in particular the Coronavirus COVID-19, if uncontrolled, could adversely affect the Group's results of operations.

The outbreak of any severe communicable disease, such as Coronavirus COVID-19, Severe Acute Respiratory Syndrome (SARS), Middle East Respiratory Syndrome (MERS), H5N1 avian flu, Ebola virus, as well as influenza caused by H7N9 and H3N2 or the human swine flu (H1N1), also known as influenza A virus, in the PRC or Hong Kong or other parts of the world, if uncontrolled, could have an adverse effect on the Group's operations and the overall business sentiments and environment in the PRC and Hong Kong, which in turn could have an adverse impact on the domestic and international consumption and, possibly, the overall GDP growth of the PRC or Hong Kong or other parts of the world. In addition, if any of the Group's employees is affected by any severe communicable diseases outbreak, it could adversely affect or disrupt the Group's production at the relevant facilities and adversely affect the Group's results of operations as the Group may be required to close its facilities to prevent the spread of the disease. The spread of any severe communicable disease in the PRC or Hong Kong or other parts of the world may also affect the operations of the Group's customers and suppliers, which could have an adverse effect on the Group's business, financial condition and results of operations.

The Group's revenue from sourcing and selling of electric fans was decreasing during the three years ended 31 December 2018. If the Group fails to increase or maintain its revenue derived from sourcing and selling of electric fans, its business, results of operations and financial condition may be negatively affected.

For the three years ended 31 December 2018, the Group's revenue from sourcing and selling of electric fans decreased by approximately HK$8.7 million or 7.3% from approximately HK$119.3 million for the year ended 31 December 2016 to approximately HK$110.6 million for the year ended 31 December 2017 and the Group's revenue from sourcing and selling of electric fans further decreased by approximately HK$10.0 million or 9.0% to approximately HK$100.6 million for FY2018 which primarily due to the decrease in revenue from sourcing and selling of electric fans under the Group's own "SMC" brand. For details of the fluctuation of the Group's revenue from "SMC" brand products, please refer to the section headed "Financial Information — Comparison of Results of Operations" in this prospectus.

The Group is vulnerable to future exchange rate fluctuations between the US$ and certain other currencies.

As most of the sales are to the worldwide, most of the revenue is denominated in US$. However, the Group pays its cost based on the relevant local currency. For PRC operations, the Group incurs and settles material costs procured within the PRC, staff salaries, transportation and delivery expenses, local tax payments and marketing cost in US$ or RMB. The Group is therefore susceptible to currency exchange rate fluctuations among US$, RMB and HK$.

The Group has not entered into any agreements to hedge its exchange rate exposure relating to any of these currencies and there is no assurance that the Group will be able to enter into such agreements on commercially viable terms in the future. Accordingly, the Group can offer no assurance that future exchange rate fluctuations between the US$ and certain other currencies will not adversely affect its business.

An increase in material costs or the Group's inability to procure materials at satisfactory prices or unable to pass increased costs on to its customers may adversely affect its profitability.

Material cost of the Group includes the cost of raw materials and the cost of finished goods. The principal raw materials the Group uses in its production processes are plastic, electric motor and other components. Material cost accounted for approximately 94.4%, 94.4%, 93.2% and 92.9%, respectively, of cost of revenue for FY2016, FY2017, FY2018 and 9M2019. The prices of materials may fluctuate due to supply factors and demand factors such as general market conditions and the availability of alternative comparable materials. The Group is subject to risks from fluctuations in material costs and the risk of not being able to purchase sufficient quantities of raw materials to meet its production requirements. If the Group is unable to obtain raw materials at satisfactory prices or unable to pass increased costs to its customers, the Group's profitability and hence financial performance may be adversely affected. In addition, if the Group is unable to find alternative supplies of materials, the Group's production activities will be adversely affected.

The Group's business relies upon Sien Hua for sourcing and selling electric fan to Customer A.

Since Sien Hua has been approved as a supplier by Customer A, the Group decides to source the electric fans from Sien Hua for Customer A. For FY2016, FY2017, FY2018 and 9M2019, Sien Hua accounted for approximately 25.0%, 24.4%, 22.8% and 17.3% of the Group's total purchases, respectively, while the revenue contributed by Customer A accounted for approximately 26.9%, 21.1%, 20.6% and 14.4% of the Group's total revenue, respectively.

Any deterioration in the relationship between the Group and Sien Hua and inability to obtain suppliers from alternative sources could affect the Group's ability to source electric fans and sell to Customer A, which would have significant impact on the Group's business and results of operation. Please refer to section headed "Business — Raw materials and suppliers — Reason for engaging Sien Hua as a supplier" in this prospectus for further details.

The Group relies on its suppliers for the production of its products and any material disruption to the supply of its products or instability in product quality could materially and adversely affect its business and results of operation.

During the Track Record Period, the Group engaged suppliers, who are manufacturers, to produce some of its products. A number of factors could cause prolonged interruptions in the operations of these suppliers, including but not limited to equipment failures or property damage experienced by these suppliers, changes in laws and regulations that affect their manufacturing processes, or financial difficulties and labour disputes faced by these suppliers. The Group may experience material disruptions in the supply of finished goods due to any of the above factors in the future.

In addition, although the Group has its control measures to ensure product quality, it may not be able to monitor the production quality of the suppliers directly and effectively. If the suppliers fail to supply products in accordance with the Group's delivery schedules, quality standards or product specifications, the Group may be forced to provide these products on a delayed basis or cancel its product offering, either of which could harm its reputation and relationships with customers and therefore potentially expose the Group to litigation and damage claims. If the Group fails to maintain its product quality, its brand image and reputation could be adversely affected, especially if the Group becomes the target of any negative publicity as a result of actions taken by its suppliers. Such actions may include their non-compliance from any laws and regulations applicable to their business operations.

In addition, the Directors cannot assure you that the Group's suppliers will continue to accept its future product orders on the same or similar terms (including prices and quantities) or at all in the future, nor can the Directors assure you that the resources of the Group's suppliers will not be used for their other customers, or that they will continuously have sufficient resources to meet the Group's demand. Should these suppliers fail to deliver sufficient finished products to the Group that meet its standards and the expectations from its customers, it would severely affect the Group's ability to supply the products to its customers. The Directors cannot ensure that the Group will not face material disruptions to the supply of products from its suppliers in the future. In the event of such disruptions, the Group may not be able to find suitable alternative suppliers on a timely basis to supply the same or similar types and quantities of products. During the Track Record Period and up to the Latest Practicable Date, the Group had not experienced any material disruption to the supply of products from the suppliers. Any material disruption in the supply of products from the Group's suppliers may materially and adversely affect its results of operation.

The Group has engaged agents to assist in the sales and marketing process and failure to renew these engagements may adversely affect the Group's revenue and profitability.

The Group has engaged agents to assist in the sales and marketing process, which the Directors believe it is crucial to the Group's sales expansion. As such, in the event that the agents refuse to continue engaging with the Group, the Group's operating results and growth prospects in the worldwide market may be affected and could have a material adverse effect on its revenue and profitability.

The Group is subject to credit risk in collecting the trade and bills receivables due from the customers.

The Group's sales are generally made on credit terms up to 180 days, and trade and bills receivables were settled by either telegraphic transfer or cheque. During the Track Record Period, the trade and bills receivables turnover days of the Group was 71.5 days, 75.4 days, 100.2 days and 103.4 days, respectively, which are mostly within the Group's credit period of up to 180 days. As at 31 December 2016, 2017 and 2018 and 30 September 2019, trade and bills receivables were approximately HK$41.2 million, HK$62.5 million, HK$83.7 million and HK$89.7 million, respectively. The Directors consider that a long credit period inevitably increases the potential credit risk of the Group. There is no assurance that all such amounts due to the Group will be settled on time. Accordingly, the Group faces credit risk in collecting the trade and bills receivable due from the customers. The Group's performance, liquidity and profitability will be adversely affected if significant amounts due to the Group are not settled on time. The bankruptcy or deterioration of the credit condition of any of the Group's major customers could also materially and adversely affect its business.

The Group occasionally pays the full amount of all costs due to suppliers and arrange for delivery to its overseas customers before the Group receives payment from its customers. If any significant amount of payments cannot be collected from such customers in the future, the Group's financial condition and results of operations could be adversely affected.

The Group occasionally pays the full amount of the material costs due to the suppliers, before the Group receives payment for the relevant products from customers. The Group also generally arranges for the delivery of products to certain overseas customers before the Group receives any payment from such customers and without any deposit as security.

The Group can offer no assurance that it will not encounter doubtful or bad debts due to slowdown in industry growth, an individual customer's deteriorating financial condition, or otherwise, in future. If any significant amount of receivables cannot be collected from the Group's customers in the future, for example, due to cancellation of purchase orders subsequently or other unexpected delay or difficulty, the Group's cash flow, financial condition and results of operations could be adversely affected. If the Group adopts a different practice with its customers, such as requiring them to pay before delivery, the Group's relationship with them may deteriorate and they may cease to place orders with the Group, which may adversely affect the Group's business and financial performance.

The Group's customers may bypass the Group and engage its suppliers for the production of the electric fans.

Since the design and production of the Group's electric fan have matured and stabilised, the Group has outsourced the production process to its suppliers to help producing the electric fans. For FY2016, FY2017, FY2018 and 9M2019, the revenue contributed by the electric fans segment amounted to HK$119.3 million, HK$110.6 million, HK$100.6 million and HK$77.9 million, respectively. The Group cannot guarantee that the Group's customers will not bypass the Group and directly engage the Group's suppliers for the production of electric fans.

The Group may not be able to protect its licensed intellectual property rights successfully which could have a material adverse effect on the Group's business, results of operations and financial condition.

Intellectual property rights, such as trademarks and patents, are important in the electric tools and electric fans industries as they are important to the Group's business and competitive position and they protect brand images. The Group's competitors or other third parties may have intellectual property rights and interests which could potentially come into conflict with the Group.

In respect of trademarks registered which are material to the Group's business as at the Latest Practicable Date, Sunny Resource has granted a licence to the Group to use certain trademarks owned by it. Please refer to the subsection headed "Intellectual Property" under the section headed "Business" in this prospectus and Appendix V to this prospectus for the details of the Group's use of intellectual property rights.

During the Track Record Period and up to the Latest Practicable Date, the Group did not experience any infringement of its licensed intellectual property rights by third parties. If any third party makes any trademark and/or patent infringement or other intellectual property claims against the Group and is successful, the Group may be required to expend significant resources to redevelop the brands so that it does not infringe third parties' intellectual property rights, or the Group may be required to obtain relevant licences to avoid further infringements. Intellectual property litigation against the Group could significantly disrupt its business, divert the management's attention, or consume much of the financial resources. As a result, such intellectual property disputes could have a material adverse effect on the business, financial condition and results of operations.

The Group relies significantly on export sales, and the inherent risk associated thereto may adversely affect the business, results of operations and financial conditions.

The Group derives a significant portion of its revenue from export sales which accounted for over 70% of revenue for the Track Record Period. The export sales operations are generally subject to certain inherent risks, including:

- exposure to local, economic, political and labour conditions;
- changes in laws, regulations, trade, monetary or fiscal policy;

- tariffs, quotas, customs and other import or export restrictions and other trade barriers, trade sanctions or anti-dumping measures; and
- compliance with the requirements of applicable sanctions, anti-bribery and related laws and regulations.

These uncertainties could have a material adverse effect on the continuity of the business, results of operation and financial condition.

The Group recorded net operating cash outflow from operating activities for FY2017 and 9M2019.

The Group recorded net cash outflow from operating activities of approximately HK$3.2 million and HK$0.2 million for FY2017 and 9M2019, respectively. Regardless of the performance from the Group's operating activities, the Group may experience periods of net cash outflow from operating activities in the future. The Group may from time to time need to incur additional working capital, which may take time for achieving breakeven or investment payback and may not be able to result in an immediate increase in net operational cash inflow. If the Group is unable to obtain sufficient funds to finance its business operation or expansion, its liquidity and financial condition may be materially and adversely affected. There is no assurance that the Group will have sufficient cash from other sources to fund its operations or expansion. If the Group resorts to other financing activities to generate additional cash, it will incur additional financing costs, and the Group cannot guarantee that it will be able to obtain the required financing on terms acceptable to itself, or at all.

The Group may not be able to retain or secure key qualified personnel, key senior management or other personnel for its operations.

The Group depends on certain key qualified personnel, key senior management and other employees in its business, including those personnel set out in the section headed "Directors and Senior Management" in this prospectus. In particular, the Group depends on the services of its executive Directors, Mr. Leung and Mr. Tang, both have over 20 years of experience in managing manufacturing business in Hong Kong and the PRC, to further the Group's growth and expansion. The expertise, industry experience and contributions of Mr. Leung, Mr. Tang and other senior management team members are crucial to the Group's success. There can be no assurance that such persons will continue to provide services to the Group or will honour the agreed upon terms and conditions of their employment contracts. Any loss of key personnel or failure to recruit and retain personnel for the Group's future operations and development may have a material adverse effect on the business.

Pricing pressure in the markets the Group operates in may adversely affect the revenue and profitability.

The Group operates in markets which may be subject to pricing pressure, affecting the prices the Group charged for new and existing customers for the electric tools the Group provided. The effects of competition on the business are uncertain and may depend on a variety of factors, including economic conditions, regulatory developments, technology developments on production facilities, the behaviour of consumers and competitors and effectiveness of measures the Group takes in respond to the competition it faces.

A decrease in price of the products in respond to competitive pressure or other reasons could have an adverse effect on the Group's business and results of operations. The Group may need to lower the prices in response to the competition in this industry. In particular, when one or more of the Group's competitors engage in active price reductions, the Group may be forced to reduce the prices in order to remain competitive, which may negatively affect the revenue and profitability.

The Group may fail to maintain effective quality control systems at the Group's facilities.

The performance and quality of the Group's products are critical to the success of the business, and depend significantly on the effectiveness of the quality control systems, which in turn, rely on a number of factors, including the design of such quality control systems, the Group's quality training program, and its ability to ensure that the employees adhere to quality control policies and guidelines. Any significant failure or deterioration of the quality control systems could have a material adverse effect on the business, reputation, financial condition and results of operations.

The Group may be affected by disruptions to its production facilities, which may severely disrupt its business.

The Group's production facilities may be exposed to natural disasters, such as fires, floods, tsunamis and earthquakes and to other events beyond its control such as pandemics, political instabilities, outage of critical utilities or terrorist attacks. Events like these occurring in the future could disrupt production at the Group's facilities, materially increase the cost of revenue and other operating expenses and result in material asset losses. Such events could also disrupt shipping and freight forwarding services and interrupt the availability of basic services and infrastructure, including power and water. Disruptions such as these would have an adverse impact on the Group's business, operating results and financial condition.

Furthermore, if the Group is unable to find suitable alternative facilities in a timely manner in the event that its production facilities are destroyed or become inoperable, the Group's business, financial condition, results of operations and prospects may be materially and adversely affected.

The Group may have labour issues, such as shortage of labour, increase in staff costs and labour disputes that may adversely affect its business and results of operations.

The production operations are labour-intensive. As at the Latest Practicable Date, the Group employed 98 workers in its production department located at Shunde, Foshan, Guangdong Province, the PRC. With increasing demand for skilled labour in neighbouring regions and other rapidly developing cities, there is no assurance that the Group will continue to attract workers at its current level of wages or that its current workers will continue to work for the Group.

The Group has also observed an overall tightening of the labour market in recent years. For instance, the Labour Contract Law (中華人民共和國勞動合同法) which first came into effect on 1 January 2008, and was amended on 28 December 2012 and its implementation rules (together with the Labour Contract Law, the "LC Law") were promulgated and became effective on 18 September 2008. The LC Law imposes more stringent requirements on employers in relation to the entry into written employment contracts, the hiring of temporary employees and the dismissal of employees. The LC Law also establishes requirements relating to, among others, minimum wages, severance payments and non-fixed term employment contracts, time limits for probation periods as well as the duration and the number of times that an employee can be placed on fixed-term employment contracts. It also provides that social insurance is required to be paid on behalf of the employees and that the employees are entitled to unilaterally terminate their respective labour contract if this requirement is not satisfied.

Due to the tightening labour market as well as the increase in the minimum wage requirements set by the relevant authorities, the Group has faced a general increase in labour costs from 2016 to 2018. If the labour market continues to tighten, the Group may not be able to employ sufficient suitable workers in a timely manner or the Group may have to pay higher wages for such employees and as a result, the Group's financial performance could be materially and adversely affected.

The Group's business and reputation may be affected by product liability or other claims, litigation, complaints or adverse publicity and insurance coverage may not be sufficient.

The Group's products may be exposed to risks of claims, litigation, complaints or adverse publicity. Such risks include product liability claims, such as unsafe or defective products and inadequacy of warnings and instructions on the usage of its products. Product liability claims may arise in the event that the use or misuse of any of the Group's products results in personal injury or property damage. The Group currently maintains product liability insurance for the products sold to customers overseas. If any successful product liability claim is brought against the Group for damages, and the products are proved to be defective, the Group may be required to recall or redesign such products. If the Group is found to be liable for a product liability claim, it could be required to pay any monetary damages not covered by insurance, which could adversely affect the Group's financial condition. Furthermore, violation of PRC or other applicable product quality and safety requirements may result in fines or sanctions by the relevant regulatory authorities.

The Group could be involved in conflicts and litigations, which could disrupt its business, divert management attention and the Group may incur substantial amount of costs to protect its rights or defend against claims. Even if the Group successfully defends against a claim, it could be forced to spend a substantial amount of money and time in defending such a claim and the Group's reputation and future prospects could suffer. If the Group is unable to defend itself, the Group's reputation, brand and business could be adversely affected.

If the Group fails to maintain an effective system of internal controls, it may not be able to comply with relevant regulatory requirements.

The Group has established procedures and systems of internal controls (including accounting and management systems) which the Directors believe are adequate to assist the Group and its Directors in obligations to comply with relevant regulatory requirements. For details regarding the internal control policies, please refer to the subsection headed "Internal Control" under the section headed "Business" in this prospectus. The Group's internal controls may not prevent or detect misstatements with regard to its operations, financial position and prospects. Any failure to maintain an effective internal controls system could result in the financial statements being unreliable and could adversely affect the operating results or cause the Group fail to manage its business effectively or to meet its various regulatory obligations.

The Group's operations may be subject to transfer pricing adjustment.

During the Track Record Period, the Group carried out certain related party transactions for its sales of electric tools and electric fans. Please refer to the section headed "Business — Business model — Manufacturing operations" in this prospectus for further details of the Group's business flows.

There is no assurance that the relevant tax authority will not make adjustment to the tax payable by the Group in respect of such related party transactions within the above time frame. If a relevant tax authority later finds that the transfer prices and the terms that the Group has applied are not appropriate, the Group may be required to change its transfer pricing practices such as adjusting the selling price of the raw materials/finished goods sold between the Group members and/or related parties. In such event, the Group may be required to pay additional tax and its profitability could be adversely affected. The Group has not been subject to any tax/transfer pricing disputes during the Track Record Period and up to the Latest Practicable Date.

The Group may be subject to additional tax liabilities, which could have adverse impacts on its financial condition.

The Group's income tax filing positions, consolidated income tax provisions and accruals are based on interpretations of applicable tax law in various countries in which it operates, including the PRC and Hong Kong as well as underlying rules and regulations of the PRC and Hong Kong with respect to transfer pricing, details of which are set out in the subsections headed "PRC Laws and Regulations — Laws and regulations in relation to taxation" and "Hong Kong Laws and Regulations — Transfer pricing regulations during the Track Record Period" under the section headed "Regulatory Overview" and the subsection headed "Transfer pricing" under the section headed "Business" in this prospectus. Significant judgment and the use of estimates are required in determining the Group's provisions for income taxes.

If the final determination of the relevant tax authorities in the PRC and Hong Kong with respect to the tax payable by the Group is different from its historical income tax provisions and accruals due to a change of the applicable tax rates, or modification or a different interpretation of the relevant provisions of the tax treaties or of the laws and regulations relating to transfer pricing, which could have been otherwise favourable to the Group or potential tax dispute or regulatory non-compliances, it may face adverse tax consequences. This could have a material effect on the financial statements in the period or periods for which that determination is made.

Political and economic policies of the PRC government may affect the Group's business and results of operations and may result in inability to sustain its growth and expansion strategies.

Substantially all of the Group's products are manufactured in the PRC. Accordingly, the Group's results of operations, financial position and prospects are subject, to a significant degree, to the economic, political and legal developments of the PRC. Political and economic policies of the PRC government could affect the business and financial performance and may result of being unable to sustain the Group's growth.

The economy of the PRC differs from the economies of most developed countries in a number of respects, including its structure, the extent of government involvement, level of development, growth rate, control of capital investment, control of foreign exchange and allocation of resources. The PRC's economy is in the midst of transitioning from a centrally planned economy to a more market-oriented economy. In the past few decades, the PRC government has implemented economic reform measures to utilise market forces to spur the development of the PRC economy. In addition, the PRC government continues to play a significant role in regulating industries and the economy through policy measures. As such, the Group cannot assure you that it may be able to benefit from all, or any, of these measures that are under continuous adjustments. Furthermore, the Group cannot predict whether changes in the PRC's economic, political or social conditions and in the PRC laws, regulations and policies will have a material adverse effect on the business, results of operations, financial condition and future prospects.

RISKS RELATING TO THE ELECTRIC TOOLS AND ELECTRIC FANS INDUSTRIES

The Group may fail to cater for changes in consumer taste and preferences and produce commercially viable products.

The electric tools and electric fans industries are subject to constantly evolving functions, designs and consumer preferences. The Group's success depends largely on its ability to continually manufacture and source products to meet the customers' changing tastes and preferences. In addition, the Group may need to acquire new processing technology or machinery to enhance its product quality. In the event the Group is unable to develop new and commercially viable products to cater for changes in consumer taste or meet the specifications of its customers, the demand for the Group's products and hence its business, financial results and growth may decline.

The Group is exposed to the risks of slow-moving inventory, which may adversely affect its financial condition and results of operations.

The turnover rate of the inventories is susceptible to overall economic conditions, market trends and changes in individual preferences and tastes, all of which are beyond the Group's control. Accordingly, the Group is exposed to the risks of slow-moving inventory. As at 31 December 2016, 2017, 2018 and 30 September 2019, the Group had inventories in the amount of approximately HK$14.5 million, HK$15.4 million, HK$13.9 million and HK$9.2 million, respectively, and the average inventory turnover days were approximately 31.6 days, 30.3 days, 28.8 days and 20.1 days, respectively.

The Group cannot assure that the inventory turnover days will not increase in the future, and the Group may need to write off the slow-moving inventory or sell off the slow-moving inventory at a lower price, any of which could adversely affect the Group's financial condition and results of operations.

The Group's business operations may be adversely affected by present or future import and export, work safety and environmental regulations or enforcement.

The Group's revenue is dependent on the continued operations of its production facilities in the PRC. The Group's production facilities are subject to various PRC work safety and environmental regulations. Import of certain raw materials and export the Group's products is subject to PRC import and export regulations. The Group is not always able to quantify the cost of complying with such laws and regulations. The Group has manufacture plant in the PRC, and if a work safety accident occurs, the relevant company shall bear the liability to compensate the injured employee or a third party. Any violation of applicable import and export regulations could subject the Group to a substantial fine, damage the reputation and sanctions on exporting. Additionally, if any one of the Group's suppliers fails to comply with environmental regulations or the raw materials failed to meet the requirements under the various import and export regulations, the Group may need to seek alternative supplies of certain raw materials, which may not be available on favourable terms. The Group cannot assure that the national or local authorities will not enact additional laws or regulations or amend or enforce new regulations in a more rigorous manner. Changes in import and export and environmental regulations may require the Group or its suppliers to alter production processes, which could result in increased costs and could adversely affect the financial condition and results of operations. In addition, any significant environmental liability would adversely affect the Group's business, financial condition and results of operations.

The Group may be subject to anti-dumping duties or trade quotas with respect to overseas sales, which could adversely affect its business and results of operations.

The Group exports most of the products to customers in other countries, including but not limited to the U.S.. Any trade restrictions such as anti-dumping duties, tariffs or quota fees imposed by the countries to which the Group exports its products, or a trade war involving its products could significantly increase the prices of the products in such countries. If the Group is not able to pass such additional costs on to its customers, the sales margins may be adversely affected, which may adversely affect its financial position, business or results of operations. As the Group cannot accurately predict whether any anti-dumping duties, tariffs or quota fees will be imposed in the future, the Group does not make any provisions in its accounts for any anti-dumping duty payments, tariffs or quota fees.

RISK RELATING TO THE SHARE OFFER AND THE SHARES

There is no prior public market for the Shares.

Prior to the Share Offer, there has been no public market for the Shares. The initial issue price range to the public for the Shares was the result of negotiations between the Company (for itself and on behalf of the Selling Shareholder) and the Joint Bookrunners (for themselves and on behalf of the Underwriters), and the Offer Price may differ significantly from the market price for the Shares following the Share Offer. The Listing on the Stock Exchange, however, does not guarantee that an active trading market for the Shares will develop, or if it does develop, will be sustained following the Share Offer, or that the market price of the Shares will not decline following the Share Offer.

The market price of the Shares may be volatile, which could result in substantial losses for investors purchasing Shares in the Share Offer.

The price and trading volume of the Shares may be volatile. The price at which the Shares will trade after the Share Offer will be determined by the market price of the Shares, which may be influenced by many factors some of which are beyond the Group's control, including:

- the financial results;
- changes in securities analysts' estimates, if any, of the financial performance;
- the history of, and the prospects for, the Group and the industry in which the Group competes;
- an assessment of the Group's management, past and present operations, and the prospects for, and timing of, the Group's future revenues and cost structures such as the views of independent research analysts, if any;
- the present state of the Group's development;
- the valuation of publicly traded companies that are engaged in business activities similar to the Group;
- variations of the Group's results of operations (including variations arising from foreign exchange rate fluctuations);
- loss of significant customers or material defaults by the Group's customers;
- announcement by the Group of significant acquisitions, strategic alliances or joint ventures;

- addition or departure of key personnel;
- involvement in litigation; and
- general economic and stock market conditions.

In addition, shares of some companies listed on the Stock Exchange with significant operations and assets in the PRC have experienced unusual price and volume fluctuations in recent years, some of which have been unrelated or disproportionate to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the market price of the Shares. As a result, investors in the Group's Shares may experience volatility in the market price of their Shares and a decrease in the value of Shares regardless of the Group's operating performance or prospects.

Investors may experience dilution effect if the Company issues additional Shares in the future.

The Company may issue additional Shares upon exercise of options which may be granted under the Share Option Scheme in the future. The increase in the number of Shares outstanding after such issue would result in the reduction in the percentage ownership of the Shareholders and may result in a dilution in the earnings per Share and net asset value per Share.

In addition, the Group may need to raise additional funds in the future to finance business expansion or new development plans and acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company, other than on a pro rata basis to existing Shareholders, then (i) the percentage ownership of those existing Shareholders in the Group may be reduced, and they may experience subsequent dilution in the percentage ownership; and/or (ii) such newly issued securities may have preferred rights, options or privileges superior to those of the Shares of the existing Shareholders.

Future sales or perceived sales of a substantial number of the Shares in the public market could materially and adversely affect the prevailing market price of the Shares.

There is no assurance that the Controlling Shareholders will not dispose of their Shares following the expiration of their lock-up period after the Share Offer. The Group cannot predict the effect, if any, of any future sales of the Shares by Controlling Shareholders, or that the availability of the Shares for sale by the Controlling Shareholders may have on the market price of the Shares. Sales of a substantial number of the Shares by the Controlling Shareholders or the market perception that such sales may occur could materially and adversely affect the prevailing market price of the Shares.

Shareholders may experience difficulties in protecting their interests because the Company is a Cayman Islands company.

The Company is a Cayman Islands company and the corporate affairs are governed by the Companies Laws, the Memorandum and the Articles and other laws of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may differ from those under statutes and judicial precedents in existence in Hong Kong and other jurisdictions. Such differences may mean that the remedies available to the minority shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions.

RISKS RELATING TO STATEMENTS IN THIS PROSPECTUS

Facts and statistics in this prospectus relating to the industries in which the Group operates may not be fully reliable.

Some of the facts and statistics in this prospectus relating to the industry in which the Group operates, including those relating to the global economy and electric tools and electric fans industries, are derived from various publications of the PRC and relevant governmental departments and agencies and obtained in communication with various governmental departments and agencies that the Directors believe are reliable. However, the Directors cannot guarantee the quality or reliability of such materials. The Directors believe that the sources of the information are appropriate and they have taken reasonable care in extracting and reproducing such information. They do not believe that such information is false or misleading in any material aspect or that any material fact has been omitted that would render such information false or misleading. The information has not been independently verified by the Group, the Sole Sponsor, any Underwriter or any other party involved in the Share Offer and no representation is given as to its accuracy or completeness. You should consider how much weight or importance such facts or statistics carry and should not place undue reliance on them.

Forward-looking statements in this prospectus could prove inaccurate.

This prospectus contains certain forward-looking statements relating to the plans, objectives, expectations and intentions of the Directors. Such forward-looking statements are based on numerous assumptions as to the Group's present and future business strategies and the development of the environment in which it operates. The actual financial results, performance or achievements could differ materially from those discussed in this prospectus. Investors should be cautious against placing undue reliance on any forward-looking statements as these statements involve known and unknown risks, uncertainties and other factors which could cause the actual financial results, performance or achievements to be materially different from the anticipated financial results, performance or achievements expressed or implied by these statements. The Group is not obliged to update or revise any forward-looking statements in this prospectus, whether by reason of new information, future events or otherwise.

In preparation for the Share Offer, the Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules and exemption from strict compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance:

Pursuant to Rule 4.04(1) of the Listing Rules, the Accountants' Report contained in Appendix I to this prospectus must include, among others, the results of the Company and its subsidiaries in respect of each of the three financial years immediately preceding the issue of this prospectus or such shorter period as may be acceptable to the Stock Exchange.

Further, section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance provides that this prospectus shall include an accountants' report which contains the matters specified in the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and set out the reports specified in Part II of the said Schedule in this prospectus.

Pursuant to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Company is required to include in this prospectus (i) a statement as to the gross trading income or sales turnover (as the case may be) of the Company during each of the three financial years immediately preceding the issue of this prospectus as well as an explanation of the method used for the computation of such income or turnover and a reasonable breakdown of the more important trading activities; and (ii) a report by the Group's auditor with respect to the profits and losses in respect of each of the three financial years immediately preceding the issue of this prospectus and assets and liabilities of the Group at the last date to which the financial statements of our Group were prepared.

Pursuant to section 342A(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFC may issue, subject to such conditions (if any) as the SFC thinks fit, a certificate of exemption from compliance with the relevant requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance if, having regard to the circumstances, the SFC considers that the exemption will not prejudice the interests of the investing public and compliance with any or all of such requirements would be irrelevant or unduly burdensome, or is otherwise unnecessary or inappropriate.

Pursuant to the relevant requirements set forth above, the Company is required to produce three full years of audited accounts for the years ended 31 December 2017, 2018 and 2019. However, an application has been made to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules, and such waiver has been granted by the Stock Exchange on the conditions that (i) this prospectus will be issued on or before 29 February 2020; (ii) the Shares will be listed on the Stock Exchange on or before 31 March 2020, i.e. within the three months after the latest financial year end; (iii) the Company will obtain a certificate of exemption from the SFC on strict compliance with the relevant Companies (Winding Up and Miscellaneous Provisions) Ordinance requirements; (iv) a profit estimate for the financial year ended 31 December 2019 will be included in the prospectus in compliance with Rule 11.17 to 11.19 of the Listing Rules; (v) there will be a directors' statement in this prospectus that there is no material adverse change to the Company's financial and trading positions or prospects with specific reference to the trading results from 1 October 2019, being the day after the end of the stub period, to 31 December 2019, being the latest financial year end of the Company; and (vi) the Company shall publish its annual results and annual report for the financial year ended 31 December 2019 no later than 31 March 2020 and 30 April 2020, respectively, in compliance with Rules 13.46(2) and 13.49(1) of the Listing Rules.

An application has also been made to the SFC for a certificate of exemption from strict compliance with the requirements under section 342(1), paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and a certificate of exemption has been granted by the SFC under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance on the conditions that (i) the particulars of the exemption be set forth in this prospectus; (ii) this prospectus will be issued on or before 29 February 2020; and (iii) the Shares will be listed on the Stock Exchange on or before 31 March 2020, i.e. within three months after the latest financial year end.

The applications to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules and to the SFC for a certificate of exemption from strict compliance with the requirements under section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraphs 27 and 31 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance were made on the grounds that strict compliance with the above requirements would be unduly burdensome and the exemption would not prejudice the interest of the investing public given the followings:

(a) this prospectus will be issued on or before 29 February 2020. There would not be sufficient time for the Company and the reporting accountants to finalise the audited financial statements for the financial year ended 31 December 2019 for inclusion in this prospectus. If the financial information for the year ended 31 December 2019 is required to be audited, the Company and the reporting accountants would have to carry out substantial volume of work to prepare, update and finalise the Accountant's Report and this prospectus, and the relevant sections in this prospectus will need to be updated to cover such additional period. This would involve additional time and costs since substantial work is required to be carried out for audit purposes. Accordingly, it would be unduly burdensome for the audited results for the financial year ended 31 December 2019 to be finalised in a short period of time. The Directors consider that the benefits of such work to the existing and prospective shareholders of the Company may not justify the additional work and expenses involved and the delay of the listing timetable;

(b) the Company is of the view that the Accountant's Report covering the three financial years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, together with the profit estimate for the financial year ended 31 December 2019 (in compliance with Rules 11.17 to 11.19 of the Listing Rules) included in this prospectus have already provided the potential investors with adequate and reasonably up-to-date information in the circumstances to form a view on the track record and earnings trend of the Company; and

(c) the Company will comply with the requirements under Rules 13.46(2) and 13.49(1) of the Listing Rules in respect of the publication of its annual results and annual report. The Company currently expects to issue its annual results and annual report for the financial year ended 31 December 2019 on or before 31 March 2020 and 30 April 2020, respectively. In this regard, the Directors consider that the shareholders of the Company, the investing public as well as potential investors of the Company will be kept informed of the financial results of the Group for the financial year ended 31 December 2019.

The Directors confirm that all information necessary for the public to make an informed assessment of the Group's activities, assets and liabilities, financial position, management and prospects has been included in this prospectus and that, as such, the exemption granted by the SFC from strict compliance with the requirements under section 342(1) of the Companies (Winding Up and Miscellaneous) Ordinance in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance will not prejudice the interests of the investing public. Furthermore, the Directors and the Sponsor, after performing all reasonable due diligence work which they consider appropriate, up to the Latest Practicable Date, there has been no material adverse change to the financial and trading positions or prospects of the Group since 1 October 2019 (immediately following the date of the latest audited statement of financial position in the Accountant's Report set out in Appendix I to this prospectus) up to the date of this prospectus. No event has occurred since 30 September 2019 which would materially affect the information as contained in the accountants' report of the Group set out in Appendix I to this prospectus and any other parts of this prospectus and all information which is necessary for the investing public to make an informed assessment of the business, assets and liabilities, financial position, trading position, management and prospects has been included in this prospectus.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make this prospectus or any statement herein misleading.

THE PUBLIC OFFER AND THIS PROSPECTUS

This prospectus is published solely in connection with the Public Offer, which forms part of the Share Offer. For applicants under the Public Offer, this prospectus and the Application Forms set out the terms and conditions of the Public Offer. See "How to Apply for Public Offer Shares" and the Application Forms for details of the procedures for applying for the Public Offer Shares.

The Public Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and conditions set out herein and therein. No person has been authorised to give any information or make any representations other than those contained in this prospectus and the Application Forms and, if given or made, such information or representations must not be relied on as having been authorised by the Company, the Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Share Offer. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Shares shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the Group's affairs since the date of this prospectus or imply that the information in this prospectus is correct as of any subsequent time.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER AND UNDERWRITING

See "Structure of the Share Offer" in this prospectus for details of the structure of the Share Offer.

The Listing is sponsored by the Sponsor. The Public Offer is fully underwritten by the Public Offer Underwriters pursuant to the Public Offer Underwriting Agreement. The Placing Underwriting Agreement relating to the Placing is expected to be entered into on or around the Price Determination Date, subject to agreement on the Offer Price between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and the Company (for itself and on behalf of the Selling Shareholder). The Share Offer is managed by the

Joint Bookrunners. If, for any reason, the Offer Price is not agreed, the Share Offer will not proceed and will lapse. See "Underwriting" in this prospectus for details of the Underwriters and the underwriting arrangements.

RESTRICTIONS ON OFFER OF THE OFFER SHARES

Each person acquiring the Public Offer Shares under the Public Offer will be required to confirm, and is deemed by his acquisition of Public Offer Shares to have confirmed, that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the securities laws of such jurisdiction pursuant to registration with or an authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered and sold, and will not be offered or sold, directly or indirectly in the PRC or the United States.

SELLING SHAREHOLDER

One of the Controlling Shareholders, Shell Holdings, is expected to sell 187,500,000 Sale Shares under the Placing. Please refer to the details in the section headed "Statutory and General Information — F. Other Information — 11. Particulars of the Selling Shareholder" in Appendix V to this prospectus.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

The Company has applied to the Listing Committee of Stock Exchange for the granting of the listing of and permission to deal in the Shares in issue and to be issued pursuant to the Share Offer (including any Shares which may be issued pursuant to the exercise of the options that may be granted under the Share Option Scheme). Dealings in the Shares on the Stock Exchange are expected to commence on Tuesday, 17 March 2020.

Save as disclosed in this prospectus, no part of the share capital or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and the Company (for itself and on behalf of the Selling Shareholder) on the Price Determination Date, or such later date or time as may be agreed by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and the Company. The Offer Price is currently expected to be not more than HK$0.38 per Offer Share and not less than HK$0.335 per Offer Share. Investors applying for the Public Offer Shares must pay, on application, the maximum Offer Price of HK$0.38 per Offer Share, together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK$0.38 per Offer Share. The Joint Bookrunners (for themselves and on behalf of the Underwriters) may reduce the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such case, a notice of the reduction of the indicative Offer Price range will be published on the Stock Exchange's website at **www.hkexnews.hk** and the Company's website at **www.smcelectric.com.hk**.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the Stock Exchange granting the listing of, and permission to deal in, the Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All necessary arrangements have been made for the Shares to be admitted into CCASS. All activities under CCASS are subject to the general rules of CCASS and CCASS operational procedures in effect from time to time. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights and interests.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Share Offer are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in or exercising any rights in relation to, the Shares. None of the Company, the Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of its or their affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding, disposition of, dealing in, or exercising any rights in relation to, the Shares.

HONG KONG BRANCH SHARE REGISTRAR AND STAMP DUTY

All Shares issued by the Company pursuant to applications made in the Public Offer will be registered on the register of members to be maintained by the Group's Hong Kong Branch Share Registrar, Boardroom Share Registrars (HK) Limited, in Hong Kong. The principal register of members will be maintained by the Group's principal share registrar, Estera Trust (Cayman) Limited, in the Cayman Islands.

No stamp duty is payable by applicants in the Share Offer.

Dealings in the Shares registered on the register of members in Hong Kong will be subject to Hong Kong stamp duty.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain RMB amounts into Hong Kong dollars and RMB amounts into Hong Kong dollars at specified rates. Unless we indicate otherwise, in this prospectus, the translations of RMB into Hong Kong dollars and vice versa have been made at the rate of RMB1.00 to HK$1.14 and translation of Hong Kong dollars into RMB and vice versa have been made at the rate of HK$1.00 to RMB0.88.

No representation is made that any amount in RMB or Hong Kong dollars can be or could be, or have been, converted at the above rate or any other rate or at all.

LANGUAGE

If there is any inconsistency between this prospectus and its Chinese translation, this prospectus shall prevail.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Mr. Leung Chun Wah (梁振華)	Flat B, 7/F The Sail at Victoria 86 Victoria Road Kennedy Town Hong Kong	Chinese
Mr. Tang Che Yin (鄧自然)	House 120 Seasons Monarch 183 Kam Tin Road Yuen Long New Territories Hong Kong	British
Non-executive Director		
Mr. Yung Kwok Kee Billy (翁國基)	6A Purves Road Jardine's Lookout Hong Kong	Chinese
Independent non-executive Directors		
Mr. Leung Man Chiu Lawrence (梁文釗)	Flat B, 60/F Tower 1, Bellagio 33 Castle Peak Road Sham Tseng New Territories Hong Kong	Chinese
Mr. Poon Chak Sang Plato (潘澤生)	10/F Southern Pearl Court 151–153 Wong Nai Chung Road Hong Kong	Chinese
Mr. Lam Sai Yu Geoffrey (林世愉)	House 2 63 Deep Water Bay Road Hong Kong	Chinese

For further information regarding the Directors, please refer to the section "Directors and Senior Management".

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor	**Red Sun Capital Limited** *A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO* Room 3303, 33/F West Tower, Shun Tak Centre 168–200 Connaught Road Central Hong Kong
Joint Bookrunners	**Futu Securities International (Hong Kong) Limited** *A licensed corporation to carry on type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts), type 7 (providing automated trading services) and type 9 (asset management) regulated activities under the SFO* Unit C1–2, 13/F, United Centre No. 95 Queensway Hong Kong
	CMBC Securities Company Limited *A licensed corporation to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO* 45/F, One Exchange Square 8 Connaught Place, Central Hong Kong
	Essence International Securities (Hong Kong) Limited *A licensed corporation to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO* 39/F, One Exchange Square, Central Hong Kong
	First Shanghai Securities Limited *A licensed corporation to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO* 19/F, Wing On House 71 Des Voeux Road Central Hong Kong

Guosen Securities (HK) Capital Company Limited
A licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Suites 3207–3212, 32/F
One Pacific Place
88 Queensway
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
A licensed corporation to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Red Sun Capital Limited
A licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Room 3303, 33/F
West Tower, Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

Shanxi Securities International Limited
A licensed corporation to carry on type 1 (dealing in securities) regulated activity under the SFO
Unit A, 29/F, Admiralty Center Tower 1
18 Harcourt Road, Admiralty
Hong Kong

Joint Lead Managers

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SOURCE AND RELIABILITY OF INFORMATION

Background of Ipsos

The Group commissioned Ipsos Business Consulting to conduct an analysis of, and to report on the electric appliances and tools manufacturing and export industry in China at a fee of HK$506,000 and the Directors consider that such fee reflects market rates. Ipsos is an independent market research company wholly-owned by Ipsos Group S.A.. Founded in Paris, France, in 1975 and publicly-listed on the NYSE Euronext Paris in 1999, Ipsos Group S.A. acquired Synovate Limited in October 2011 and employs approximately 18,000 personnel worldwide across 90 countries. Ipsos Group S.A. conducts research on market profiles, market size, share and segmentation analyses, distribution and value analyses, competitor tracking and corporate intelligence. Ipsos Business Consulting, a division of Ipsos, has solid experience in conducting market research for various industries in initial public offerings of companies listed on the Stock Exchange.

Research methodology

The information in the Ipsos report are derived by data and intelligence obtained by: (a) primary research via in-depth telephone conversations and face to face interviews with key knowledge leaders; (b) secondary desk research by gathering background information and to support facts and identify trends on the industry; and (c) performing client consultation to facilitate the research including in-house background information of the client (such as the business of the Group). The information and statistics as set forth in this section have been extracted from the Ipsos Report.

Assumptions and parameters used in the Ipsos Report

The following bases and assumptions are used in the market sizing and forecasting model in the Ipsos Report:

- It is assumed that the global economy remains in steady growth across the period from 2019 to 2023;
- The external environment is assumed to have no shocks, such as financial crises or natural disasters, that will influence the demand and supply of electric appliances and tools manufacturing industry from 2019 to 2023.

The following parameters are used in the market sizing and forecasting model in the Ipsos Report:

- GDP and GDP growth rate in the United States, Australia and Middle-East from 2013 to 2018 and forecast from 2019 to 2023.
- Historical price trend of copper, Acrylonitrile-Butadiene-Styrene Copolymers and Tin from 2013 to 2018 in China.
- Historical export price of electric fans, electric portable lights and electric vacuum cleaners in China and Hong Kong.

The Directors confirmed that, as at the Latest Practicable Date, after taking reasonable care, there is no adverse change in the market information since the date of the Ipsos Report which may qualify, contradict or have an impact on the information in this section.

Except as otherwise noted, all the data and forecasts contained in this section are derived from the Ipsos Report.

MARKET OVERVIEW OF THE GLOBAL ELECTRIC APPLIANCES AND TOOLS INDUSTRY

The global electric appliances and tools industry comprises of electric home appliances and electric tools. In the past few years, the global electric appliances and tools industry has grown steadily due to the increasing demand brought by the rising urbanised lifestyle worldwide. Supported by the rising income of households, people are willing to pay a premium for electric appliances and tools beyond basic necessities, such as electric vacuum cleaners and portable lights.

In 2018, the global power tools market, comprises electric tools, pneumatic tools and engine-driven tools, grew by approximately 6.0% year-over-year and worth approximately US$39.7 billion. Electric tools, a type of power tools, refer to devices that are activated by a power source apart from manual labour. Demand for electric tools mainly comes from countries such as the United States, China and Latin America. Besides, supported by the development of e-commerce, online retail has become a major sales channel of electric appliances and tools.

The demand for electric vacuum cleaners, electric portable lights and electric fans are supported by the growing implementation in the industrial sector. In particular, industrial vacuum cleaners, portable lights and electric fans are mainly driven by the construction industry and the DIY market. Electric tools are utilised in DIY market where they help in performing tasks such as screw driving, drilling and polishing. Home users also use electric tools to undertake refurbishment and improvement projects, such as house repair and maintenance. The demand for electric tools is growing in the global market, due to the populace seeking to improve their home spaces to ensure a better standard of living. Moreover, factors such as the high cost of professional electricians and mechanics have led to a popularity of the DIY culture in developed countries, especially in the U.S.

The increased construction values have indicated a rising demand for electric fans, electric vacuum cleaners and electric portable lights in the construction industry. According to the United States Census Bureau, annual value of construction work takes place in the US increased from USD898.4 billion in 2013 to USD1,297.7 billion in 2018, rising at a CAGR of approximately 7.6%. Meanwhile, according to the Australian Bureau of Statistics, the value of construction work done in the public sector increased from AUD44.6 billion in 2013 to AUD50.3 billion in 2018, at a CAGR of approximately 2.5%. Demand for construction works in the Middle-East also experienced a positive growth throughout the period. In particular, as shown by the Central Statistical Bureau of Kuwait, GDP by construction activity in Kuwait grew from KD897.3 million in 2013 to KD930.7 million in 2018, growing at CAGR of approximately 0.7%. Over the forecast period, the construction sector in the aforementioned countries is expected to continue to drive the demand for electric fans, electric vacuum cleaners and electric portable lights due to the current governments' focus on infrastructure programmes. For instance, the U.S. Department of Transportation announced the Infrastructure of Rebuilding America programme in December 2018, aiming to revitalising, repairing and rebuilding America's ageing infrastructure. The Australian Government released a Infrastructure Priority list, presenting 121 infrastructure projects and a AUD58 billion project pipeline designed to guide the next 15 years of Australian infrastructure investment. As electric fans, electric vacuum cleaners and electric portable lights may be used at construction sites, the development of the construction industry is expected to fuel the demand for the three products.

Electric fans

The growing construction industry has positively affected the demand for electric fans. In particular, the demand for cordless fans is expected to be positively affected due to its common usage in the construction industry across the globe. A cordless fan is suitable for the use in construction site, shops, camping and other outdoor occasions. It allows the delivery of sufficient airflow without the use of extended cord, and creates great convenience to construction sites.

Electric vacuum cleaner

In general, large amount of dust and tailings are produced at construction sites constantly. Being exposed to some of the chemicals can lead to serious health problems. Industrial vacuum cleaners are often designed to contain easy filter replacement with integrated filter cleaning system, and are adopted at construction sites to meet the rising health standards at workplaces. To facilitate the special needs for construction activities, a rising demand for industrial vacuum cleaners was observed.

Electric portable lights

To facilitate the rising urbanisation and expanding population worldwide, more construction activities have been carried out, the demand for a typically jobsite portable lights was therefore boosted. Particularly, light tower, a portable source of light where a collection of powerful lamps is attached to a mast that is connected to a trailer, is commonly used at construction sites, mining, and oil field applications. Being a vital source of lighting applied during construction activities, development of construction industry has a positive impact on the growth of electric portable lights.

Retail sales value of the electric fans industry in the United States, Australia and Middle-East

Retail sales value of electric fans	2013	2014	2015	2016	2017	2018	CAGR 13–18
United States *(US$ million)*	2,194.4	2,284.4	2,361.1	2,416.1	2,491.1	2,611.5	3.5%
Australia *(AUD million)*	270.3	276.6	285.7	293.8	299.3	299.4	2.1%
Middle-East *(AED million)*	444.1	446.6	445.0	453.4	458.2	471.1	1.2%

Retail sales value of electric fans	2019F	2020F	2021F	2022F	2023F	CAGR 19F–23F
United States *(US$ million)*	2,696.6	2,797.5	2,898.6	3,001.3	3,105.5	3.6%
Australia *(AUD million)*	305.7	311.5	318.0	323.7	330.1	1.9%
Middle-East *(AED million)*	484.2	497.8	511.7	524.0	537.8	2.7%

Source: Ipsos research and analysis

The retail sales value of electric fans in the United States, Australia and the Middle East grew at a CAGR of approximately 3.5%, 2.1% and 1.2% respectively from 2013 to 2018. The growth in retail sales was mainly attributed to the increasing demand for electric fans products, as supported by the rising import volume. For instance, the import volume of electric fans in the United States increased from 45.6 million units in 2013 to 63.0 million units in 2018, rising at a CAGR of approximately 6.7%.

The retail sales value of electric fans in the United States, Australia and the Middle East is expected to grow at a CAGR of approximately 3.6%, 1.9% and 2.7% respectively from 2019 to 2023. The retail sales market of electric fans is anticipated to grow as supported by continuous technological development and product innovation. Electric fans are expected to equip with more functions and features, such as bladeless fans with hot and cool functions, which further improve customer experience and enable smart living for users. Multifunctional electric fans are expected to entice consumption and boost the retail sales market in the forecast period. Also, the demand for cordless fans is expected to be positively affected due to its common usage in the construction industry across the globe. A cordless fan is suitable for the use in construction site, shops, camping and other outdoor occasions. It allows the delivery of sufficient airflow without the use of extended cord, and create great convenience to construction sites.

Retail sales value of the electric vacuum cleaners industry in the United States and Mexico

Retail sales value of electric vacuum cleaners	2013	2014	2015	2016	2017	2018	CAGR 13–18
United States *(US$ million)*	3,762.0	3,839.1	3,932.0	4,049.6	4,177.2	4,250.3	2.5%
Mexico *(US$ million)*	140.0	136.3	124.3	137.6	174.0	201.0	7.5%

Retail sales value of electric vacuum cleaners	2019F	2020F	2021F	2022F	2023F	CAGR 19F–23F
United States *(US$ million)*	4,324.7	4,400.3	4,532.4	4,679.6	4,862.1	3.0%
Mexico *(US$ million)*	212.4	226.8	239.8	252.3	259.7	5.2%

Source: Ipsos research and analysis

The retail sales value of electric vacuum cleaners in the United States and Mexico grew at a CAGR of approximately 2.5% and 7.5% respectively from 2013 to 2018. The increase in the retail sales value is mainly attributed to the increasing urban population as well as the rising household disposable income. Particularly, the urban population in Mexico increased at a CAGR of 1.6% from 2013 to 2018, while the household disposable income increased from US$14,594 in 2013 to US$16,310 in 2018, growing at a CAGR of 2.8%. Household appliances, such as vacuum cleaners, are gradually viewed as a basic component of urban apartments. Urbanisation and the increasing income have then boosted the demand for vacuum cleaners, driving up the retail sales value of vacuum cleaners.

The retail sales value of electric vacuum cleaners in the United States and Mexico is forecasted to grow at a CAGR of approximately 3.0% and 5.2% respectively from 2019 to 2023. Moving forward, demand for vacuum cleaners will be motivated by the convenience it brings to home cleaning, further supported by an increasingly hectic lifestyle of urban citizens. Furthermore, demand is expected to increase for more innovative products that offer ease of convenience and save time such as robotic vacuum cleaners, which allow consumers to clean with higher efficiency in less time. Products are that more eco-friendly and energy efficient are also expected to drive future growth as consumers become more concerned with the environmental implications of their lifestyle.

In addition, the demand for vacuum cleaners was also contributed by professional demand for more efficient and convenient power tools in the United States. Consumers are increasingly seeking sophisticated and advanced solutions for industrial usage, driving demand for power tools that utilise newer technologies which provide better performance. Incorporation of new technologies in the design of heavy-duty vacuum cleaners which are widely used on job sites has positively affected the growth of vacuum cleaners.

Retail sales value of the electric portable lights industry in the United States and Mexico

Retail sales value of electric portable lights	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**CAGR 13–18**
United States *(US$ million)*	971.7	1,018.9	1,065.7	1,112.6	1,164.7	1,206.5	4.4%
Mexico *(US$ million)*	228.1	239.2	236.0	223.2	231.7	241.8	1.2%

Retail sales value of electric portable lights	**2019F**	**2020F**	**2021F**	**2022F**	**2023F**	**CAGR 19F–23F**
United States *(US$ million)*	1,248.7	1,311.4	1,376.6	1,466.0	1,530.0	5.2%
Mexico *(US$ million)*	253.6	257.2	264.2	265.0	264.7	1.1%

Source: Ipsos research and analysis

The retail sales value of portable lights in the United States and Mexico grew at a CAGR of approximately 4.4% and 1.2% respectively from 2013 to 2018. Portable light is commonly found in construction sites and workshops due to its mobility and flexibility. The retail sales value of the portable lights is affected by the performance of the construction industry. In Mexico, the local production value of the construction industry declined at a negative CAGR of approximately 1.2%. The poor performance of the construction industry had slowed down the growth of the portable lights retail market from 2013 to 2017. The increase in the retail sales value of portable lights from 2017 to 2018 was mainly attributed to the increase in inflation rate in Mexico. According to IMF, the average price index in Mexico increased from 90.1 in 2016 to 100.3 in 2018, rising at a CAGR of approximately 5.5%. The increase in the general price level have then pushed up the retail sales value of portable lights in Mexico from 2017 to 2018.

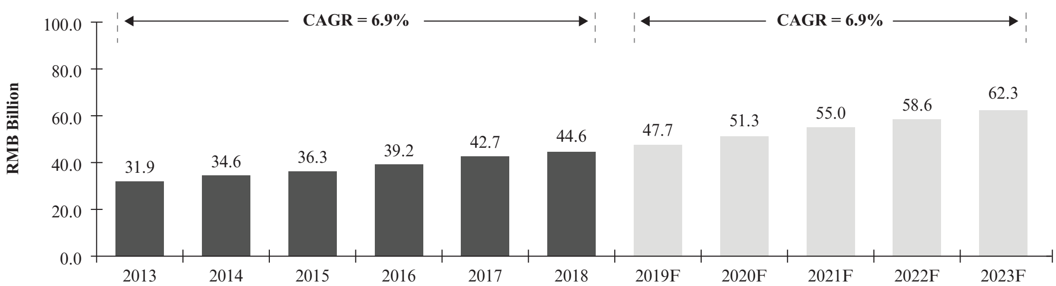
The retail sales value of portable lights in the United States and Mexico is expected to continue to grow at a CAGR of approximately 5.2% and 1.1% respectively from 2019 to 2023. Over the forecast period, the construction sector is expected to continue driving the demand for portable lights in the United States due to the current U.S. Government's focus on infrastructure programmes. Meanwhile, the construction industry in Mexico will regain a positive growing trend due to the government's initiatives in developing infrastructures. In 2018, the Mexican government announced that it will prioritise the seven major infrastructure projects with an investment of US$26.5 billion. As electric portable lights are used at construction sites, the development of the construction industry is expected to fuel the demand for electric portable lights.

THE ELECTRIC APPLIANCES AND TOOLS MANUFACTURING INDUSTRY IN CHINA

The value chain of the electric appliances and tools manufacturing industry involves raw material procurement, component manufacturing, processing and assembling, and offering the final products to key customers. They can be segmented into three services types: i) Original Equipment Manufacturers (OEM): companies manufacturing components or products which are rebranded by another firm for sale; ii) Original Design Manufacturers (ODM): companies designing and manufacturing components or products which are rebranded by another firm for sale; and iii) Original Brand Manufacturers (OBM): companies designing, manufacturing and selling products under their brand name.

Estimated revenue of the electric fans manufacturing industry in China

Estimated revenue of the electric fans manufacturing industry in China from 2013 to 2023F



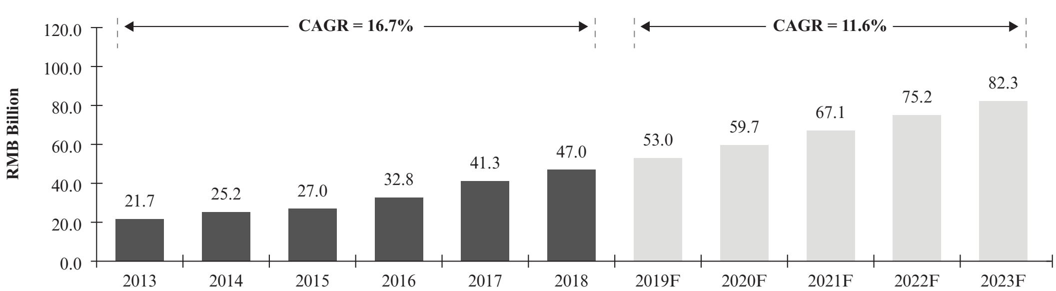
Source: Ipsos research and analysis

The revenue of the electric fans manufacturing industry in China increased from RMB31.9 billion in 2013 to RMB44.6 billion in 2018, rising at a CAGR of approximately 6.9%. The continuous growth was attributed to the stable demand for electric fans from other importing countries, such as the United States, the Middle- East and Australia. China's sophisticated manufacturing technique and skilled labour force have been major competitive advantages over other manufacturing countries, such as Cambodia.

Over the forecast period, the revenue of the electric fans manufacturing industry in China is expected to grow from RMB47.7 billion in 2019 to RMB62.3 billion in 2023, growing at a CAGR of approximately 6.9%. The demand for electric fans from China is anticipated to be stimulated by the improvement of exterior design and functions of fans. Particularly, the rising demand for high-tech fans, which require complex and mechanical manufacturing techniques, is anticipated to support the electric fans manufacturing industry in China.

Estimated revenue of the electric vacuum cleaners manufacturing industry in China

Estimated revenue of the electric vacuum cleaners manufacturing industry in China from 2013 to 2023F



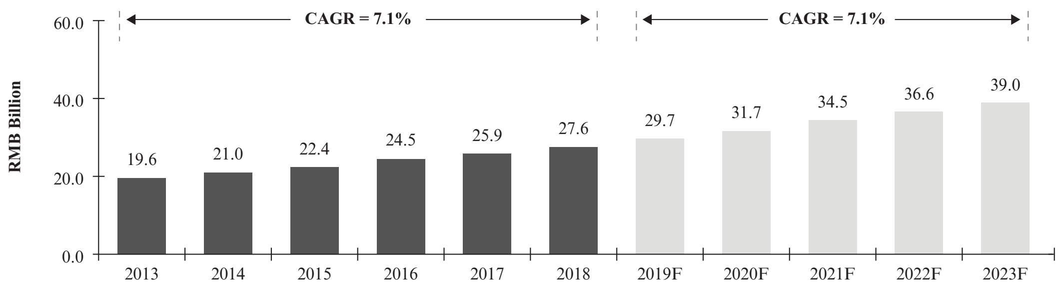
Source: Ipsos research and analysis

The revenue of electric vacuum cleaners manufacturing industry grew from RMB21.7 billion in 2013 to RMB47.0 billion in 2018, growing at a CAGR of approximately 16.7%. During 2016 and 2017, the evolution of robotic vacuum cleaner has boosted the demand for electric vacuum cleaners manufacturing industry in China. Robotic vacuum cleaners, a combination of traditional vacuum cleaner and technology, enables automatic cleaning and remote control through mobile devices. The efficiency and convenience brought by robotic vacuum cleaners have led to higher penetration among customers, especially the younger generation.

From 2019 to 2023, the revenue of electric vacuum cleaners manufacturing industry in China is anticipated to grow from RMB53.0 billion to RMB82.3 billion, expanding at a CAGR of approximately 11.6%. The continuous innovation on electric vacuum cleaners such as cordless vacuum cleaners is expected to drive the industry in the forecast period. With additional functions and features on these newly innovated electric vacuum cleaners, more complex and technical manufacturing skills is required. China's sophisticated manufacturing technique and relatively low production costs compare to other developed countries are, therefore, expected to bring business opportunities and underpin the demand for the electric vacuum manufacturing industry in China.

Estimated revenue of the electric portable lights manufacturing industry in China

Estimated revenue of the electric portable lights manufacturing industry in China from 2013 to 2023F



Source: Ipsos research and analysis

The revenue of the electric portable lights manufacturing industry in China grew from RMB19.6 billion in 2013 to RMB27.6 billion in 2018, rising at a CAGR of approximately 7.1%. Electric portable lights are frequently used in job sites. With the popularity of outdoor activities, the demand for portable lights from individual consumers has increased.

From 2019 to 2023, the revenue of the electric portable lights manufacturing industry in China is anticipated to grow from RMB29.7 billion in 2019 to RMB39.0 billion in 2023, growing at a CAGR of approximately 7.1%. The Chinese government is placing greater emphasis on encouraging manufacturers to develop energy-saving lights, which is expected to generate higher value and profits for portable lights manufacturers.

Major Cost Analysis

The table below sets forth the major costs in the electric appliances and tools manufacturing industry from 2013 to 2018:

	2013	2014	2015	2016	2017	2018	CAGR 13–18
Copper *(RMB per ton)*	53,308.8	49,135.4	40,914.2	38,245.1	49,209.0	50,483.1	–1.1%
Acrylonitrile-Butadiene-Styrene Copolymers *(RMB per ton)*	14,647.1	14,195.2	11,409.5	11,425.2	15,541.4	16,796.3	2.8%
Tin *(RMB per ton)*	147,407.0	138,891.7	109,752.4	119,306.6	143,553.3	145,468.8	–0.3%
Annual average wage of urban manufacturing workers *(RMB)*	46,431.0	51,369.0	55,324.0	59,470.0	64,452.0	N/A	8.5% (CAGR 13–17)

Sources: National Bureau of Statistics, PRC; Ipsos research and analysis

COMPETITIVE LANDSCAPE OF THE ELECTRIC APPLIANCES AND TOOLS MANUFACTURING INDUSTRY IN CHINA

The electric appliances and tools manufacturing industry in China is considered mature and fragmented with a large number of players. According to the National Bureau of Statistics, there were 24,190 manufacturers of electrical machinery and equipment in 2018.

In 2018, the Group recorded a revenue of approximately RMB23.2 million in the fans manufacturing industry, approximately RMB63.7 million in the vacuum cleaner manufacturing industry and approximately RMB45.9 million in the portable lights manufacturing industry. The Group accounted for approximately 0.1%, 0.1% and 0.2% of total market share in the fans, vacuum cleaners and portable light manufacturing industries, respectively.

MARKET DRIVERS

The production technology for the manufacturing industry is under rapid development in recent years, especially in the electrical appliances and tools manufacturing industry in China. Years of experiences and advanced manufacturing technique are recognised advantages in the manufacturing industry in China. Supported by the innovation and equipment upgrades, production technologies amongst manufacturers have improved from different aspects. Hence, customers prefer to purchase electric appliances and tools manufactured in China.

The Chinese government, through its various initiatives such as providing education and improving labour skills by allocating training courses, have put in place, a highly-skilled labour force to support the growth of the electric appliances and tools manufacturing industry in China. Skilled labours have more experiences on identifying the problems inevitably associated with machineries, tools and the manufacturing process. Therefore, customers are confident to purchase electric appliances and tools from China, driving the electric appliances and tools manufacturing industry.

ENTRY BARRIERS

Well-established relationship between existing manufacturers and their customers often pose entry barriers for new entrants. Customers often do not replace their manufacturing partners whom they have been in collaboration with for a period of time. Established manufacturers-customers partnerships provide manufacturers understandings on customers' requirements on product quality and specifications. In addition, switching manufacturing partners may expose customers to the additional costs and risk inconsistency product quality and potential difficulties in communications. Due to the preference of customers to purchase manufacturing services from the existing manufacturer, new entrants without established relationships with customers may find difficulties in winning business from existing market players and building up their customer bases.

Large initial capital investment is required to setup a manufacturing service. The electric appliances and tools manufacturing industry process is a multi-stage production, including different production methods, manufacturing techniques and quality checking methods that require large investment commitment in various types of machineries and equipment. Therefore, the high capital requirements serve as a deterrent to new entrants in the electric appliances and tools manufacturing industry.

OPPORTUNITIES

Under the 13th five-year plan published by the PRC government, the PRC government is committed to modernize the industrial system by implementing 'Made in China 2025' plan. A series of policies and initiatives, such as VAT reduction as well as the establishment of manufacturing innovation center, have been implemented to modernize China's manufacturing industry. These policies aim to reduce the overall manufacturing costs and improve overall product quality. With the support from the PRC government in the coming years, it is predicted that electronic appliances and tools manufacturers can benefit from these policies and transform the industry into a higher value-added and modern industry with high competitiveness in global market.

Early participation in global outsourcing market enabled China to acquire more advanced and mature manufacturing skills than other developing countries, such as Cambodia. Combining with mature infrastructures, supply chains as well as industrial and financial ecosystems developed in the past decades, a good foundation has been established for manufactures to move up the global value chain and produce higher value-added and high-tech appliances and tools in the future.

THREATS

The manufacturing industry has been facing increasing production costs. The increase in production costs is mainly attributed to the increasing labour cost in China. According to the National Bureau of Statistics of China, the average wage of workers in manufacturing industry increased from RMB46,431.0 in 2013 to RMB64,452.0 in 2017, rising at a CAGR of approximately 8.5%. The increase in labour cost has contributed to a continuous increase in overall production costs in the industry, which in turn lower the profit margin of projects.

Low labour cost in China had been an advantage for manufacturing industry in past decades. However, such advantage is gradually fading in recent years. The cost advantage of other developing countries, such as Cambodia and Thailand, pose competitions to the manufacturing industry in China. Foreign companies are moving their production lines from China to other developing countries in the region due to the cost advantage possessed by them, posing a threat to the electric appliances and tools manufacturing industry in China.

THE ELECTRIC APPLIANCES AND TOOLS EXPORTING INDUSTRY IN CHINA

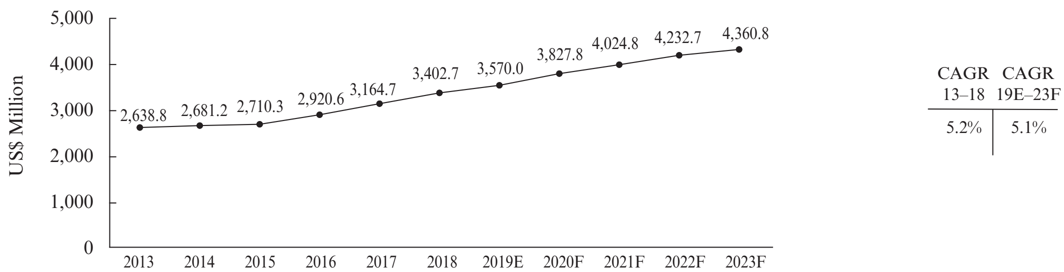
China is the largest electric appliances and tools exporting country in the world, followed by Hong Kong and the United States. In 2017, China accounted for approximately 24.3% of the total world export of electrical machinery and equipment. China's electric appliances and tools exporting industry is supported by its well-established supply chain, sophisticated manufacturing technique and experience, which allows the production of quality electric appliances and tools as well as competitive export price to other manufacturing countries.

The expected growth of the exporting industry in the next five years will be mainly contributed by continuous innovation of products. Technological development enables manufacturers to deliver smarter and more energy-saving electric appliances and tools in the exporting industry. Meanwhile, with the improving living standard in developing countries where the adoption of the products is still not popularised, demand for electric appliances and tools in such countries is expected to make a higher contribution to China's exports of electric appliances and tools.

From 2019 to 2023, the total export value of electric fans and electric portable lights are expected to grow at a CAGR of approximately 5.1% and 0.9%, respectively assuming the global economy remain in steady growth. However, the Sino-U.S. trade war may bring negative impact to the electric vacuum cleaners exporting industries in China. Taking into account the potential impact brought by the tariffs to be imposed, the total export value of electric vacuum cleaner is expected to remain stable from 2019 to 2023. Nevertheless, the U.S. and China have reached an agreement on a Phase One trade deal in December 2019, under which the U.S. has determined to suspend the imposition of additional duties of 15 percent on a list of products including electric fans and electric portable lights, which otherwise would have been effective on 15 December 2019.

Total export value of electric fans in China

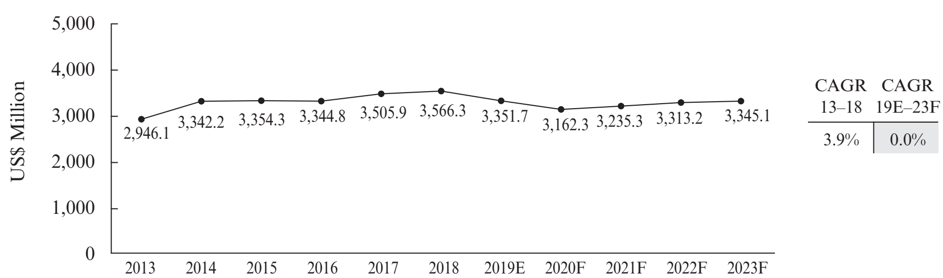
Total export value of electric fans 2013 to 2023F



Notes: i) E denotes estimate;
ii) HS code used: 841451
Sources: UN Comtrade; Ipsos research and analysis

Total export value of electric vacuum cleaners in China

Total export value of electric vacuum cleaners 2013 to 2023F



Notes: i) The U.S. has imposed a 10% tariff on vacuum cleaners imported from China in September 2018 and the tariff increased to 25% in May 2019. The current forecast estimation has taken into account the potential impact bought by the trade war with the below assumptions and limitations:

Assumptions:

1. *No additional tariffs will be imposed on the product until 2023;*
2. *Despite the impact of the Sino-U.S. trade war, the external environment shall have no shocks, such as financial crises or natural disasters, that will influence the demand and supply of the electric appliances and tools of the exporting industry in China;*
3. *Other than the U.S., the demand for China's export from other countries shall remain stable;*
4. *The parameters gathered from public sources, organisations and in-depth interviews are credible and reliable with no significant deviations from the actual figures.*

Limitations:

1. *The Sino-U.S. trade war remains at the negotiation phase with plenty of uncertainties on the (i) duration and (ii) the breadth and depth of the economic impact on the global economy and the U.S. import value from China. The actual impact of the Sino-U.S. trade war is subject to the trade negotiation between the two countries;*
2. *The forecast is estimated on 11 November 2019, all forecast figures are subject to change based on any status update on the Sino-U.S. trade war situation;*
3. *The potential impact of the Sino-U.S. trade war on China's trading partners, other than the U.S., can not be determined.*

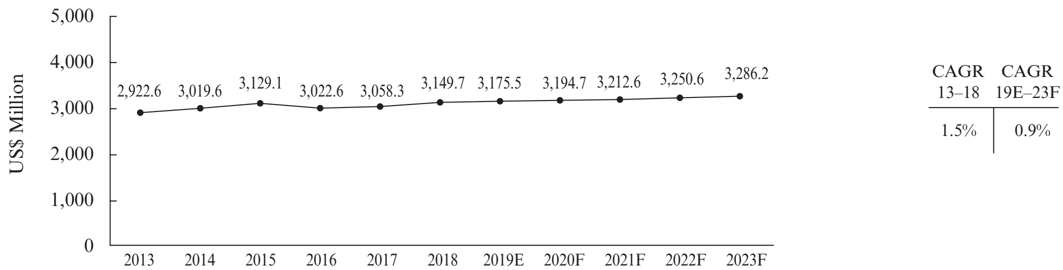
4. The parameters used for the forecast figures are information gathered from publicly available sources, organisations such as the World Bank, International Monetary Fund, World Trade Organisation, United States International Trade Commission, UN Comtrade, General Administration of Customs, China, and in-depth interviews with industry stakeholders, which may not truly reflect the actual impact of the Sino-US trade war.

ii) HS code used: 8505

Sources: UN Comtrade; Ipsos research and analysis

Total export value of electric portable lights in China

Total export value of electric portable lights 2013 to 2023F



Notes: i) E denotes estimates;

ii) HS code used: 8513

Sources: UN Comtrade; Ipsos research and analysis

Historical export price of electric fans, electric portable lights and electric vacuum cleaners in China

Historical export price (RMB per unit)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**CAGR 13–18**
Electric fans	85.1	83.0	84.5	78.2	84.5	84.7	–0.1%
Electric Portable lights	11.1	10.8	10.9	11.3	11.3	11.2	0.2%
Electric vacuum cleaners	192.8	199.7	204.4	208.4	224.4	227.6	3.4%

Sources: UN Comtrade; Ipsos research and analysis

COMPETITIVE LANDSCAPE OF THE ELECTRIC APPLIANCES AND TOOLS EXPORTING INDUSTRY IN CHINA

In general, most of the players in the electric appliances and tools exporting industry are exporting manufacturers who export their manufactured electric appliances and tools products to other overseas buyers, while there are only a few trading companies who source electric appliances and tools from local manufacturers and export to other foreign countries. The electric appliances and tools exporting industry in China is mature and fragmented. In 2018, the Group accounted for approximately 0.5%, 0.3% and 0.2% of total market share in the electric fans, vacuum cleaners and portable light exporting industries, respectively.

In 2018, the United States was the top one exporting destination of electric fans, electric portable lights and electric vacuum cleaners in China, accounting for 33.0%, 17.0% and 34.0% of the total export value respectively.

MARKET DRIVERS

In China, value-added tax (VAT) is imposed at daily goods consumption, materials procured and different stages of the production process. As a major export promotion strategy of the Chinese Government, the export tax rebate policy enables exporters to redeem the value-added tax (VAT) paid on exported goods during domestic production and circulation. The State Council of the PRC announced an increase to export tax rebates and speed up export tax rebate payments in supporting foreign trades, effective from 1 November 2018. The export tax rebate has increased from a minimum of 13% to 16%, from 9% to a maximum of 13%, and from 5% to a maximum 10%, depending on the type of exported goods. Meanwhile, synchronise adjustment were made on the export tax rebate and the value-added tax (VAT) on electric fans, electric portable lights and electric vacuum cleaners. The VAT for electric fans, electric portable lights and electric vacuum cleaners has remained the same with the export tax rebate rate. As such, the export tax rebate offset the VAT for electric fans, electric portable lights and electric vacuum cleaners and alleviate the tax burden of the exporters. Additionally, the Chinese government has shortened the tax refund processing time from 13 working days to 10 working days. The shorter processing time aid to improve cash flow liquidity for exporters. Electric appliances and tools exporters can, therefore, adopt a flexible and competitive pricing strategy in exporting and attract more business opportunities.

Additionally, China has signed and implemented 18 free trade agreements (FTAs) with countries such as Australia, Maldives and Peru. With the implementation of free trade agreements, developed infrastructure and opening up the Chinese market, Chinese manufacturers can export manufactured products more efficient and cost-effectively.

Supported by the technology development, Chinese exporters are able to stay competitive in the global market, by offering "made-in-China" products with more functions, which could attract OEM consumers to pay higher prices to obtain products with better user experience. The advancements in China electric appliances and tools products will provide a better user experience for foreign consumers. Nowadays, the manufacturing industry of electric appliances and tools in China is experiencing a rapid development, and there are two significant trends in this industry, (i) intelligence and (ii) environmental protection, that may boost the foreign replacement needs for electric appliances and tools.

ENTRY BARRIERS

Exporters required working capital to ensure sufficient internal liquidity to process and acquire goods and services in the fulfilment of export orders and/or to extend favourable payment terms to customers. Exporters generally have to pay for manufacturer products up-front or keep a certain level of inventory to meet customers' demand. However, there is usually a time-lag between when the order is placed and when the customer settles the outstanding payment. While there are financial facilities available for exporters, availability is generally limited to financially-stable large corporation or established small-medium enterprises with access to strong personal guarantees, collaterals or high-value account receivables.

The exporting industry of electric appliances and tools is highly fragmented, with fierce competition. Industry experience and track record are typically considered by overseas OEM customers as key evaluation criteria for selecting suppliers. OEM customers general prefer existing trading partners reducing the risks that the products delivered by the exporter might not meet their expectations requiring additional efforts, costs and time to remediate. New entrants with no previous relationship, limited experience and track record without a solid reputation may face difficulties in building up their overseas customer base.

OPPORTUNITIES

The belt and road initiative (BNR) is boosting the exports of China electric appliances and tools. BNR helps domestic suppliers to advertise their home appliances in the foreign markets, and to improve their brand awareness among the overseas consumers. Meanwhile, as the trade cooperation between China and other countries along the routes of BNR become closer, electric appliances suppliers in China might obtain the opportunity that exports their products to wider areas at lower tariffs. The continuous promotion of and the cooperation with additional countries through the BNR initiative presents great potential growth for exporters of the electric appliances and tools in China.

"Made in China 2025" is an initiative to comprehensively upgrade Chinese manufacturing industry involving subsidies and heavy investments in research and innovation supported by the Chinese Government. Manufacturing industry of home appliances is also on the list of subsidies. Also, with the "Made in China 2025" initiative, the overall industry will transform to be more innovation-driven, emphasizing quality over quantity. Hence, the optimization of industry structure stimulated by "Made in China 2025" will strengthen the overall competitiveness of electric appliances and tools products from Chinese players in the global market, which in turn, would benefit Chinese exporters with a focus of partnering with or are part of the manufacturers business in China.

THREATS

Affected by the deterioration of the global trade environment and tightening of monetary policy in 2018, the continuous economic growth of emerging markets faces great challenges. To prevent large fluctuations in domestic financial markets, emerging markets such as India and Southeast Asia have begun to limit the outflow of foreign currency by implementing import control policies. For instance, in 2018, Malaysia reintroduced the SST (sales and services tax) in 2018 for export commodities, which included home appliances. As the largest exporter of electrical appliances, China is at the most risks of being negatively imported by such regulations.

The trade war between China and the US has been affecting Chinese exports into the US market. In September 2018, the US government announced to impose tariffs on goods such as many electric appliances and tools originated from China. According to the United States Trade Representative, the rate of additional duty on vacuum cleaner was proposed to be increased from 25 percent to 30 percent, effective in October 2019. If additional tariff was to be imposed on such electric appliances and tools, Chinese manufacturers who supply these products to the U.S. would have to bare the effects such as marginal increases in export prices and rise in operating costs. Sharing the increase in costs brought by the additional tariffs, or passing certain portion of the increased cost along to the direct customers remain to be the negotiable tactics among Chinese electric appliances and tools manufacturers and US companies in dealing with the imposition of tariffs. Unless the imposed tariffs were removed or reduced, Chinese exporters will lose the price advantage on exporting electric appliances and tools, which might provide an opportunity for other countries to seize the US market.

MARKET OVERVIEW OF THE ELECTRIC APPLIANCES AND TOOLS IMPORTING INDUSTRY IN THE UNITED STATES

Over 2013 to 2018, the U.S demand for electric fans, electric portable lights and electric vacuum cleaners from China was stable, growing at a CAGR of approximately 6.2%, 4.8% and 12.0%, respectively. Notably, following the upsurge of robotic vacuum cleaners, the import value of electric vacuum cleaners from China has grown significantly. Demand for the three products has been increasing stably in the U.S market with the total import of electric fans increasing at a CAGR of approximately 6.8%, electric portable lights at a CAGR of approximately 4.3% and electric vacuum cleaners at a CAGR of approximately 9.0% from 2013 to 2018.

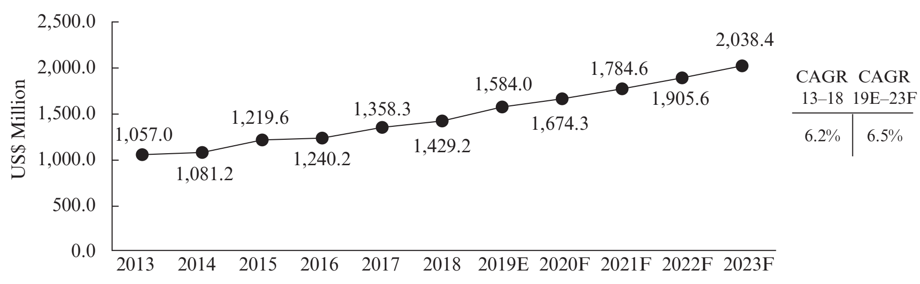
China, as known as the "world factory", was the largest exporting country of electric fan, electric portable lights and electric vacuum cleaners worldwide in 2018. The sophisticated manufacturing technique and product quality of Chinese manufactured products have gained traction from brands across the globe, which make China the biggest partner with many U.S brand owners for OEM, OBM and ODM services. The U.S has built reliance on Chinese exported electric appliances and tools. In 2018, approximately 94.0% of electric fans, 94.2% of electric portable lights and 74.6% of electric vacuum cleaners imported by the U.S were originated from China. On the other hand, the U.S only accounted for approximately 33.3% of electric fans, 40.4% of electric vacuum cleaners and 16.8% of electric portable lights of China's export.

The ongoing Sino-U.S. trade war might cause an adverse impact on the U.S. import value from China. According to the United States Trade Representative, 25 percent duty on electric vacuum cleaner was imposed on May 2019. Taking into account the potential impact brought by the tariffs to be imposed, the U.S. import value from China of electric vacuum cleaners is expected to decline at a negative CAGR of approximately 1.4%, from 2019 to 2023. Follow by the 25% tariffs imposed on electric vacuum cleaners on May 2019, the U.S. import value of electric vacuum cleaner from China in 2019 is anticipated to drop at a negative year-over-year of approximately 25.6% as an effect of the Sino-U.S. trade war. According to the United States International Trade Commission, the import value of vacuum cleaners from China in the first nine months of 2019 (January to September) has dropped at a negative year-over-year of approximately 26.8% to the same period in 2018. Potentially, U.S customers may shift their manufacturing partners from China to other Asian countries such as Vietnam, Korea and India due to the increase in the US import tariff. Nevertheless, U.S heavy reliance on Chinese electric appliances and tools may allow higher bargaining power to Chinese exporters and burden of tariffs may be passed on U.S customers. In any case, sharing the increase in costs brought by the additional tariffs, or passing certain portion of the increased cost along to the direct customers remain to be the negotiable tactics among Chinese electric appliances and tools manufacturers and US companies in dealing with the imposition of tariffs.

Based on the latest Sino-U.S. trade negotiations and statistics available, the below sets forth the U.S. import value from China of electric fans, portable lights and vacuum cleaners from 2019 to 2023:

The United States import value of electric fans from China

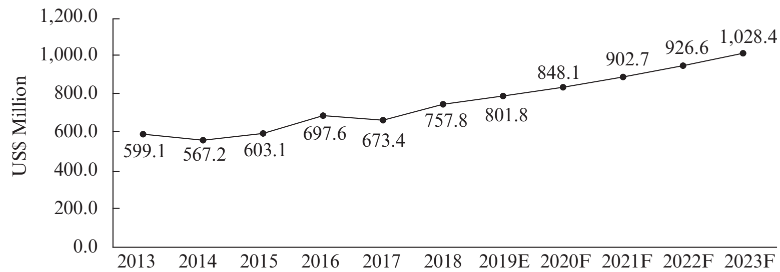
The United States import value of electric fans from China from 2013 to 2023F



Sources: United States International Trade Commission; Ipsos research and analysis

The United States import value of electric portable lights from China

The United States import value of electric portable lights from China from 2013 to 2023F

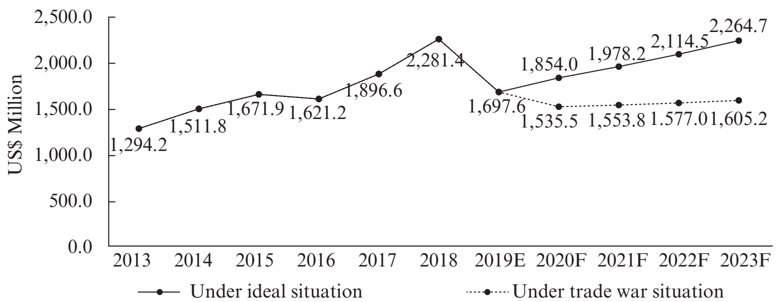


CAGR 13–18	CAGR 19E–23F
4.8%	6.4%

Sources: United States International Trade Commission; Ipsos research and analysis

The United States import value of electric vacuum cleaners from China

The United States import value of electric vacuum cleaners from China from 2013 to 2023F



	CAGR 13–18	CAGR 19E–23F
Under ideal situation	12.0%	7.5%
Under trade war situation	12.0%	–1.4%

Notes: i) Ideal situation refers to a situation that the global economy remains in steady growth across the period from 2019 to 2023;

ii) Under trade war situation, a 10% tariff was imposed on vacuum cleaners imported from China in September 2018 and the tariff increased to 25% in May 2019.

Sources: United States International Trade Commission; Ipsos research and analysis

The trade war forecast of US import electric vacuum cleaners with the below assumptions and limitations:

Assumptions:

i. *No additional tariffs will be imposed on the product until 2023;*

ii. *Despite the impact of the Sino-U.S. trade war, the external environment shall have no shocks, such as financial crises or natural disasters, that will influence the demand and supply of the electric appliances and tools of the U.S. market;*

iii. *The parameters gathered from public sources, organisations and in-depth interviews are credible and reliable with no significant deviations from the actual figures.*

Limitations:

i. *The Sino-U.S. trade war remains at the negotiation phase with plenty of uncertainties on the (i) duration and (ii) the breadth and depth of the economic impact on the global economy and the U.S. import value from China. The actual impact of the Sino-U.S. trade war is subject to the trade negotiation between the two countries;*

ii. *The forecast is estimated on 11 November 2019, all forecast figures are subject to change based on any status update on the Sino-U.S. trade war situation;*

iii. *The parameters used for the forecast figures are information gathered from publicly available sources, organisations such as the World Bank, International Monetary Fund, World Trade Organisation, United States International Trade Commission and in-depth interviews with industry stakeholders, which may not truly reflect the actual impact of the Sino-US trade war.*

This section sets out a summary of certain aspects of the laws and regulations in Hong Kong, the PRC and international sanction laws which are relevant to the Group's operations and business in Hong Kong and the PRC. Information contained in this section should not be construed as a comprehensive summary of the laws and regulations applicable to the Group.

HONG KONG LAWS AND REGULATIONS

This section sets forth a summary of the laws and regulations which are applicable to the Group's business.

Business registration

The Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong) requires every person carrying on any business to make application to the Commissioner of Inland Revenue in the prescribed manner for the registration of that business. The Commissioner of Inland Revenue must register each business for which a business registration application is made and as soon as practicable after the prescribed business registration fee and levy are paid, issue a business registration certificate or branch registration certificate for the relevant business or the relevant branch as the case may be.

Supply of goods

The Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong), which aims to codify the laws relating to the sale of goods, provides that:

(a) under section 15, where there is a contract for the sale of goods by description, there is an implied condition that the goods shall correspond with the description;

(b) under section 16, where a seller sells goods in the course of a business, there is an implied condition that the goods supplied under the contract are of merchantable quality, except that there is no such condition (i) as regards to defects specifically drawn to the buyer's attention before the contract is made; or (ii) if the buyer examines the goods before the contract is made, as regards defects which that examination ought to reveal; or (iii) if the contract is a contract for sale by sample, as regards defects which would have been apparent on a reasonable examination of the sample; and

(c) under section 17, where there is a contract for sale by sample, there are implied conditions that (i) the bulk shall correspond with the sample in quality; (ii) the buyer shall have a reasonable opportunity of comparing the bulk with the sample; and (iii) the goods shall be free from any defect, rendering them unmerchantable, which would not be apparent on reasonable examination of the sample.

Where any right, duty or liability would arise under a contract for sale of goods by implication of law, it may (subject to the Control of Exemption Clauses Ordinance (Chapter 71 of the Laws of Hong Kong)) be negatived or varied by express agreement, or by the course of dealing between the parties, or by usage if the usage is such as to bind both parties to the contract.

Taxation

Pursuant to the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), profits tax shall be charged for each year of assessment at the standard rate on every person carrying on a trade, profession or business in Hong Kong in respect of his assessable profits arising in or derived from Hong Kong for that year from such trade, profession or business. As at the Latest Practicable Date, the standard rate of profits tax for corporations is 16.5%.

Employment

The main piece of legislation governing conditions of employment in Hong Kong is the Employment Ordinance (Chapter 57 of the Laws of Hong Kong). It provides for various employment-related benefits and entitlements to employees. Pursuant to the Employment Ordinance, all employees covered, irrespective of their hours of work, are entitled to basic protection including payment of wages, restrictions on wages deductions and the granting of statutory holidays, etc. Employees who are employed under a continuous contract are further entitled to benefits such as rest days, paid annual leave, sickness allowance, severance payment and long service payment, etc.

A no-fault, non-contributory employee compensation system for work injuries is established under the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong). The Employees' Compensation Ordinance in general applies to employees who are employed under a contract of service or apprenticeship. Employees employed in Hong Kong by local employers are also covered if they are injured while working outside Hong Kong. An employer is liable to pay compensation in respect of occupational diseases specified in the Employees' Compensation Ordinance suffered by the employees; or in respect of injuries sustained by his employees as a result of an accident arising out of and in the course of employment.

Occupational Safety and Health

The Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong) provides for the safety and health protection to employees in workplaces, both industrial and non-industrial.

Employers must as far as reasonably practicable ensure the safety and health of employees in their workplaces by:

- providing and maintaining plant and work systems that do not endanger safety or health;

- making arrangements for ensuring safety and health in connection with the use, handling, storage or transport of plant or substances;
- providing all necessary information, instruction, training, and supervision for ensuring safety and health;
- providing and maintaining safe access to and egress from the workplaces; and
- providing and maintaining a working environment that is safe and without risk to health for the employees.

Failure to comply with any of the above requirements constitutes an offence and the employer is liable on conviction to a fine of HK$200,000. An employer who fails to do so intentionally, knowingly or recklessly commits an offence and is liable on conviction to a fine of HK$200,000 and to imprisonment for 6 months.

Further, the Commissioner for Labour may, at its discretion, issue improvement notices against non-compliance of this Ordinance and/or a suspension notice against activity of workplace which may create imminent hazard to the employees. Failure to comply with such notice without reasonable excuse constitutes an offence punishable by a fine of HK$200,000 and HK$500,000 respectively and imprisonment of up to 12 months.

Mandatory Provident Fund

The Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) provides an employment-based retirement protection system, the Mandatory Provident Fund scheme ("**MPF**"), a defined contribution retirement scheme administered by independent trustees. Except for exempt persons, both regular or casual employees and self-employed persons who are at least 18 but under 65 years of age and are normally residing and working in Hong Kong are required to join the MPF scheme. Mandatory contributions made by both the employer and employee are fully and immediately vested in the employee once they are paid to the trustee. Under the MPF scheme, the employer and, where the monthly income is HK$7,100 or more, the employees are both required to contribute 5% of the employee's monthly relevant income as mandatory contributions for and in respect of the employee, subject to a statutory maximum cap of HK$1,500 per month.

Minimum Wage

The Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong) applies to all employees being engaged under a contract of employment under the Employment Ordinance, except those employed as domestic workers in, or in connection with, a household and who dwell in that household free of charge, student interns and work experience students during a period of exempt student employment. It provides the wages payable to an employee in respect of any wage period, when averaged over the total number of hours worked in the wage period, should be no less than the statutory minimum wage rate. The statutory minimum hourly wage rate with effect from 1 May 2017 is HK$34.5 per hour and the minimum hourly rate will be adjusted to HK$37.5 per hour with effect from 1 May 2019.

Occupiers Liability

The Occupiers Liability Ordinance (Chapter 314 of the Laws of Hong Kong) lays down the obligations of a person occupying or having control of premises on injury resulting to persons or damage caused to goods or other property lawfully on the land. The Occupiers Liability Ordinance imposes a common duty of care on an occupier of premises to take such care as in all the circumstances of the case is reasonable to see that the visitor will be reasonably safe in using the premises for the purposes for which he is invited or permitted by the occupier to be there.

Transfer Pricing Regulations

Pursuant to section 20(2) of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), a non-resident person shall be liable to Hong Kong profits tax where it carries on business with a closely connected resident person and such business is so arranged that it produces to the resident person either no profits which arise in or derive from Hong Kong or less than the ordinary profits which might be expected to arise in or derive from Hong Kong.

Section 61A of the Inland Revenue Ordinance stipulates that where it would be concluded that person(s) entered into or carried out transactions for the sole or dominant purpose to obtain a tax benefit (which means the avoidance or postponement of the liability to pay tax or the reduction in the amount thereof), liability to tax of the relevant person(s) will be assessed (a) as if the transaction or any part thereof had not been entered into or carried out; or (b) in such other manner as the supervising authority considers appropriate to counteract the tax benefit which would otherwise be obtained. The Departmental Interpretation and Practice Notes No. 45 — Relief from Double Taxation due to Transfer Pricing or Profit Reallocation Adjustments issued by the Inland Revenue Department in April 2009 makes it available that where double taxation arises as a result of transfer pricing adjustments made by the tax authorities of another country, a Hong Kong taxpayer may potentially claim relief under the tax treaty between Hong Kong and that country (countries entered into tax arrangements with Hong Kong including the PRC). The Inland Revenue Department also issued a Departmental Interpretation and Practice Notes No. 46 in December 2009 which provides a comprehensive guideline on transfer pricing and further issued a Departmental Interpretation and Practice Notes No. 48 in March 2012 which provides a mechanism for taxpayers to pre-agree their transfer pricing arrangements with the Inland Revenue Department. On 13 July 2018, the Inland Revenue (Amendment) (No. 6) Ordinance 2018 was enacted to implement the transfer pricing rules, where provisions between associated persons not in accordance with the arm's length principle and conferring potential Hong Kong tax benefit are subject to transfer pricing adjustment unless the exemption for domestic transactions applies. This Ordinance is effective from year of assessment 2018/19 (where transactions entered into or effected before 13 July 2018 are grandfathered).

Trade Descriptions

The Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong) prohibits false trade description, false, misleading or incomplete information, false statements, etc. in respect of goods offered in the course of trade. Therefore, all of the products and supplements sold by the Group are required to comply with the relevant provisions therein.

Section 2 of the Trade Descriptions Ordinance provides, *inter alia*, that "trade description" in relation to goods means an indication, director or indirect, and by whatever means given, of certain matters (including among other things, quantity, method of manufacture, composition, fitness for purpose, availability, compliance with a standard specified or recognized by any person, price, their being of the same kind as goods supplied to a person, price, place or date of manufacture, production, processing or reconditioning, person by whom manufactured, produced, processed or reconditioned, etc.), with respect to any goods or parts of the goods; and in relation to services means an indication, direct or indirect, and by whatever means given, of certain matters (including among other things, nature, scope, quantity, fitness for purpose, method and procedures, availability, the person by whom the service is supplied, after-sale service assistance, price etc.).

Section 7 of the Trade Descriptions Ordinance provides that no person shall in the course of trade or business apply a false trade description to any goods or sell or offer for sale any goods with false trade descriptions applied thereto. A person who commits an offence under section 7 shall be subject, on conviction or indictment, to a fine of HK$500,000 and to imprisonment for 5 years, and on summary conviction, to a fine of HK$100,000 and to imprisonment for 2 years.

PRC LAWS AND REGULATIONS

This section sets forth a summary of the laws and regulations which are applicable to the Group's business and operations in the PRC. As this is a summary, it does not contain a detailed analysis of the PRC laws which are relevant to the Group's business and operations.

Laws and Regulations in Relation to Foreign Investment in the PRC

Pursuant to Provisions on Guiding the Orientation of Foreign Investment (《指導外商投資方向規定》) promulgated by the State Council (the "**SC**") on 11 February 2002 which came into effect on 1 April 2002, the Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄) is one of the basis of the application of relevant policies in examining and approving foreign investment projects and foreign-invested enterprises. The Foreign Investment Industrial Guidance Catalogue sets out "encouraged", "restricted" and "prohibited" categories for all foreign investment projects in the PRC. Projects that do not fall within the categories of encouraged, restricted or prohibited are permitted foreign investment projects.

Pursuant to the Catalog of Industries for Encouraged Foreign Investment (2019 Edition) (《鼓勵外商投資產業目錄》) (2019年版) which was issued by the National Development and Reform Committee (the "**NDRC**") and the Ministry of Commerce (the "**MOFCOM**") and the Special Administrative Measures (Negative List) for Foreign Investment Access (Edition 2019)《(外商投資準入特別管理措施(負面清單)(2019年版)》) which was promulgated by the NDRC and the MOFCOM on 30 June 2019 and became effective on 30 July 2019, electronic manufacturing industry falls within the category of industries in which foreign investment is encouraged and it does not fall into the negative list for foreign investment.

Laws and Regulations in Relation to Import and Export of Goods

Pursuant to the Regulations of the PRC on the Administration of Import and Export of Goods (《中華人民共和國貨物進出口管理條例》) promulgated by SC on 10 December 2001 which came into effect on 1 January 2002, the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) promulgated by the Standing Committee of National People's Congress (the "**NPC Standing Committee**") on 12 May 1994 which came into effect on 1 July 1994 and last amended on 7 November 2016 which came into effect on the same date, the Customs Law of the PRC (《中華人民共和國海關法》) promulgated by NPC Standing Committee on 22 January 1987 which came into effect on 1 July 1987 and last amended on 4 November 2017 which came into effect on 5 November 2017, the Measures for Record Filing and Registration by Foreign Trade Dealer (《對外貿易經營者備案登記辦法》) promulgated by MOFCOM on 25 June 2004 which came into effect on 1 July 2004 and last amended on 30 November 2019 which came into effect on the same date, and the Administrative Provisions of the PRC Customs Authority on the Registration of Customs Declaration Agent (《中華人民共和國海關報關單位註冊登記管理規定》) promulgated by the General Administration of Customs of the PRC on 13 March 2014 which came into effect on the same date and last amended on 29 May 2018 which came into effect on 1 July 2018, foreign trade business operators engaging in the import or export of goods or technology must go through the record filing and registration formalities with the MOFCOM or the agency entrusted by the MOFCOM. Unless otherwise provided by laws and regulations, the PRC government allows free export and import of goods and technologies, and protects the intellectual property rights associated with international trade. Unless otherwise provided for, the declaration of import or export goods and the payment of duties may be made by the consignees or consignors themselves, or by entrusted customs brokers that have been registered with the customs. The consignor and consignee refer to the legal person, any other organization or individual that is directly engaged in the import or export of goods within the territory of the PRC. A consignee or consignor of imported or exported goods must handle registration as a declaring entity at the local customs. After registration, they may make a customs declaration for themselves at all ports within the territory of the PRC.

Laws and Regulations in Relation to Production Safety Law

The Work Safety Law of the PRC (《中華人民共和國安全生產法》) (the "**Production Safety Law**") was promulgated by the NPC Standing Committee on 29 June 2002, which came into effect on 1 November 2002 and last amended on 31 August 2014 which came into effect on 1 December 2014. This law is applicable to entities that are involved in the production and business operation activities in the PRC. The production safety conditions of the production and business operation entities shall satisfy the requirements set out in the Production Safety Law and other relevant laws, administrative regulations, national standards or industrial standards. Any entity whose production safety conditions do not meet the above requirements may not engage in production and business operation activities. The production and business operation entities shall educate and train employees regarding production safety so as to ensure that the employees have the necessary knowledge of production safety, are familiar with the relevant regulations and rules for safe production and the rules for safe operation, master the skills of safe operation in their own positions, understand the emergency measures, and know their own rights and duties in terms of production safety. Employees who fail the education and training programs on production safety may not commence working in their positions.

The Fire Prevention Law of PRC (《中華人民共和國消防法》) (the "**Fire Prevention Law**") was promulgated on 29 April 1998 and amended on 28 October 2008 and came into effect on 1 May 2009 and amended on 23 April 2019 which came into effect on the same date. Pursuant to the Fire Prevention Law and other relevant laws and regulations of the PRC, the Ministry of Public Security and its local branches at or above county level shall monitor and administer the fire prevention affairs. The fire prevention — units of such public security departments are responsible for implementation of such laws and regulations. The Fire Prevention Law provides that the fire prevention design or construction of a construction project shall conform to the national fire prevention technical standards. The development project fire safety design examination and acceptance system shall be implemented for development projects which are required to have fire safety design in accordance with the national fire protection technical standards for project construction. Where a special development project has not undergone fire safety design examination or the fire safety design does not pass examination, the developer and the builder shall not carry out construction; for other development projects, if the developer does not provide the fire safety design drawings and technical materials which satisfy the construction needs, the relevant authorities shall not issue a construction permit or approve the work commencement report. Upon completion of a construction project, where a development project which is required by law to undergo fire safety inspection and acceptance does not undergo fire safety inspection and acceptance, or does not pass fire safety inspection and acceptance, the project shall not be put into use; the use of other development projects which do not pass inspection in spot checks carried out pursuant to the law shall be suspended.

Laws and Regulations in Relation to Product Quality Law

The Product Quality Law of the PRC (《中華人民共和國產品質量法》) (the "**Product Quality Law**"), which was promulgated by the NPC Standing Committee on 22 February 1993, came into effect on 1 September 1993 and last amended on 29 December 2018 which came into effect on the same date with the aim of regulating the supervision of product quality as well as setting out the liabilities for non-compliance of the regulation.

(I) System for Product Quality Management

According to the Product Quality Law, all producers and sellers shall have in place a proper set of internal regulations concerning the management of product quality, post-oriented quality regulations, liabilities and measures for the assessment of the quality of products.

(II) System for Voluntary Certification of Enterprise Quality Control System

Pursuant to the Product Quality Law, a system for certifying quality control system of business enterprises is set up based on the quality control standards commonly accepted. Business enterprises may voluntarily apply for certification of their quality control systems with the certification organisations recognised by the product quality supervision departments under the SC or by the departments which are authorised by the product quality supervision departments under the SC. Certificates for quality control systems shall be issued to enterprises which pass the certification.

Laws and Regulations in Relation to Foreign Exchange

Regulations on Foreign Exchange Control of the PRC (《中華人民共和國外匯管理條例》) were promulgated by SC on 29 January 1996 which came into effect on 1 April 1996. It was last amended on 5 August 2008. According to this regulation, foreign currency payments under current account items by domestic institutions, including payments for imports and exports of goods and services and payments of income and current transfers into and outside the PRC must be either paid with their own foreign currency with valid documentation or with foreign currency purchased from any financial institution engaged in foreign currency sale and settlement. Foreign currency income accounted for under current account items may be retained or sold to financial institutions engaged in foreign currency sale and settlement in accordance with the relevant PRC laws and regulations. Foreign currency payments under capital account items include cross border transfers of capital, direct investments, securities investments, derivative products and loans, in accordance with the State Administration of Foreign Exchange regulations. For foreign-invested enterprises wound up in accordance with the law, funds denominated in RMB that belong to a foreign investor after liquidation and after payment of tax may be used to purchase foreign currency from any financial institution engaged in foreign exchange sale and settlement in order to remit the foreign currency outside of the PRC.

According to the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的

通知》) (the "**Circular 13**") promulgated by the State Administration of Foreign Exchange on 13 February 2015 which came into force on 1 June 2015, Circular 13 cancels certain administrative approval procedures relating to the domestic and overseas direct investment in certain districts, and the foreign exchange registration for domestic direct investment shall be directly reviewed and handled by qualified banks.

According to Issues relating to the Foreign Exchange Administration of Offshore Investment, Financing and Return Investment by Domestic Resident via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) promulgated by the State Administration of Foreign Exchange on 4 July 2014 which came into force on the same day, a special purpose company shall refer to an overseas enterprise directly established or indirectly controlled by a domestic resident (including domestic institutions or domestic resident individuals) for the purpose of investment and financing with the enterprise assets or interests it holds legally inside the PRC or overseas. Before injecting domestic and overseas legal assets or interests into their special purpose company, the domestic residents including domestic institutions and domestic resident individuals shall apply for foreign exchange registration of overseas investments with the State Administration of Foreign Exchange. Where the domestic resident fails to apply for relevant foreign exchange registration, the punishment may be imposed by the State Administration of Foreign Exchange under the provisions of Regulations on Foreign Exchange Control of the PRC.

Laws and Regulations in Relation to Dividend Distribution

The principal laws governing dividend distributions by the Group's PRC subsidiaries is the PRC Company Law (《中華人民共和國公司法》) promulgated by NPC Standing Committee on 29 December 1993 which came into effect on 1 July 1994 and last amended on 26 October 2018 which came into effect on the same time. Dividend distribution by a foreign-funded enterprise are further governed by the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) promulgated by NPC on 15 March 2019 which came into effect on 1 January 2020, and its Implementation Regulations (《中華人民共和國外商投資法實施條例》) promulgated by SC on 26 December 2019 which came into effect on 1 January 2020. After an existing foreign-invested enterprise's legal adjustment of organizational form, organizational structure, etc., measures for shareholding or equity transfer, earning distribution and residual property distribution, etc. as stipulated in the relevant contract by the parties concerned to the original equity or cooperative joint venture may continue to survive as stipulated.

PRC companies, including WFOEs and EJVs, shall contribute 10% of the profits into their statutory surplus reserve upon distribution of their post-tax profits of the current year. PRC companies, including WFOEs and EJVs, may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital.

Where the balance of the statutory surplus reserve of PRC companies, including WFOEs and EJVs, are insufficient to make good its losses in the previous year, PRC companies, including WFOEs and EJVs, shall make good such losses using its profits of the current year before making contribution to the statutory surplus reserve.

Laws and Regulations in Relation to Taxation

(I) Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the "**EIT Law**"), which was promulgated by National People's Congress on 16 March 2007 and last amended on 29 December 2018 which came into force on the same date and the Implementation Rules to the EIT Law (《中華人民共和國企業所得稅法實施條例》) (the "**Implementation Rules**"), which was promulgated on 6 December 2007 and amended on 23 April 2019 which came into effect on the same date, the income tax for both domestic and foreign-invested enterprises is at the same rate of 25%. Non-resident enterprise shall be subject to enterprise income tax for income acquired within the territory of PRC, where such non-resident enterprise has not set up office or establishment in China, or the income from China has no actual connection with the set-up office or establishment. Tax rate applied on non-resident enterprise for the income acquired in the aforementioned situation hereof shall be 20%.

Furthermore, resident enterprises, which refer to enterprises that are set up in accordance with the PRC law, or that are set up in accordance with the law of the foreign country (region) but with its actual administration institution in the PRC, shall pay enterprise income tax originating both within and outside the PRC. Non-resident enterprises that have set up institutions or establishments in the PRC shall pay enterprise income tax, in relation to (i) the income originating from the PRC and obtained by their institutions or establishments, and (ii) the income incurred outside the PRC but there is an actual relationship with the institutions or establishments set up by such enterprises. Non-resident enterprises that have not set up institutions or establishments in the PRC, or where institutions or establishments are set up but there is no actual relationship with the income derived by the institutions or establishments set up by such enterprises shall pay enterprise income tax in relation to the income originating from the PRC.

The PRC and the government of Hong Kong entered into the Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》) (the "**Arrangement**") on 21 August 2006 and implemented the Arrangement from 1 January 2007. According to the Arrangement, the withholding tax rate 5% applies to dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests in the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if such Hong Kong resident holds less than 25% of the equity interests in the PRC company.

(II) Value Added Tax

All enterprises and individuals engaged in the sales of goods, provision of processing, repairs and replacement services, and the importation of goods within the territory of the PRC should pay value added tax ("**PRC VAT**"). According to Provisional Regulations of the People's Republic of China on PRC VAT (《中華人民共和國增值稅暫行條例》) promulgated by SC on 13 December 1993 which came into effect on 1 January 1994 and last amended on 19 November 2017 which came into effect on the same date, Detailed Rules for the Implementation of the Interim Regulation of the PRC on Value-added Tax (《增值税暫行條例實施細則》) (Order No. 65 of the MOF), which was amended on 28 October 2011 and became effective on 1 November 2011, and Announcement on Policies for Deepening the VAT Reform (《關於深化增值税改革有關政策的公告》) promulgated on 20 March 2019 which came into effect on 1 April 2019, the Group is currently subject to a PRC VAT rate of 13%.

According to the Trial Scheme for the Conversion of Business Tax to Value-added Tax (《營業税改徵增值税試點方案》) (Cai Shui 2011 No. 110), which was promulgated by the MOF and the SAT, the State began to launch taxation reforms in a gradual manner with effect from 1 January 2012, whereby the collection of value-added tax in lieu of business tax items was implemented on a trial basis in regions showing significant radiating effects in economic development and providing outstanding reform examples, beginning with production service industries such as transportation and certain modern service industries.

In accordance with Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (《關於全面推開營業税改徵增值税試點的通知》) (Cai Shui [2016] No. 36), which was promulgated on 23 March 2016 and with effect from 1 May 2016, upon approval of the State Council, the pilot program of the collection of value-added tax in lieu of business tax shall be promoted nationwide in a comprehensive manner as of 1 May 2016, and all taxpayers of business tax engaged in the building industry, the real estate industry, the financial industry and the life service industry shall be included in the scope of the pilot program with regard to payment of value-added tax instead of business tax.

(III) PRC Transfer Pricing Regulations during the Track Record Period

Pursuant to the PRC Enterprise Income Tax Law, its Implementation Rules and other relevant regulations, transactions in respect of the purchase, sale and transfer of tangible products, provision of services, etc. between related parties (e.g. enterprises under direct or indirect control of 25% or enterprises under direct or indirect control of 25% by the same enterprise) are regarded as related party transactions. Related party transactions should comply with the arm's length principle and if the related party transactions fail to comply with the arm's length principle results in the reduction of the enterprise's or the related parties' revenue or taxable income, the tax authority has the power to make an adjustment following certain procedures. Pursuant to such laws and regulations, any company entering into related party transactions with related parties shall submit an annual related party transactions reporting form (年度關聯業務往來報告表) to the supervising tax authority. In addition, enterprise shall prepare or submit transfer pricing documentation to the supervising tax authority if certain conditions (e.g. thresholds of related party transactions) are met.

Laws and Regulations in Relation to Labour Law and Social Security

PRC companies are mainly subject to the following labour laws and regulations: the PRC Labour Law (《中華人民共和國勞動法》), the PRC Labour Contract Law (《中華人民共和國勞動合同法》), the PRC Social Insurance Law (《中華人民共和國社會保險法》) the

Regulations of Insurance for Employment Injury (《工傷保險條例》), the Regulations on Unemployment Insurance (《失業保險條例》), the Provisional Measures on Insurance for Maternity of Employees (《企業職工生育保險試行辦法》), the Interim Regulations on the Collection of Social Insurance (《社會保險費徵繳暫行條例》), Premium Regulations on Management of Housing Provident Fund (《住房公積金管理條例》) and other relevant regulations, rules and circulars issued by the competent governmental authorities.

According to the PRC Labour Law (《中華人民共和國勞動法》) promulgated by NPC Standing Committee on 5 July 1994 which came into effect on 1 January 1995 and last amended on 29 December 2018, which came into effect on the same date, the Implementation Regulations on Labor Contract Law (《勞動合同法實施條例》)(Order No. 535 of the State Council), which was promulgated on 18 September 2008 and became effective since the same day and the PRC Labour Contract Law (《中華人民共和國勞動合同法》) promulgated by NPC Standing Committee on 29 June 2007 which came into effect on 1 January 2008 and amended on 28 December 2012 which came into effect on 1 July 2013, when an employer hires an employee, it should sign a written labour contract with the employee, and the employees' salary must not be lower than the local minimum wage.

According to the PRC Social Insurance Law (《中華人民共和國社會保險法》) promulgated by NPC Standing Committee on 28 October 2010 which came into effect on 1 July 2011 and last amended on 29 December 2018 which came into force on the same date, the Regulations of Insurance for Employment Injury (《工傷保險條例》) promulgated by SC on 27 April 2003 which came into effect on 1 January 2004 and amended on the 20 December 2010, the Regulations on Maternity of Employees (《企業職工生育保險試行辦法》) promulgated by Ministry of Labour and Personnel on 14 December 1994 which came into effect on 1 January 1995, the Interim Regulations on the Collection of Social Insurance Premium (《社會保險費徵繳暫行條例》) promulgated by SC on 22 January 1999 which came into effect on the same date and amended on 24 March 2019 which came into force on the same date, employers in the PRC are obligated to contribute to State-operated social security pension plans covering pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance for its employees.

In accordance with the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》) promulgated by SC on 3 April 1999 which came into effect on the same date and amended on 24 March 2002, which came into force on the same date, employers in the PRC must register with the relevant Housing Provident Fund Management Center, open a special housing provident fund account at a commissioned bank and pay housing provident fund contributions for their employees.

Laws and Regulations in Relation to Environmental Protection

According to the Environmental Protection Law of the PRC (中華人民共和國環境保護法) promulgated by NPC Standing Committee on 26 December 1989 and amended on 24 April 2014, which came into effect on 1 January 2015, entities which cause environmental pollution and other public hazards shall adopt effective measures to prevent and control the pollution and harm done to the environment. The design, construction and commission of facilities for prevention and control of pollution shall be conducted concurrently with that of the main body of the construction project. No permission shall be granted to a construction project until its facilities for the prevention and control of pollution are examined and accepted by the competent administrative department of environmental protection.

Pursuant to the Law of the PRC on Prevention and Treatment of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) promulgated by the NPC Standing Committee on 5 September 1987 and last amended on 26 October 2018 and came into effect on the same date, entities undertaking construction projects which have an impact on atmospheric environment shall conduct the environmental impact assessment and disclose the environmental impact assessment documents. The pollutants discharged into the air shall comply with relevant discharge standards and be within the limits under the volume control target requirements of key atmospheric pollutants. The competent department of environmental protection under the SC or the people's governments of provinces, autonomous regions and municipalities formulate the atmospheric environmental quality standards.

Pursuant to the Law of the PRC on Prevention and Treatment of Water Pollution (《中華人民共和國水污染防治法》) promulgated by the NPC Standing Committee on 11 May 1984 and amended on 15 May 1996, 28 February 2008 and 27 June 2017, and coming into effect on 1 January 2018, the environmental impact assessment shall be conducted on new construction, reconstruction and construction expansion projects or other installations on water which directly or indirectly discharge pollutants into the water according to law. The water pollution prevention and treatment facilities of a construction project must be designed, constructed and put into operation simultaneously with the major construction works of the said construction project. The water pollution prevention and treatment facilities shall comply with the requirements of approved or filed environmental impact assessment documents.

Pursuant to the Law of the PRC on Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》) promulgated by the NPC Standing Committee on 30 October 1995 and amended on 29 December 2004, 29 June 2013, 24 April 2015, 7 November 2016 and came into force on the same date, the construction of projects which discharge solid waste and the construction of project for storage, use and treatment of solid waste shall be carried out upon the appraisal regarding their effects on environment and in compliance with the relevant state regulations concerning the management of environmental protection in respect of construction projects. The necessary supporting facilities for the prevention and control of environmental pollution by solid wastes as specified in the environmental impact assessment documents of the construction project shall be designed, constructed and put into operation simultaneously with the major construction works of the construction project. No construction projects shall be permitted to be put into operation or to use before its facilities for the prevention and control of environmental pollution by solid wastes have been inspected and accepted by the competent department of environmental protection that examined and accepted the environmental impact assessment documents.

The inspection and acceptance of the facilities for prevention and control of environmental pollution by solid wastes shall be conducted simultaneously with the inspection and acceptance of the major construction works of the construction project.

According to the Law on Appraising of Environment Impact of the PRC (《中華人民共和國環境影響評價法》) promulgated by NPC Standing Committee on 28 October 2002 which came into effect on 1 September 2003 and last amended on 29 December 2018 which came into effect on the same day, construction entities shall implement the following procedures for their construction projects in accordance with Classification of Construction Project Lists for Environmental Impact Assessments (建設項目環境影響評價分類管理名錄) promulgated by the Ministry of Environmental Protection: (i) in case the environmental impact is significant, full assessment reports of environmental impacts shall be prepared; (ii) in case the environmental impact is mild, reports containing environmental impact analyses and specific assessments shall be prepared; and (iii) in case the environmental impact is minimal, environmental impacts registration forms shall be submitted without any assessments. The construction of the project shall not be commenced where the relevant environmental impact assessment documents fail to pass the review, or reviewed but fail to be approved by the competent authority in accordance with the applicable laws and regulations.

According to the Regulations on the Administration of Environmental Protection of Construction Project (《建設項目環境保護管理條例》) promulgated by SC on 29 November 1998 which came into effect on the same date and amended on 16 July 2017 which came into effect on 1 October 2017, construction units shall assess the environmental impacts for their construction projects before commencing. Construction units shall, depending on the level of the environmental impacts, report environmental impact reports and the required environmental impact forms prepared by institutions which possess relevant qualifications to the relevant construction and protection administration and obtain approval from relevant administration. Environmental protection facilities shall be designed, constructed and put into operation simultaneously with the main construction works. Upon the completion of construction projects, construction units shall file an application with the competent department of environmental protection administration for acceptance checks.

According to the Management Regulations for Checking and Accepting Completed Installations of Environmental Protection of Construction Projects (《建設項目竣工環境保護驗收管理辦法》) promulgated by Ministry of Environmental Protection of the PRC on 27 December 2001 which came into effect on 1 February 2002, Trial production is permitted upon the completion of the main body of the construction project. A company shall duly complete Environmental Protection Acceptance Check within three months upon the start of trial production. According to Decision of the State Council on Cancelling the First Batch of 62 Items Subject to Administrative Examination and Approval of Local Governments Designated by the Central Government (《國務院關於第一批取消62項中央指定地方實施行政審批事項的決定》) promulgated by SC on 11 October 2015 which came into effect on the same date, the approval of environmental authority for trial production is no longer required.

According to the Regulation of Guangdong Province on Environmental Protection promulgated by the Standing Committee of People's Congress of Guangdong Province (《廣東省環境保護條例》) on 13 January 2015 which came into effect on 1 July 2015, and last amended on 29 November 2018 which came into effect on the same day, for construction projects that proceed to commence construction prior to submitting Environmental Impact Assessment documents or having such documents approved, competent environmental protection authority with environmental protection supervision responsibility shall order the suspension of construction, impose fine penalty in the range of 1% to 5% of the overall investment and may require restoration of the construction sites. Where the construction unit fails to file a registration form for the environmental impact of the construction project, the competent authority of environmental protection shall order it to file and impose a fine of no more than RMB50,000.

Pursuant to the Environmental Protection Tax Law of the PRC (《中華人民共和國環境保護稅法》) promulgated by SC of the NPC on 25 December, 2016 which came into effect on 1 January, 2018 and amended on 26 October 2018 and Implementing Regulation for the Law of the PRC on Environmental Protection Tax (《中華人民共和國環境保護稅法實施條例》) promulgated by SC on 25 December, 2017 and effective on 1 January, 2018, enterprises that discharge taxable pollutants directly into the environment within the territorial area of the PRC or other sea areas under the jurisdiction of the PRC. Polluters should pay environmental protection tax based on the pollutant discharged, who shall not be exempted from the liability of preventing and controlling pollution, making compensation related and other liabilities under laws and administrative regulations.

Laws and Regulations in Relation to Intellectual Property Rights

Patent Law

According to the Patent Law of the PRC (《中華人民共和國專利法》) promulgated by NPC Standing Committee on 12 March 1984 which came into effect on 1 April 1985 and amended on 27 December 2008 which came into effect on 1 October 2009, patent protection is divided into three categories, namely, invention patent, utility patent and design patent. Invention patents refer to any new technical solution relating to a product, a process or an improvement. Utility patents mean any new technical solution relating to the shape, the structure, or their combination, of a product, which are fit for practical use. Design patents mean any new design of the shape, pattern, color, or their combination, of a product, which create an aesthetic feeling and are fit for industrial application. Invention patents are valid for twenty years from the date of application, while design patents and utility patents are valid for ten years from the date of application, respectively. Once an invention patent, utility patent or a design patent is granted, unless otherwise permitted by law, no individual or entities may exploit the patent without permission of the patent holder.

The patent system in the PRC uses the "first to file" principle, which means when more than one person files for a patent application for the same invention, the patent will be granted to the person who files the application first. In addition, the PRC requires absolute novelty for an invention to be patentable. Therefore, in general, a patent will be denied if it is publicly known in or outside of the PRC.

Furthermore, patents issued in the PRC are not enforceable in Hong Kong, Taiwan or Macau, each of which has an independent patent system. Although patent rights are national rights, the Patent Cooperation Treaty, of which the PRC is a signatory, allows an applicant in one country to seek patent protection for an invention in multiple member countries at the same time by filing an international patent application. However, the fact that a patent application is pending is not a guarantee that a patent will be granted. Furthermore, even if a patent application is granted, the scope of a patent may not be as broad as the applicant requested in the initial application.

Trademark Law

The PRC Trademark Law (《中華人民共和國商標法》) was promulgated by NPC Standing Committee on 23 August 1982 which came into effect on 1 March 1983 and last amended on 23 April 2019 which came into effect on 1 November 2019, and the PRC Trademark Implementing Regulations (《中華人民共和國商標法實施條例》) was promulgated by SC on 3 August 2002 which came into effect on 15 September 2002 and amended on 29 April 2014 which came into effect on 1 May 2014. These laws and regulations provide the basic legal framework for the regulation of trademarks in the PRC. The Trademark Office of The State Administration For Industry & Commerce of the PRC is responsible for the registration and administration of trademarks throughout the country. Like patents, the PRC has adopted a "first-to-file" principle with respect to trademarks. The period of validity of a registered trademark is ten years from the date of registration; renewal is allowed thereafter and the period of validity of each renewal of registration is ten years. The State Administration for Industry and Commerce has the power to investigate and handle any act of infringement of the exclusive right to use a registered trademark according to law; if the case is so serious as to constitute a crime, it shall be transferred to the judicial authority for handling.

Laws and Regulations Relating to Property Leasing

In accordance with the Law on the Administration of Urban Real Estate of the PRC (《中華人民共和國城市房地產管理法》) promulgated by NPC Standing Committee on 5 July 1994 which came into effect on 1 January 1995 and last amended on 26 August 2019 which came into effect on 1 January 2020, the owner of a building as a lessor is entitled to lease his building to a lessee and receive rent from the lessee, and the lessor and lessee should conclude a written lease contract and agree on terms and conditions such as the term, purpose, rent and responsibility for maintenance and repair, etc. as well as other rights and obligations of both parties. The written lease contract shall be put on record with the real estate administration department.

INTERNATIONAL SANCTIONS LAW

Sanctions Laws and Regulations

This section sets forth a summary of the sanctions regimes imposed by the U.S. Government, the European Union and its member states, the United Nations or the Government of Australia. This summary does not intend to set out the laws and regulations relating to the U.S., the European Union, the United Nations and Australian sanctions in their entirety.

U.S.

Treasury regulations

OFAC is the primary agency responsible for administering U.S. sanctions programmes against targeted countries, entities, and individuals. "Primary" U.S. sanctions apply to "U.S. persons" or activities involving a U.S. nexus (e.g., funds transfers in U.S. currency or activities involving U.S.-origin goods, software, technology or services even if performed by non-U.S. persons), and "secondary" U.S. sanctions apply extraterritorially to the activities of non-U.S. persons even when the transaction has no U.S. nexus. Generally, U.S. persons are defined as entities organized under U.S. law (such as companies and their U.S. subsidiaries); any U.S. entity's domestic and foreign branches (sanctions against Iran and Cuba also apply to U.S. companies' foreign subsidiaries or other non-U.S. entities owned or controlled by U.S. persons); U.S. citizens or permanent resident aliens ("green card" holder), regardless of their location in the world; individuals physically present in the United States; and U.S. branches or U.S. subsidiaries of non-U.S. companies.

Depending on the sanctions program and/or parties involved, U.S. law also may require a U.S. company or a U.S. person to "block" (freeze) any assets/property interests owned, controlled or held for the benefit of a sanctioned country, entity, or individual when such assets/property interests are in the United States or within the possession or control of a U.S. person. Upon such blocking, no transaction may be undertaken or effected with respect to the asset/property interest — no payments, benefits, provision of services or other dealings or other type of performance (in case of contracts/agreements) — except pursuant to an authorization or license from OFAC.

OFAC's comprehensive sanctions programmes currently apply to Cuba, Iran, North Korea, Syria, and the Crimea region of Russia/Ukraine (the comprehensive OFAC sanctions programme against Sudan was terminated on 12 October 2017). OFAC also prohibits virtually all business dealings with persons and entities identified in the SDN List. Entities that a party on the SDN List owns (defined as a direct or indirect ownership interest of 50% or more, individually or in the aggregate) are also blocked, regardless of whether that entity is expressly named on the SDN List. Additionally, U.S. persons, wherever located, are prohibited from approving, financing, facilitating, or guaranteeing any transaction by a non-U.S. person where the transaction by that non-U.S. person would be prohibited if performed by a U.S. person or within the United States.

United Nations

The United Nations Security Council (the "**UNSC**") can take action to maintain or restore international peace and security under Chapter VII of the United Nations Charter. Sanctions measures encompass a broad range of enforcement options that do not involve the use of armed force. Since 1966, the UNSC has established 30 sanctions regimes.

The UNSC sanctions have taken a number of different forms, in pursuit of a variety of goals. The measures have ranged from comprehensive economic and trade sanctions to more targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions. The UNSC has applied sanctions to support peaceful transitions, deter non-constitutional changes, constrain terrorism, protect human rights and promote non-proliferation.

There are 14 ongoing sanctions regimes which focus on supporting political settlement of conflicts, nuclear non-proliferation, and counter-terrorism. Each regime is administered by a sanctions committee chaired by a non-permanent member of the UNSC. There are ten monitoring groups, teams and panels that support the work of the sanctions committees.

United Nations sanctions are imposed by the UNSC, usually acting under Chapter VII of the United Nations Charter. Decisions of the UNSC bind members of the United Nations and override other obligations of United Nations member states.

European Union

Under European Union sanction measures, there is no "blanket" ban on doing business in or with a jurisdiction targeted by sanctions measures. It is not generally prohibited or otherwise restricted for a person or entity to do business (involving non-controlled or unrestricted items) with a counterparty in a country subject to European Union sanctions where that counterparty is not a Sanctioned Person or not engaged in prohibited activities, such as exporting, selling, transferring or making certain controlled or restricted products available (either directly or indirectly) to, or for use in a jurisdiction subject to sanctions measures.

Australia

The Australian restrictions and prohibitions arising from the sanctions laws apply broadly to any person in Australia, any Australian anywhere in the world, companies incorporated overseas that are owned or controlled by Australians or persons in Australia, and/or any person using an Australian flag vessel or aircraft to transport goods or transact services subject to United Nations sanctions.

BUSINESS DEVELOPMENT

The history of the Group can be traced back to 1950's. Since then, the Group has developed, marketed and sold electric fans in Hong Kong. The Group is a manufacturer of electric tools, sources and sells electric fans under its brand "SMC". For further information of products provided by the Group, please refer to the section headed "Business" in this prospectus.

PRIVATISATION OF ELECTRICAL APPLIANCES BUSINESS

As disclosed in the joint announcement dated 29 September 2009 made by China Overseas Land & Investment Limited ("**COLI**"), Shell Electric Mfg. and Red Dynasty, prior to the privatization of the Electrical Appliances Business, apart from Electrical Appliances Business, Shell Electric Mfg. was also engaged in property investment and development in the PRC. At that time, Shell Electric Mfg. held various properties in different cities in the PRC for investment, development and sale purpose (the "**Remaining Business**"). COLI is a leading property development and investment company in the PRC and is also engaged in other property-related business such as property management and construction design. It was COLI's intention to develop the Remaining Business in the PRC by leveraging its real estate investment and development expertise and they had no intention to develop the Electrical Appliances Business. As such, in the interest of the shareholders of Shell Electric Mfg. as a whole, Red Dynasty made the voluntary unconditional cash offer to acquire all the ordinary shares in Shell Holdings (the "**Privateco Offer**"). Upon the completion of the Privateco Offer, Shell Holdings holds the Electrical Appliances Business and since then, the Electrical Appliances Business is run by Shell Holdings.

MAJOR MILESTONES

Set out below is a summary of the Group's key business milestones since its establishment:

Year	Milestones
1950's	Commenced development, manufacturing and marketing of electric fans in Hong Kong
1987	Established the first co-operative joint venture Sien Hua in the PRC
1995	Established MMSD in the PRC
2000	Commenced production of electric tools
2003	Commenced the business relationship with the U.S. Customer
2008	Commenced the business relationship with Customer A
2017	Established SMC Electric China

CORPORATE DEVELOPMENT

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 5 December 2018. Pursuant to the Reorganisation as more particularly described in the paragraph headed "Reorganisation" under this section, the Company has become the holding company of the Group for the purpose of the Listing. As at the Latest Practicable Date, the Group comprised:

(i) the Company

(ii) SMC Electric Holdings

(iii) SMC Electric HK

(iv) Shell China

(v) Quanta Global

(vi) Speed Power

(vii) SMC Electric China

The Group also holds 28.92% equity interest in Sien Hua, which is an associated company established in the PRC.

The Company

As part of the Reorganisation, the Company was incorporated in the Cayman Islands with limited liability on 5 December 2018.

The initial authorised share capital of the Company was HK$380,000 divided into 38,000,000 Shares of par value of HK$0.01 each and initially one Share was transferred from Reid Services Limited to Mr. Yung. The one Share was subsequently transferred to Shell Holdings for a consideration of HK$0.01.

On 7 February 2020, the authorised share capital of the Company was increased from HK$380,000 divided into 38,000,000 Shares of par value of HK$0.01 each to HK$50,000,000 divided into 5,000,000,000 Shares of par value of HK$0.01 each by the creation of an additional 4,962,000,000 Shares of par value of HK$0.01 each, each ranking *pari passu* in all respects with the Shares in issue.

Upon completion of the Reorganisation, the Company becomes the holding company of the Group, details of which are set out in the paragraph headed "Reorganisation" in this section. The principal business activity of the Company is investment holding.

SMC Electric Holdings

SMC Electric Holdings was incorporated in the BVI with limited liability on 23 March 2016. Its former name was Omen Glory Limited and the name was changed to SMC Electric Holdings with effect from 8 October 2018. It is authorised to issue up to a maximum of 50,000 shares of a single class each of par value of US$1.00 each. One share was initially allotted and issued to and fully paid by Shell Holdings at par value on 20 April 2016. It is a direct wholly-owned subsidiary of the Company. The principal business of SMC Electric Holdings is investment holding and it is an intermediate holding company of the Group.

SMC Electric HK

SMC Electric HK was incorporated in Hong Kong with limited liability on 26 February 2016. Its former name was Ever Express (H.K.) Limited and the name was changed to SMC Electric HK. On the day of its incorporation, one share in SMC Electric HK was wholly-owned by Acota Services Limited as the initial shareholder which was subsequently transferred to SMC Electric Holdings at HK$1.00 on 10 May 2016. It is an indirect wholly-owned subsidiary of the Company. The principal business of SMC Electric HK was investment holding prior to 1 January 2018. With effect from 2 January 2018, SMC Electric HK became principally engaged in trading of electric tools.

Shell China

Shell China was incorporated in the BVI on 31 August 1987. The authorised share capital of Shell China is US$10,000 and is made up of one class of shares divided into 1,000 shares of par value of US$10 each. On the date of its incorporation, 100 shares in Shell China were allotted and issued to and fully paid by Shell Electric Mfg. On 22 October 2009, Shell Electric Mfg. transferred the 100 shares in Shell China to Shell HK for a consideration of US$1,000. On 2 January 2018, Shell HK transferred the 100 shares in Shell China to SMC Electric Holdings for a consideration of US$1,000. Shell China was wholly-owned by Shell HK, a direct wholly-owned subsidiary of Shell Holdings throughout the Track Record Period, until 2 January 2018. Shell Holdings was owned as to 80.4% by Red Dynasty which is wholly-owned by Mr Yung. It is an indirect wholly-owned subsidiary of the Company. The principal business of Shell China is trading of electric fans.

Quanta Global

Quanta Global was incorporated in the BVI on 20 January 1999. The authorised capital of Quanta Global is US$50,000 and is made up of one class and one series of shares divided into 50,000 shares of par value of US$1.00 each. On 23 March 1999, 1 share in Quanta Global was allotted and issued to and fully paid by Shell Electric Mfg. On 22 October 2009, Shell Electric Mfg. transferred the 1 share in Quanta Global to Shell HK for a consideration of US$1.00. On 2 January 2018, Shell HK transferred the 1 share in Quanta Global to SMC Electric Holdings for a consideration of US$1.00. Quanta Global was wholly-owned by Shell HK, a direct wholly-owned subsidiary of Shell Holdings throughout the Track Record Period, until 2 January 2018. Shell Holdings was owned as to 80.4% by Red Dynasty which is wholly-owned by Mr Yung. It is an indirect wholly-owned subsidiary of the Company. The principal business of Quanta Global is trading of electric fans.

Speed Power

Speed Power was incorporated in Hong Kong on 1 November 1985. On the date of its incorporation, 2 shares in Speed Power were allotted and issued to Fairwind Nominees Limited and Fairweather (Nominees) Limited, respectively. On 11 December 1985, the two shares in Speed Power were transferred to Mr. Yung Yau (late father of Mr. Yung) and Shell Electric Mfg. for a consideration of HK$1.00, respectively. On 7 January 2010, the share held by Mr. Yung Yau was transferred to Shell Electric Mfg. On 19 January 2010, Shell Electric Mfg. transferred the 2 shares in Speed Power to Shell HK. On 12 January 2018, Shell HK transferred the 2 shares in Speed Power to SMC Electric Holdings. Speed Power was wholly-owned by Shell HK, a direct wholly-owned subsidiary of Shell Holdings throughout the Track Record Period, until 12 January 2018. Shell Holdings was owned as to 80.4% by Red Dynasty which is wholly-owned by Mr Yung. It is an indirect wholly-owned subsidiary of the Company. The principal business of Speed Power is trading of electric fans.

SMC Electric China

SMC Electric China was established in the PRC on 16 November 2017. It is a wholly owned foreign enterprise which is wholly-owned by SMC Electric HK. The initial registered capital of SMC Electric China is US$1.5 million which will be contributed by SMC Electric HK in full on or before 31 October 2047. As at the Latest Practicable Date, SMC Electric HK has paid US$999,958.50 as registered capital into SMC Electric China. It is an indirect wholly-owned subsidiary of the Company. The permitted business scope of SMC Electric China is manufacture and sale of electric tools, electric tools used in agriculture, electric tools and parts used in motor vehicles, manufacture and design of LED light emitting parts, motors, batteries and import and export of the above products. SMC Electric China had not been involved in manufacture and sale of electric tools or parts for application in agriculture or motor vehicles industry during the Track Record Period.

Sien Hua

Sien Hua was established in the PRC on 15 December 1987 as a co-operative joint venture. The co-operation period of Sien Hua commenced from 15 December 1987 and was subsequently extended and the co-operation period will expire on 14 December 2022. The registered capital and investment amount of Sien Hua is US$3,250,000. As at the Latest Practicable Date, Sien Hua is held as to 71.08% by 佛山市順德區旭華電器實業有限公司 (Foshan Shunde District Xuhua Electric Company Limited*) ("**Foshan Xuhua**"), an Independent Third Party and 28.92% by Shell China. The principal business activities of Foshan Xuhua is sale of household electrical appliances and its ultimate beneficial owners are 20 different individuals with shareholdings ranging from approximately 0.8% to 33.4% in Foshan Xuhua, where each and every one of them is an Independent Third Party. To the best knowledge and belief of the Directors, each of Foshan Xuhua and all 20 individual ultimate beneficial owners do not have any past or present relationship (business or otherwise) with the Company, its subsidiaries, their directors, shareholders, senior management or any of their respective associates, save for the co-investment in Sien Hua. Sien Hua is regarded as an associated company of the Company. The principal business of Sien Hua is manufacture of ceiling fans, electric fans, electric cables and lamps.

Set out below are the financial results of Sien Hua for FY2016, FY2017 and FY2018:

	FY2016	**FY2017**	**FY2018**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	28,558	27,070	16,602
Gross profit	1,296	1,459	499
Net profit (after tax)	93	81	6
Total assets	104,626	99,313	104,067
Total liabilities	82,617	77,224	81,972

The revenue recorded for Sien Hua were lower than the purchase cost incurred by the Group for FY2016, FY2017 and FY2018 respectively due to the fact that Sien Hua subcontracted a portion of the manufacturing work to its fellow subsidiary company that has the same controlling shareholder which holds the remaining 71.08% in Sien Hua. After Sien Hua receives purchase orders from the Group, it might assign a portion of the work to its fellow subsidiary and pay its fellow subsidiary for such processing costs. Due to this arrangement, Sien Hua would net off such subcontracting cost from its revenue, thus Sien Hua's revenue is lower than the purchase cost incurred by the Group.

During the Track Record Period and up to the Latest Practicable Date, to the best knowledge, information and belief of the Directors, having made reasonable enquiries, the fellow subsidiary of Sien Hua is an Independent Third Party.

The Group's initial investment in Sien Hua was intended for (i) securing a steady level of supply of its products, i.e. electric fans; (ii) under certain conditions, Sien Hua was qualified to apply for certain tax benefits according to the tax policies implemented at that time; (iii) to the best knowledge, information and belief of the Directors, electric fans were produced in the Group's Chai Wan factory. However, as demand surged, the management at that material time considered the Chai Wan factory's production capacity was no longer sufficient, and decided to bring the machineries and the management's knowhow in the production of electric fans to the PRC; and (iv) to the best knowledge, information and belief of the Directors, the then customers of electric fans wanted to ensure the Group had direct oversight of the manufacturing process of the products, therefore the then management decided to enter into a co-operative joint venture with Foshan Xuhua. Pursuant to the constitutional documents of Sien Hua, the Group is not entitled to the residual assets of Sien Hua upon dissolution. The Group can only derive investment return from Sien Hua in terms of dividend distribution. However, throughout the years, apart from being able to obtain a steady level of quality electric fans, the Group has not received any dividend from its investment. Furthermore, the Group has never had significant control over Sien Hua's operations as well as dividend distribution. Thus the management decided it was reasonable to write off its investment in Sien Hua, and, to the best knowledge, information and belief of the Directors, this was done so before the year 2006. Although

Sien Hua has been profitable and recorded net assets for FY2016, FY2017 and FY2018, the Group did not reverse its impairment on its investment in Sien Hua due to the fact that the Group still has not had any sort of returns from its investment and continue to have no real control over its operations, and that dividend distribution is not expected in the foreseeable future in light of the financial position of Sien Hua.

To the best knowledge, information and belief of the Directors, the Group is the only customer of Sien Hua as it chooses to provide manufacturing services to other customers through Sien Hua's fellow subsidiary.

REORGANISATION

In preparation for the Listing, the Group underwent the Reorganisation which involved the following:

1. Incorporation of SMC Electric Holdings by Shell Holdings

SMC Electric Holdings was incorporated in the BVI on 23 March 2016 and is wholly-owned by Shell Holdings.

2. Incorporation of SMC Electric HK by SMC Electric Holdings

SMC Electric HK was incorporated in Hong Kong on 26 February 2016. One subscriber share of SMC Electric HK which was owned by Acota Services Limited was subsequently transferred to SMC Electric Holdings at HK$1.00 on 10 May 2016.

3. Establishment of SMC Electric China

SMC Electric China was established in the PRC on 16 November 2017 which is wholly-owned by SMC Electric HK. For further information relating to SMC Electric China, please refer to the paragraph headed "Corporate Development".

4. Assignment and novation of business contracts from MM Trading and MMHK to SMC Electric HK

The principal business of MM Trading before the Reorganisation is contract manufacturing services and trading of electronic component and electrical appliance products. The business dealings between MM Trading and Customer B commenced in 2014, where Customer B placed purchase orders directly with MM Trading. No written contracts or agreements were entered into between MM Trading and Customer B at that time. At the request of Customer B, MM Trading and Customer B negotiated a contract manufacturer agreement whereby MM Trading would manufacture products according to its terms. On 30 March 2017, MM Trading signed a contract manufacturer agreement (the "**Manufacturer Agreement**") with Customer B to formalize the terms of their business relationship.

Prior to Customer B countersigning the Manufacturer Agreement, the parties discussed the designation of an affiliate of MM Trading, i.e. Shell HK, to be a contract manufacturer under the Manufacturer Agreement pursuant to the terms and conditions thereof. Customer B, MM Trading and Shell HK subsequently negotiated a comprehensive amendment to the Manufacturer Agreement (the "**First Agreement**"). MM Trading and Shell HK signed the First Agreement on 28 July 2017. MM Trading then sent the executed originals of both the Manufacturer Agreement and the First Agreement by post to Customer B on 9 August 2017. Customer B countersigned the Manufacturer Agreement on 26 August 2017 and the First Agreement on 25 August 2017 and mistakenly mixed up the sequences of the Manufacturer Agreement and the First Agreement. Customer B returned both the Manufacturer Agreement and the First Agreement by post in the same envelope which was received by MM Trading on 4 September 2017.

As the date of the Manufacturer Agreement was one day after the date of the First Agreement, the Group engaged a Minnesota law firm to advise and confirm whether the Manufacturer Agreement, the First Agreement and the Second Agreement (as defined below) was valid and enforceable under Minnesota law. The Minnesota counsel advised that under Minnesota law, the existence of a contract is generally a question of fact which may be inferred from a party's words and conduct. It was objectively clear that Customer B had manifested its acceptance of the Manufacturer Agreement before it countersigned the same on 26 August 2017 as the signing of the Manufacturer Agreement was requested by Customer B, which demonstrated its intention to enter into a formal agreement with respect to the contract manufacturing arrangement. Further, the fact that Customer B entered into negotiations with MM Trading and Shell HK and agreed to execute the First Agreement to modify the Manufacturer Agreement was only explained if Customer B had agreed to the Manufacturer Agreement. Accordingly, the Minnesota counsel was of the view that both the Manufacturer Agreement and the First Agreement are valid and enforceable, irrespective of the fact that the countersigned date of the Manufacturer Agreement was one day after the countersigned date of the First Agreement.

Pursuant to the First Agreement, MM Trading would pass all purchase orders to Shell HK and Shell HK would undertake all obligations from MM Trading with effect from 1 August 2017. By another comprehensive amendment to the Manufacturer Agreement dated 10 January 2018 (the "**Second Agreement**") entered into by and among Customer B, MM Trading and SMC Electric HK, MM Trading would pass all purchase orders to SMC Electric HK and SMC Electric HK would undertake all obligations from MM Trading with effect from 1 January 2018.

The term of the Manufacturer Agreement has not expired and there have been no notices of termination or breach by either party. The appointment of a contract manufacturer under the Manufacturer Agreement only requires notice and consent by Customer B and such has been reflected in the terms of the Second

Agreement which was signed by the parties on 10 January 2018. Accordingly, the Minnesota counsel was also of the view that the Second Agreement is valid and enforceable.

It was the original intention for Shell HK to undertake all obligations from MM Trading in respect of the Manufacturer Agreement and to take up the purchase orders from Customer B. However, it was decided that Shell HK would not be included in the Group in the Reorganisation. Shell HK did not have business operations since 1 January 2017 and upon completion of transfer of Speed Power, Quanta Global and Shell China, it is a dormant company except holding the interest in Shell Electric Mfg. (China) Company Limited (a company incorporated in Western Samoa) and Shell Electric Mfg. (China) Sdn. Bhd. (a company incorporated in Malaysia), both of which are dormant and did not have business operations during the Track Record Period. As such, all purchase orders of Customer B were undertaken by SMC Electric HK with effect from 1 January 2018 pursuant to the Second Agreement.

As Shell HK undertook the obligations of MM Trading under the First Agreement, the purchase orders from Customer B to Shell HK were taken up by Shell HK. Pursuant to a memorandum of agreement entered into between MM Trading and Shell HK, for internal administrative purposes, Shell HK would assign MM Trading to be responsible to fulfil the obligations and to receive all rights (including the right to receive all sales revenue) under the purchase orders placed by Customer B with effect from 1 August 2017. Therefore, all the sales to Customer B were recorded in the books of MM Trading and all the sales revenue during 1 August 2017 to 31 December 2017 were actually received by MM Trading, therefore, the sales for the period from 1 August 2017 to 31 December 2017 were included in the Group's financial statements.

Upon completion of the Reorganisation, the principal business activity of MM Trading is contract manufacturing services and trading of laser printer components (i.e. fusers, laser scanners, paper handling options). As manufacturing and trading of laser printer components involve machineries, technology, expertise, markets and channels which are completely different from that used by the Group, in addition, the product nature of laser printer components is differentiated from that of the Group, the Group considers that MM Trading is engaged in other business activity which is different from that of the Group and therefore it is not commercially sensible to include MM Trading in the Group.

The principal business of MMHK before the Reorganisation is trading of contract manufacturing services and trading of electronic component and electrical appliance products. On 8 March 2017, MMHK and the U.S. Customer entered into a contract manufacturing agreement (the "**CMA**") whereby MMHK would manufacture products for the U.S. 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 U.S. Customer, SMC Electric HK and MMHK, the CMA was assigned to SMC Electric HK and SMC Electric HK would assume MMHK's obligations in the CMA with effect from 1 January 2018. All purchase orders issued by the U.S. Customer would be novated from MMHK to SMC Electric HK and would be fulfilled by SMC Electric HK with effect from 1 January 2018.

Upon completion of the Reorganisation, the principal business activity of MMHK is holding of interest in MMSD. As MMHK is engaged in other business activity which is different from that of the Group, MMHK was not included in the Group.

5. Acquisition of entire issued shares of Shell China by SMC Electric Holdings from Shell HK

By an instrument of transfer and bought and sold notes, all dated 2 January 2018, and entered into between Shell HK as the transferor and SMC Electric Holdings as the transferee, Shell HK transferred 100 shares, representing the entire issued shares of Shell China to SMC Electric Holdings for a consideration of US$1,000 with reference to the par value of shares of US$10.00 each and the number of issued shares in Shell China.

6. Acquisition of entire issued shares of Quanta Global by SMC Electric Holdings from Shell HK

By an instrument of transfer and bought and sold notes, all dated 2 January 2018, and entered into between Shell HK as the transferor and SMC Electric Holdings as the transferee, Shell HK transferred 1 share, representing the entire issued share of Quanta Global to SMC Electric Holdings for a consideration of US$1.00 with reference to the par value of shares of US$1.00 each and the number of issued share in Quanta Global.

7. Acquisition of entire issued shares of Speed Power by SMC Electric Holdings from Shell HK

By an instrument of transfer and the bought and sold notes, all dated 12 January 2018, and entered into between Shell HK as the transferor and SMC Electric Holdings as the transferee, Shell HK transferred 2 shares, representing the entire issued shares of Speed Power to SMC Electric Holdings for a consideration of HK$2.00 with reference to the par value of shares of HK$1.00 each and the number of issued shares in Speed Power.

8. Transfer of 19.0% equity interest in Huaxia from Quanta Global

Huaxia is an equity joint venture established in the PRC in October 2001 and is an associated company of the Group. Quanta Global previously held 19.0% equity interest in Huaxia and 台山市華東電器廠有限公司 (Taishan Huadong Electrical Appliances Co., Ltd*) ("**Huadong**") holds the remaining 81.0% equity interest. Quanta Global had paid up the registered capital in the amount of RMB3,800,000.

The circumstances leading to the Group's investment in Huaxia in 2001 was due to the fact that the Group wanted to secure a steady supply of quality products in the long run which led to their decision to invest in Huaxia.

By a sale and purchase agreement dated 28 October 2018 entered into between Quanta Global and Mr. Chan Lai Shun (陳禮舜) ("**Mr. Chan**"), an Independent Third Party, Quanta Global agreed to sell and Mr. Chan agreed to purchase 19.0% equity interest in Huaxia at a consideration of US$1.00. The transaction was completed on 20 November 2018. The consideration of US$1.00 was determined after considering the level of control in Huaxia by Quanta Global, the business prospect of Huaxia, the investment in Huaxia had been written off long before the Track Record Period and that the Directors would like to focus its resources on the operation of the Group.

As advised by Mr. Chan, he had some private investment with a shareholder of Huadong which was unrelated to Huaxia. Through the introduction of that shareholder, he worked in Huaxia and started acquainted with the Group through the working relationship.

As advised by Mr. Chan, he is optimistic about the economic development in Pearl River Delta and he also has some other investments in Pearl River Delta.

To the best knowledge of the Directors, Mr. Chan is a current director of Huaxia. Other than being the director of Huaxia, Mr. Chan does not have any past or present relationship (business or otherwise) with the Company, its subsidiaries, their directors, shareholders, senior management or any of their respective associates. As confirmed by Mr. Chan, save for the private co-investment with a shareholder of Huadong and the co-investment in Huaxia with Huadong, he does not have any past or present relationship (business or otherwise) with Huadong.

The reason for disposing the 19.0% equity interest in Huaxia to Mr. Chan was that Mr. Chan requested to purchase the remaining interest in Huaxia and the Group considered that historically Huaxia had not provided any returns to the Group and that the Directors would like to focus its resources on the operation of the Group.

Set out below are the financial results of Huaxia for FY2016, FY2017 and FY2018:

	FY2016	**FY2017**	**FY2018**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	13,814	15,337	4,997
Gross profit	2,039	2,271	1,393
Net profit (after tax)	204	275	50
Total assets	39,809	45,152	47,589
Total liabilities	36,743	41,811	44,198

To the best knowledge of the Directors, Huaxia has not been the subject of any material claims, litigation, arbitration or legal proceedings (whether actual or threatened) or administrative penalty during the Track Record Period and up to the Latest Practicable Date. As the investment cost was already written off in the Group's financial statements, the Directors consider that: (i) the disposal of 19.0% equity interest in Huaxia does not have material impact on the Group's business and financial performance; (ii) there could not be any impact on the Group's business and the procurement from Huaxia on an arm's length basis.

The Group continued to purchase from Huaxia after its equity interest in Huaxia was disposed of by the Group in October 2018 and the total amount of purchase for November and December 2018 was HK$513,816. It is the Group's intention that they will continue to purchase from Huaxia after Listing.

Throughout the years, the Group has not received any return from its investment in Huaxia. In addition, the Directors considered that the financial performance was not satisfactory and its future prospect was uncertain. Furthermore, the Group has never had significant control over Huaxia's operations, thus the management decided it was appropriate to write off its investment into Huaxia, and has done so before the year 2007. Although Huaxia has been profitable and recorded net assets for FY2016, FY2017 and FY2018, the Group did not reverse its impairment on its investment in Huaxia due to the fact that the Group had not had any sort of returns from its investment and had no real control over its operations up until its disposal, and that investment return was not expected in the foreseeable future.

9. Transfer of machinery and equipment, stocks and staff from MMSD to SMC Electric China

The principal business of MMSD before the Reorganisation is manufacturing and trading of electronic components and electrical appliance products. On 6 December 2018, MMSD and SMC Electric China entered into the Business Transfer Agreement pursuant to which MMSD agreed to transfer certain fixed assets, stocks and staff for manufacturing of electric tools to SMC Electric China. The total consideration for transfer of machinery and equipment is RMB4,361,000 and the consideration is based on value of the fixed assets as at 30 November 2018. The consideration for the transfer of stocks is RMB6,151,000 and the consideration is based on value of stocks as at 31 December 2018. The transaction was completed on 31 December 2018.

Prior to the Reorganisation, the Group's Electrical Appliances Division comprising SMC Multi-Media Products Company Limited, MM Trading, MMSD and MMHK, is not a separate entity. As a result of the Reorganisation, the assets, stock and staff for manufacturing of electric tools were transferred to SMC Electric China so that SMC Electric China can take up the manufacturing of electric tools from the Group's Electrical Appliances Division. There is no change to the Group's business operations in terms of equipment, staff and skills for manufacturing electric tools as these are transferred to SMC Electric China for the purpose of continuing its manufacturing of the Group's products.

Upon completion of the Reorganisation, the principal business activity of MMSD is manufacturing and trading of laser printer components (i.e. fusers, laser scanners, paper handling options). As MMSD is engaged in other business activity which is different from that of the Group, MMSD was not included in the Group.

10. Incorporation of the Company

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. The one Share was subsequently transferred to Shell Holdings on 2 January 2019 for a consideration of HK$0.01.

11. Registration of the Company as a non-Hong Kong company

On 18 January 2019, the Company was registered under Part 16 of the Companies Ordinance as a non-Hong Kong company.

12. Acquisition of entire issued shares of SMC Electric Holdings by the Company by way of share swap

On 7 February 2020, 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 all the issued shares 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.

13. Increase in the authorised share capital of the Company

On 7 February 2020, the authorised share capital of the Company was increased from HK$380,000 divided into 38,000,000 Shares of par value of HK$0.01 each to HK$50,000,000 divided into 5,000,000,000 Shares of par value of HK$0.01 each by the creation of an additional 4,962,000,000 Shares of par value of HK$0.01 each, each ranking *pari passu* in all respects with the Shares in issue.

14. The Capitalisation Issue

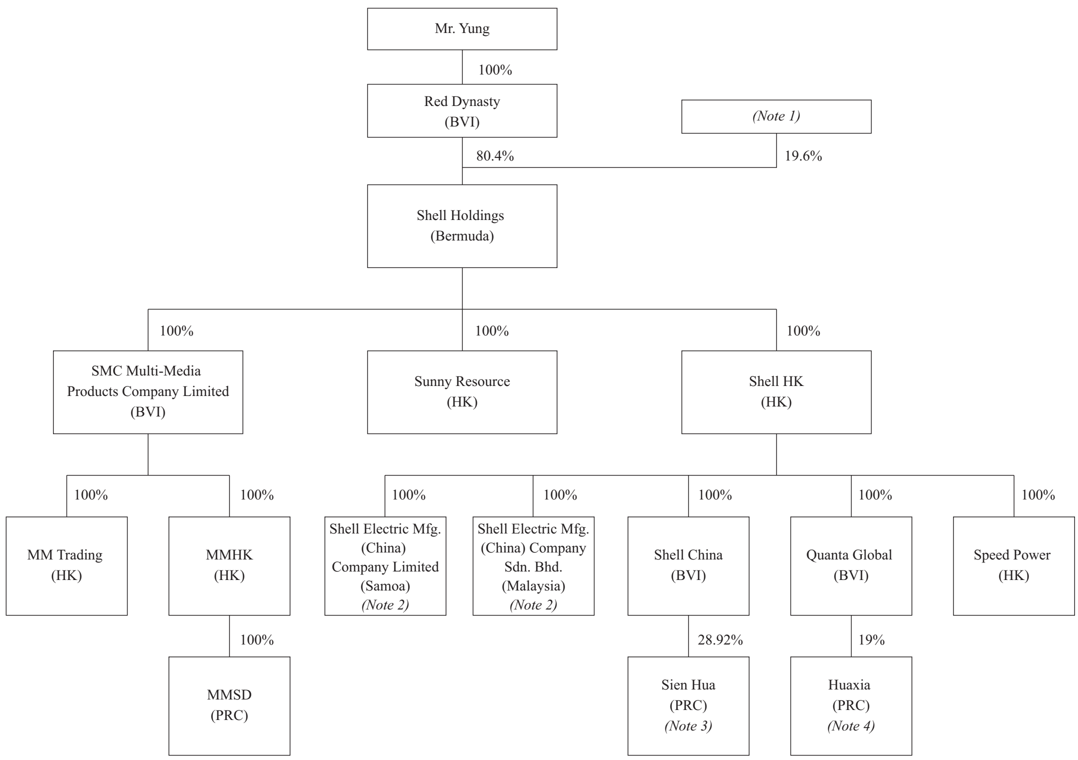
Conditional upon the share premium account of the Company having sufficient balance, or otherwise being credited with the proceeds of the Share Offer, the Directors were authorised to capitalise an amount of HK$12,745,000 standing to the credit of the share premium account by applying such sum in paying in full at par a total of 1,274,500,000 shares to be allotted and issued to the shareholders whose names appear on the register of members as at the date of the sole Shareholder's resolution approving the Capitalisation Issue.

15. The Share Offer

A total of 375,000,000 Offer Shares, comprising 187,500,000 Public Offer Shares and 187,500,000 Placing Shares, will be offered for subscription/purchase by way of Share Offer, representing approximately 25% of the enlarged issued share capital of the Company upon Listing.

CORPORATE STRUCTURE

The chart below sets forth the corporate structure of the Group prior to the commencement of the Reorganisation:



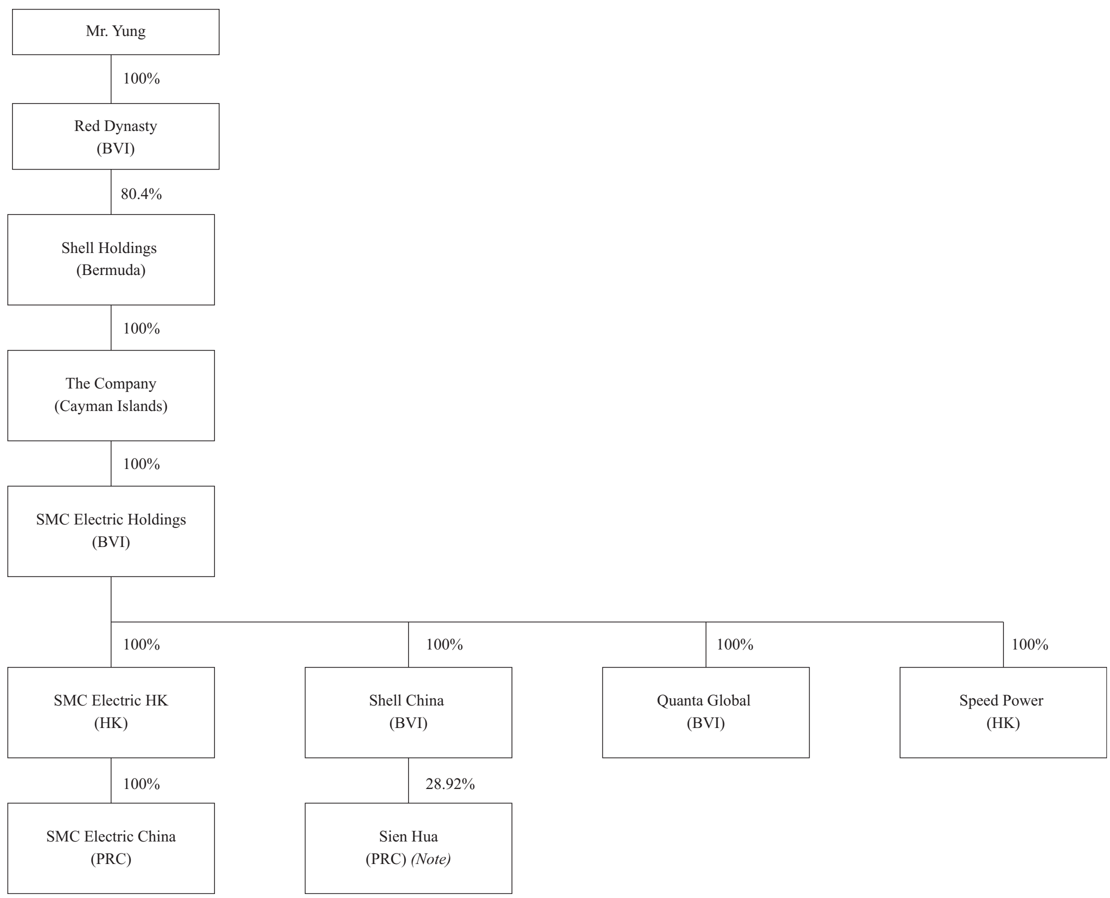
Note 1: To the best knowledge of the Directors, the remaining 19.6% interest in Shell Holdings is owned as to (i) 12.9% in aggregate by Mrs. Yung Ho Wun Ching (mother of Mr. Yung) ("Mrs. Yung"), among which 10.2% is owned by HSBC Nominees (Hong Kong) Limited as a trustee on behalf of Mrs. Yung and the remaining 2.7% is directly owned by Mrs. Yung; (ii) 4.7% by Mr. Yung Kwok Choi, Simon (brother of Mr. Yung); (iii) 0.0004% by Yung Claudia Natalie (daughter of Mr. Yung); and (iv) 1.9996% by certain individuals who are Independent Third Parties.

Note 2: Shell Electric Mfg. (China) Company Limited and Shell Electric Mfg. (China) Company Sdn. Bhd. are dormant and did not have business operation during the Track Record Period.

Note 3: The remaining 71.08% equity interest in Sien Hua is held by Foshan Shunde District Xuhua Electric Company Limited, an Independent Third Party.

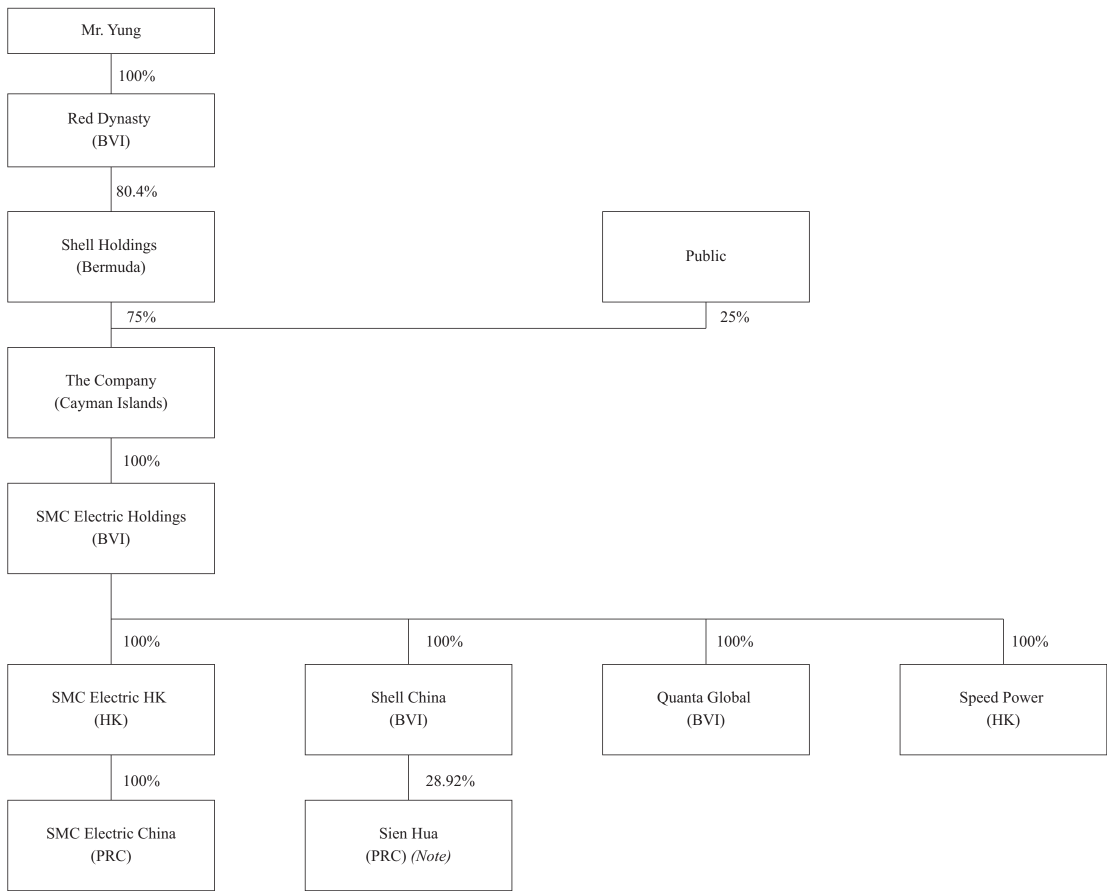
Note 4: The remaining 81% equity interest in Huaxia is held by Taishan Huadong Electrical Appliances Co., Ltd, an Independent Third Party.

The chart below sets forth the corporate structure of the Group immediately following the completion of the Reorganisation (but before Capitalisation Issue and the Share Offer):



Note: The remaining 71.08% equity interest in Sien Hua is held by Foshan Shunde District Xuhua Electric Company Limited, an Independent Third Party.

The chart below sets forth the corporate structure of the Group immediately following the completion of the Capitalisation Issue and Share Offer (but taking no account of any Shares which may be allotted and issued upon the exercise of the options granted under the Share Option Scheme):



Note: The remaining 71.08% equity interest in Sien Hua is held by Foshan Shunde District Xuhua Electric Company Limited, an Independent Third Party.

PRC REGULATORY ISSUES RELATING TO THE REORGANISATION AND THE LISTING

The Circular of the SAFE on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the "**Circular 37**") was promulgated by the SAFE on 4 July 2014 and took effect on the same day. According to the Circular 37, a domestic resident (including PRC individuals and institutions) shall, before contributing lawful domestic and overseas assets or interests to a SPV, register with the SAFE or its local branch to effect foreign exchange registration.

On 13 February 2015, the SAFE issued the Notice on Further Simplification and Improvement of Foreign Exchange Administration Policies for Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (the "**Circular 13**"), which came into effect on 1 June 2015. Pursuant to Circular 13, a domestic resident who makes capital contribution to a SPV using his/her legitimate domestic or offshore assets or interests is no longer required to apply to the SAFE or its local counterpart for foreign exchange registration of overseas investments. Instead, he/she shall apply to banks in the place where the assets or interests of such domestic enterprise are located (in case such domestic resident individually makes capital contribution to the SPVs using his/her legitimate domestic assets or interests) or banks in the place where his/her permanent residence is registered (in case such domestic resident individually makes capital contribution to the SPVs using his/her legitimate offshore assets or interests) to go through foreign exchange registration of overseas investments.

Since the Group's ultimate beneficial owner, Mr. Yung is not a PRC domestic resident, or has not been habitually residing in the PRC for economic interests, the Group's PRC Legal Advisers are of the view that Mr. Yung not subject to the foreign exchange registration process under Circular 37 and Circular 13.

OVERVIEW

The Group engages in the (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.

	FY2016			FY2017			FY2018			9M2018			9M2019		
	HK$'000	*HK$'000*	*%*	*HK$'000*	*HK$'000*	*%*	*HK$'000*	*HK$'000*	*%*	*HK$'000* (unaudited)	*HK$'000*	*%*	*HK$'000*	*HK$'000*	*%*
Product type															
Cordless fans	—		—	7,819		3.1	27,439		10.3	14,242		7.1	40,070		17.5
Electric fans	119,293		55.0	110,641		44.1	100,609		37.8	78,744		39.1	77,872		34.1
Fans *(Note 1)*		119,293	55.0		118,460	47.2		128,048	48.1		92,986	46.2		117,942	51.6
Vacuum cleaners		49,294	22.7		64,102	25.5		75,411	28.4		59,510	29.6		63,503	27.8
Work lights		43,859	20.2		59,718	23.8		54,333	20.4		42,809	21.3		43,189	18.9
Others *(Note 2)*		4,664	2.1		8,702	3.5		8,264	3.1		5,956	2.9		4,074	1.7
Total		217,110	100.0		250,982	100.0		266,056	100.0		201,261	100.0		228,708	100.0

Notes:

1. Fans comprise electric fans and cordless fans.

2. Others include hearing aid devices.

The products sold by the Group can generally be classified into the (i) selling of electric tools and electric fans to overseas customers under their respective brands and (ii) selling of electric fans under the Group's own brand "SMC" to the domestic and overseas markets. For the sales to the respective brand owners, the Group mainly manufactures cordless fans, work lights and vacuum cleaners under the two brands for the U.S. Customer, a Fortune 500 company, in the U.S.. The Group also sources and sells different types of electric fans including ceiling fans, wall-mounted fans, stand up fans and orbital fans under the Group's "SMC" brand, and are sold to distributors and retailers mainly based in Asia, Africa and Oceania. The Group also sells electric fans under Customer A's brand to Customer A, a Fortune Global 500 company.

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Brand										
Non-SMC	158,195	72.9	193,424	77.1	220,292	82.8	163,893	81.4	183,688	80.3
SMC	58,915	27.1	57,558	22.9	45,764	17.2	37,368	18.6	45,020	19.7
Total	217,110	100.0	250,982	100.0	266,056	100.0	201,261	100.0	228,708	100.0

The Group manufactures the products for the U.S. Customer while the products mainly sold under the Group's own "SMC" brand and under Customer A's brand are sourced from the Group's suppliers, which are manufacturers, and are then sold to different customers of the Group.

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Business model										
Manufacturing operations	97,817	45.1	140,341	55.9	165,447	62.2	122,517	60.9	150,836	66.0
Sourcing and selling of electric fans	119,293	54.9	110,641	44.1	100,609	37.8	78,744	39.1	77,872	34.0
Total	217,110	100.0	250,982	100.0	266,056	100.0	201,261	100.0	228,708	100.0

The Group's history can be traced back to the 1950s. Since then, it has developed, marketed and sold electric fans under its own "SMC" brand in Hong Kong and further expanded its electric fans market to overseas by selling its products to regions such as the Americas, Europe, Oceania, Africa and the rest of Asia. In 2003, at the request of the Group's customer, started manufacturing and selling electric tools to overseas.

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Geographical Location										
Americas	82,227	37.9	124,954	49.8	145,286	54.6	105,224	52.3	133,415	58.3
Oceania	65,669	30.2	59,907	23.8	63,771	23.9	47,525	23.6	40,227	17.6
Asia	41,567	19.2	45,671	18.2	33,740	12.7	30,004	14.9	32,820	14.4
Europe	13,089	6.0	9,789	3.9	12,204	4.6	10,417	5.2	8,279	3.6
Africa	14,558	6.7	10,661	4.3	11,055	4.2	8,091	4.0	13,967	6.1
Total	217,110	100.0	250,982	100.0	266,056	100.0	201,261	100.0	228,708	100.0

Electric fans sold under the Group's own "SMC" brand are principally sold to distributors and retailers in Asia, Africa and Oceania, where these distributors and retailers would then sell the electric fans to other retailers and end consumers. Further, a majority of the electric tools are sold to the Americas. As at 30 September 2019, the Group had 172 distributors and retailers in different parts of the world. The Group also directly sells its electric fans to end customers in Hong Kong.

The following table sets forth the revenue generated through sales of the Group's "SMC" electric fans to distributors and retailers and sales of non-"SMC" products to respective brand owners during the Track Record Period:

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000* (unaudited)	%	*HK$'000*	%
Customer type										
Distributors	53,697	24.7	53,856	21.5	42,034	15.8	34,400	17.1	41,923	18.3
Retailers and individual customers	5,218	2.4	3,702	1.4	3,730	1.4	2,968	1.5	3,097	1.4
Subtotal	58,915	27.1	57,558	22.9	45,764	17.2	37,368	18.6	45,020	19.7
Sales to respective brand owners	158,195	72.9	193,424	77.1	220,292	82.8	163,893	81.4	183,688	80.3
Total	217,110	100.0	250,982	100.0	266,056	100.0	201,261	100.0	228,708	100.0

The Directors believe this business model is an effective way for the Group to maintain and expand its sales of its "SMC" products to overseas markets without incurring significant costs.

The Group's manufacturing facilities are located in Shunde, Foshan, Guangdong Province, the PRC. As at 30 September 2019, the Group operated 1 production line for cordless fans, 2 production lines for work lights, 1 production line for vacuum cleaners and 1 production line for other electric tools. The production facilities in PRC occupied a combined area of approximately 3,666 sq. m..

For FY2016, FY2017, FY2018 and 9M2019, the Group's revenue were approximately HK$217.1 million, HK$251.0 million, HK$266.1 million, HK$228.7 million, respectively, and its net profit were approximately HK$23.9 million, HK$31.2 million, HK$34.6 million and HK$42.1 million, respectively. The U.S. market and the Australian market are the Group's key export markets. Sales to the U.S. market accounted for approximately 25.4%, 38.0%, 37.6% and 38.8%, respectively, of the Group's revenue for each of FY2016, FY2017, FY2018 and 9M2019. Sales to the Australian market accounted for approximately 27.5%, 21.7%, 21.1% and 15.2%, respectively, of the Group's revenue for each of FY2016, FY2017, FY2018 and 9M2019.

COMPETITIVE STRENGTHS

The Directors believe that the following competitive strengths have been the key factors for the Group's success and will enable it to maintain its market position and capture the anticipated future growth in its target markets.

Long history in the PRC-based electric tools and electric fans export industry

The Group is one of the long established suppliers of electric fans in the PRC electric fans industry. For details of the competitive landscape and the Group's market share in the respective products' manufacturing industry in the PRC, please refer to the section headed "Industry Overview" in this prospectus. As such, the Directors believe the Group is well positioned in capitalising on the growth in overseas fans market. Moreover, the Group has established its own brand of electric fans, "SMC", since the 1950s. Through the Group's sales and marketing of the "SMC" brand over the years, the Group has been able to expand the sales of such electric fans to different overseas markets, including different parts of Asia, Africa and Oceania.

According to the Ipsos Report, during the period between 2013 and 2018. China's exports of electric fans to the U.S. increased from approximately US$1,135.7 million in 2013 to US$1,495.5 million in 2018, representing a CAGR of approximately 5.7%.

Moreover, retail sales of electric tools in the U.S. has been growing from 2013 to 2017 due to the general improvement in the U.S. economy, and an improved real estate market coupled with the growing new-house building. The Group's positioning in the U.S. has allowed it to benefit from the growth of the U.S. economy and electric tools market.

Stringent quality control

The Group places top priority on the quality of its products. As such, the Group has developed and implemented stringent quality control procedures to ensure that every stage of production adheres to its high quality standards, including tests on raw materials, work-in-progress as well as finished products. The Group's products are required to pass its internal quality tests before reaching its customers.

As a result of the Group's refined quality control management system, it has managed to maintain a relatively low product return rate. Apart from the one-off case where Customer A returned approximately HK$2.0 million during FY2017, the Group has not had any other material product returns during the Track Record Period. The Directors consider that the Group's refined quality control management system and low product return rate are the key contributing factors for it to receive recurring purchase orders from its existing customers and maintain long-term business relationship with its customers.

Established relationships with reputable overseas customers

The Group maintained long-term business relationships with various large-scale customers, including the U.S. Customer, a Fortune 500 American manufacturer of industrial tools and household hardware and Customer A, a Fortune Global 500 company listed on the Euronext Exchange specializing in energy management and automation solutions with over 15 and 10 years of business relationships, respectively. The Directors believe that such long-term relationships with its customers, including the abovementioned reputable overseas customers, supported by its strong positioning in export of electric tools, distinguish the Group from its competitors in the PRC which similarly manufacture and export electric tools to overseas markets.

Close relationships with customers and reliable suppliers

The Directors believe that the Group's dedication to quality electric tools and electric fans and competitive pricing over the years have contributed to its long-term relationships with its customers. In relation to the Group's top five customers, the Group has had a working relationship ranging from approximately 10 to 18 years. The Directors believe that the Group can leverage on its established relationship with its customers to further develop new business opportunities in the electric tools and electric fans industries.

The Group has established close and stable business relationships with a number of quality manufacturers in the PRC. During the Track Record Period, the Group has maintained business relationships with over 300 suppliers. Up to the Latest Practicable Date, the Group had established approximately 3 to 31 years of business relationship with its top five suppliers during the Track Record Period. The Directors believe that the Group's ability to provide high quality products depends to some extent on the Group's ability to select suitable suppliers which possess necessary skills, craftsmanship and production capacity. The Group's close relationships with its suppliers not only enable it to keep abreast of the latest production know-how and market information but also help the Group in meeting the needs of its customers for high quality products.

Cost effective production operations

The Group has electric tools production facilities in Shunde, Foshan, Guangdong Province, the PRC. As at 30 September 2019, the Group's production facilities occupy a combined area of approximately 3,666 sq. m. with a total of 5 production lines. As at 30 September 2019, the Group had an annual designed production capacity of approximately 163,000 pieces of cordless fans, 1,053,000 pieces of work lights, 249,000 pieces of vacuum cleaners and 249,000 pieces of other electric tools, respectively.

The Directors believe that the Group's operation allows it to maintain a highly competitive cost structure as it is able to benefit from economies of scale, cost effectiveness and efficiencies in its operations. The Group's efficiency in its purchasing of raw materials including electric motors and moulds enhances the Group's bargaining power to negotiate better prices on such raw materials. In addition, the Group's systemic production process enables it to reduce the likelihood of costly mistakes at the production stage and the rate of reprocessing and reworking, thereby reducing wastage. Moreover, in case of sudden upsurge in demand and hence purchase orders by the Group's customers, the Group's production lines are capable of switching into production of different products if required to cope with the increased demand of a particular product. The Group also has detailed quality control system to control each step of the production process and ensure product quality, details of which are set forth under the subsection headed "Quality Control Systems" under this section. The Directors also believe that the Group's operation equips the Group with the ability and the production capacity to deliver products on a timely basis which is crucial to its customers, hence to its continued success.

Highly experienced professional management team

Mr. Leung, CEO and an executive Director, has over 30 years of experience in managing manufacturing businesses in Hong Kong and the PRC. He is primarily responsible for overall management, operation and strategic planning of the Group.

Mr. Tang, an executive Director, has over 20 years of experience in technical and factory management in the PRC. He is primarily responsible for assisting the chairman in the overall management of the strategic planning of the Group and overseeing the human resource and operation of the Group's China manufacturing operation.

The Group's senior management team has extensive industry experience including raw materials sourcing, manufacturing, staff training and development, accounting, sales and marketing, financial management and corporate governance. The Directors believe the depth and breadth of the complementary experience of the management team enhances the Group's capability in delivering quality products and providing high calibre services to its customers, which in turn help to achieve its business objectives.

BUSINESS STRATEGIES

The Group objective is to capture the continuing growth opportunities for the Group to expand its market share in the electric tools and electric fans supply industry and to enhance its profitability as well as maximize shareholder value. The Directors intend to achieve the Group's objectives by pursuing the following strategies:

Improve the Group's efficiencies in its daily operations to reduce the Group's production costs and the Group's reliance on production workers

In order to improve the Group's efficiencies in its daily operations, the Directors intend to apply approximately 14.1% of the net proceeds or approximately HK$6.3 million for upgrading the Group's current production lines and logistical part of the production process of which approximately HK$0.4 million, equivalent to 12 months of salaries, will be used to hire an assembly line specialist to maintain the automation robots. The purchasing of automation robots will mainly allow the Group to (i) reduce its production costs and (ii) reduce its reliance on production workers.

The Group plans to purchase the equipment below:

Type of equipment	Number of equipment	Total cost
Finished goods transfer robot	Two	HK$2.6 million
Automated guided vehicle	One	HK$1.6 million
Soldering automation robots	Five	HK$0.8 million
Screwing automation robots	Five	HK$0.9 million
Total		HK$5.9 million

Economic benefits and reasons for purchasing such equipment

The Directors estimate that by purchasing the automation robots, finished goods transfer robots and automated guided vehicle, the Group is able to save up to approximately HK$1.8 million annually, which is calculated based on the estimated savings the Group will be able to make on staff costs once the Group incorporates these machines into its production and logistical procedures by replacing some of the Group's current production and warehouse workers, i.e. multiplying the average wage of the Group's workers by the number of workers the Group will be able to replace with the robots or machines, netting off the relevant estimated depreciation and maintenance expenses. The estimated payback period is about two years. Below is a calculation of the estimated annual savings if the robots are incorporated:

		Finished goods transfer	**Automated guided vehicle**	**Soldering**	**Screwing**
Total number of robots to be incorporated:	(A)	2	1	5	5
Number of workers to be replaced by each robot:	(B)	3	22	1	2
Total number of workers to be replaced for each type of robot:	(C) = (A) x (B)	6	22	5	10
Total number of workers to be replaced:	Sum of (C)	43			
Average wage per worker per year:		HK$76,000			

		HK$ (millions)
Total cost of robots:	(Z)	5.9
Annual depreciation (assuming accounting useful life of 10 years):	(Y) = (Z)/10	0.6
Maintenance cost (assuming annual maintenance cost of 8%):	(X) = (Z) x 8%	0.5
Annual cost of maintenance personnel	(W)	0.4
Total savings from replaced workers:	(V)	3.3
Net savings after deducting depreciation and maintenance cost:	(U) = (V) – (W) – (Y) – (X)	1.8

Below is a calculation of the estimated payback period:

		Year 1	Year 2	Year 3
		HK$ *(millions)*	*HK$* *(millions)*	*HK$* *(millions)*
Total cost of equipment	(I)	5.9		
Cash savings per year	(K) = (U) + (Y)	2.4	2.4	2.4
Payback		(3.5)	(1.1)	1.3

As seen from above, the Group will be able to recoup its investment cost in the automation robots in about two years based on the net cash savings the Group will be able to generate.

Despite the capital intensive nature of the electric tools manufacturing industry, the Group has mostly relied on its production workers in its daily production processes as most of the Group's manufacturing process involves assembly of parts into a finished product and the packaging of said finished products into the packages as required by the Group's customers, the Group relies on its production workers in these two processes. The Group has therefore previously only purchased a minimal amount of plant and equipment and relied mostly on its production workers in its works. Further, before the increase in labour costs driven by the growth in the Chinese economy, labour costs in the PRC was still relatively cheap. The Group was therefore able to control its production costs by utilising workers hired in the PRC without the need for significant capital investment. However, in order to be less reliant on its workers and reduce the risk exposure in relation to the continuously rising labour costs in the PRC and reducing overall production cost, the Group will be required to purchase machineries, which will also increase the Group's production efficiencies.

According to the Ipsos Report, large international corporations have utilised automation robots for work processes that can be automated to increase their efficiencies and reduce salary expenses. In addition, according to the Ipsos Report, average wage of workers in the manufacturing industry have been on a rising trend from RMB46,431.0 to RMB64,452.0 from the year 2013 to the year 2017 at a CAGR of 8.5%. The Directors consider that, if the Group is able to incorporate automation robots, the Group will not have to suffer from the effect of the rising labour costs and be able to maintain a more desirable profit margin.

Benefits of soldering and screwing robots

As part of the manufacturing agreement entered into between the Group and the U.S. Customer, the Group is recommended to improve its production efficiency. Currently, the average turnaround time of the Group's manufacturing process is one to two months, which is within the requested turnaround time of 60 days by the U.S. Customer. Occasionally, the U.S. Customer may provide the Group with urgent orders for some popular products, which is shorter than the normal lead time of 60 days. In such cases, the Group would have to request its workers to work overtime and incur extra staff costs for overtime.

Once automation robots are incorporated, the Group will be able to use these robotic equipment to manufacture throughout the day if necessary to catch up to the shortened lead time for urgent orders and avoid incurring overtime costs. The Directors consider that, improvement in production efficiencies will be best met by using automation rather than using additional labour and/or overtime arrangements.

These screwing and soldering automation robots will be tailored uniquely for the productions of the Group, such as the specific placement of each screw and the location on which the interior of the product needs to be soldered. As such, suppliers of these automation robots will not allow the Group to lease, finance or operating, due to the tailored nature of these equipment where they will not be able to resell these equipments to outsiders once the lease period has expired.

These planned investment in automation equipment will both enhance the speed of the Group's manufacturing process whilst decreasing the chances of human errors.

Benefits of finished goods transfer robots and automated guided vehicle

The Group also plans to upgrade the logistical part of its daily business operations, the Group will use part of the net proceeds to purchase machines used for the transfer of finished goods and automatic guided vehicle for the transporting of said finished goods from production lines to warehouse and from loading areas to shipment. Currently, the Group relies on its employees and a few forklifts in the daily logistics of the Group's products. The future addition of finished goods transfer robots and automatic guided vehicle will replace workers requirements and greatly reduce production cost and enhance the speed of which finished goods can be moved from the production line to its designated area.

The assembly line specialist to be hired will be required to have at least a bachelor's degree with five years of relevant experience.

Conclusion

The reduction in costs will empower the Group to be more competitive in pricing its products. Prior to the Track Record Period, due to the improvement in efficiencies of its production process, the Group was able to reduce the prices of some of its products by approximately 2.3% and 5.4% from 2013 to 2014 and 2016 to 2017, respectively, and received from the U.S. Customer an increase in the amount of orders for its products by approximately 64.9% and 14.5%, respectively. The Directors believe that the reduction in prices for products sold by the Group will give customer a significant advantage over their competitors and at the same time increase the demand by end customers for the products of the Group's customers, thereby increasing the Group's sales volume. As the Group receives increasing orders from the U.S. Customer, the Group requires its production line to be more efficient in order to be able to have spare production hours to satisfy the demand from other customers and any potential customers the Group may be able to solicit in the future.

Notwithstanding that the automation robots will enhance efficiencies in the Group's production lines, the Group will continue to closely monitor the production capacity for its products. The Directors consider that, if the Group's production lines continue to be fully utilised, the Group will either invest in further production lines or automation robots in the future.

The Group did not purchase screwing machines or any of the planned equipments during the Track Record Period as it is more practical to automate the production line as a whole instead of a piecemeal approach. Automating the production line all at once would be more productive for the Group as the improvement process will only need to be done once, whereas if the automation was done in different stages and at different time, the production process will experience multiple interruptions reducing production efficiency.

The Directors consider that, one of the factors the U.S. Customer takes into consideration when choosing its suppliers would be pricing. If the Group incorporates all its planned automation equipment, the Group can offer its customers more competitive prices and thereby increasing the chances of further orders from its customers.

Strategically expand the Group's manufacturing capabilities through vertical integration, including investing in the manufacturing process for DC motors, battery packs and LED lights packaging production

In order to improve the Group's profitability and expand its manufacturing capabilities, the Group intends to apply (i) approximately 62.9% of the net proceeds or approximately HK$28.1 million; and (ii) approximately HK$1.9 million of the Group's internal resources in the manufacturing process for DC motors, battery packs and LED packaging production of which approximately HK$0.5 million, equivalent to 12 months of salaries, will be used to hire assembly line specialist and engineers to maintain the production lines.

(I) Market demand

(A) DC motors

The rising application of DC motors in various fields, such as household appliances, agricultural equipment, industrial machinery and electric vehicles, is expected to bolster the demand for DC motors. From 2019 to 2023, the retail sales value of electric fans in the United States, Australia and the Middle East is expected to grow at a CAGR of approximately 3.6%, 1.9% and 2.7% respectively while the retail sales value of electric vacuum cleaners in the United States and Mexico is expected to grow at a CAGR of approximately 3.0% and 5.2% respectively. As one of the major application segment, the growing global demand for electric appliances and tools is anticipated to drive the demand for DC motors.

(B) LED lights packaging

According to the Ipsos Report, work lights are one of the general lightings with a massive application of LED lights. The demand for LED lights has been increasing internationally and domestically in China. The demand growth is mainly driven by (i) the international promotion of LED lights; (ii) phasing out of incandescent light in various countries; (iii) decreasing price of LED lighting products; and (iv) product competitiveness including longer life span, energy efficiency and lower overall costs. According to the United States Department of Energy, LED lighting is expected to gradually replace the traditional incandescent lamps and achieve a market share of 84% in the general illumination market by 2030. The market penetration of LED lighting products is therefore anticipated to drive the LED lights packaging industry. LED lights provide work lights the required lumen whilst minimising the space of which the lighting area will occupy compared to the relatively larger amount of space required for a traditional light bulb, which is not particularly useful for cordless electric tools such as the work light the Group produces. Although some work lights require just one LED light packaging, some higher standard work lights require more than one, such as the new model of work light the Group will produce, which require seven LED lights packaging.

Public regulation and promotional measures in many countries underline the development of the LED lighting industry. For instance, the Chinese government provided subsidies to the upstream market manufacturers such as LED chip providers and LED packaging companies.

(C) Battery packs

Owing to portability and flexibility offered by cordless electric appliances and tools, there is an increasing trend for cordless electric appliances and tools. The growing trend for cordless electric appliances and tools has driven the demand for rechargeable battery packs as it is a commonly used power source for these devices. According to the Ipsos Report, the shipments (sales) of US battery manufacturing industry increased from USD870 million in 2013 to USD934 million in 2018, rising at a CAGR of 1.8%. Also, China as one of the major manufacturing countries for rechargeable batteries, the annual production volume of lithium-ion batteries increased from 463.5 million units in 2015 to 1,162.2 million in 2018, rising at a CAGR of 35.9%, according to the National Bureau of Statistics. The strong increase in the sales and production of battery packs have demonstrated that there was an increasing global demand for battery packs in recent years. It is also expected that such trend will continue to grow and sustain in the future under the widespread of cordless electric appliances and various hand-held devices in the U.S. and the rest of the world.

Based on the above, the Directors are of the view, and Ipsos concurs that the investment in the manufacturing process for DC motors, LED lights packaging and battery packs is well supported by market demand and will present the Group with potential for further profitability.

(II) Reasons and benefits for expansion

Overview

The Group's cordless fans, vacuum cleaners and work lights, all require some of the three components the Group intends to produce, namely, DC motors, rechargeable battery packs and LED lights packaging. Cordless fans and vacuum cleaners utilise DC motors and battery packs, and work lights utilise LED lights packaging and battery packs. The revenue contribution from the sales of products requiring these components during the Track Record Period would therefore equal to the Group's total revenue from cordless fans, work lights and vacuum cleaners during the Track Record Period. In terms of purchase, the Group made purchases of DC motors and LED lights packaging amounted to approximately HK$5.2 million, HK$6.9 million, HK$8.5 million and HK$8.6 million during the Track Record Period, respectively showing an increasing trend. Battery packs were not incorporated by the Group into its electric tools before delivery but were incorporated by the U.S. Customer itself.

Notwithstanding the fact that the Group did not incorporate battery packs during the Track Record Period, all cordless electric tools require a power source, which would be provided by battery packs as it allows the user to use the electric tool in different areas and situations where a fixed power source may not be available. The electric tools market has been migrating towards cordless electric tools, as it provides the user with portability and flexibility in terms of usage of the electric tools. Once the Group is able to produce these core items of electric tools, not only will the Group be able to generate higher profitability but also enable the Group to capture the growth in the electric tools market as according to the Ipsos Report, brand owners of electric tools prefer manufacturers that provide a one-stop solution of being able to produce the core items of an electric tool and sell to them a fully functioning electric tool. The battery packs will be applicable to different models of the electric tools the Group is and will be able to produce. The Group intends to expand its production capacity to produce rechargeable battery packs to support the Group's products, both under the "SMC" brand or for other customers.

The Directors consider that, if the Group is able to produce these key components of electric tools, not only will brand owners prefer manufacturers that are able to provide such one-stop solution, but also allow the Group to capture the growth in the global power tools market which includes electric tools market in a more competitive manner, which grew by approximately 6.0% year-over-year to approximately US$39.7 billion in 2018. As further discussed below, the Group will be spending part of the proceeds to develop new electric tools products, which will also require the components the Group intends to produce.

Increase gross profit margin

Currently, the Group sources the DC motors and LED lights components from third party suppliers. If the Group is able to include DC motors and LED lights packaging into its manufacturing operations, the Group will be able to generate additional gross profit. For battery packs, the Group will be selling them to customers as a separate item instead of incorporating it into any existing ones and will generate additional profits to the Group.

Please refer to the calculations below for the increase in profitability if the Group produced these three components during the Track Record Period:

		FY2016	FY2017	FY2018	9M2019
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
Cordless fans	A1	—	7,819	27,439	40,070
Vacuum cleaners	A2	49,294	64,102	75,411	63,503
Work lights	A3	43,859	59,718	54,333	43,189
Additional Gross Profit Margin					
Cordless fans *(note 1)*	B1	5.6%	5.6%	5.6%	5.6%
Vacuum cleaners *(note 1)*	B2	3.5%	3.5%	3.5%	3.5%
Work lights *(note 1)*	B3	3.8%	3.8%	3.8%	3.8%
Additional Gross Profit for Track Record Period					
Cordless fans	C1 = A1 x B1	—	438	1,537	2,244
Vacuum cleaners	C2 = A2 x B2	1,725	2,244	2,639	2,223
Work lights	C3 = A3 x B3	1,667	2,269	2,065	1,641
Battery packs *(note 2)*	C4	1,551	1,784	2,230	2,007
	C = C1 + C2 + C3 + C4	4,943	6,735	8,471	8,115
Depreciation					
DC motors equipment *(note 3)*	D1	(1,070)	(1,070)	(1,070)	(803)
LED lights equipment *(note 3)*	D2	(920)	(920)	(920)	(690)
Battery pack equipment *(note 3)*	D3	(815)	(815)	(815)	(611)
	D7 = D1 + D2 + D3	(2,805)	(2,805)	(2,805)	(2,104)
Maintenance personnel					
DC motors	D4	(340)	(340)	(340)	(255)
LED lights	D5	(583)	(583)	(583)	(437)
Battery pack *(note 2)*	D6	(97)	(97)	(97)	(73)
	D8 = D4 + D5 + D6	(1,020)	(1,020)	(1,020)	(765)
Increase in profitability for Track Record Period	F = C – D7 – D8	1,118	2,910	4,646	5,246

Notes:

(1) The additional gross profit margin for each product type is calculated based on the difference between the cost of purchasing the relevant component and the cost of producing (inclusive of material, labour and production cost) the relevant component by the Group itself.

(2) The additional profit and salaries for maintenance personnel for battery packs for FY2016, FY2017, FY2018 and 9M2019 in the above table is derived from the additional profit and salaries for maintenance personnel for battery packs for Year 1, Year 2, Year 3, and three quarters of Year 4, respectively, as set out in the payback period analysis in the paragraph headed "Business Strategy — (IV) Implementation Plans".

(3) Depreciation on equipment for DC motors, LED lights and battery packs are based on their respective useful life.

As shown in the calculations above, if the Group incorporated the production lines for these three components during the Track Record Period, the increase in profitability for the Group is HK$1.1 million, HK$2.9 million, HK$4.6 million and HK$5.2 million, respectively.

Reduce reliance on suppliers

As the Group does not carry buffer stocks, including raw materials stocks required for production, when the Group receives an unexpected increase in sales orders from its customers, the suppliers of such raw materials may not be able to supply to the Group in a short space of time, and the Group may have to forego the sales orders from its customers. In times when the U.S. Customer unexpectedly increases the purchase orders to the Group, some suppliers may already have their had production capacity maximised and unable to provide with the Group with the necessary materials in time or at all. The Group may have to source these materials from less cost-effective suppliers. Even if some suppliers were able to meet the Group's sudden increase in demand, the Group would be required to deposit additional up front payment to its suppliers for the rushed production schedule. This causes significant financial strain on the part of the Group, whereas if the Group was able to produce these crucial components of its products and be able to better control its production lead time, the Group would be able to reduce this possible financial strain and free up its funds for other uses and maintain a steady supply of key components of its products.

Ability to offer more competitive prices

The estimated improvement in gross profit will also enable the Group to have the room for potentially bringing down the prices of its products sold to the U.S. Customer, enabling the U.S. Customer to decrease the retail prices of the products and consequently increase the demand for its products and place more orders to the Group.

Difficult to lease the required equipment

The Group has also entered into discussions with suppliers for the required production machineries. As each production process requires a tailormade set of machineries and are unique in terms of the designs and functionalities, these suppliers of production machineries do not offer the option to lease. These suppliers would only allow for the purchase of such machineries as they would not be able to solicit demands for these machineries after the leasing period as the designs and functionalities of these machineries may not be applicable to any other manufacturers. Furthermore, payment terms for these equipment usually involve an initial deposit of a certain percentage with the remaining payment to be settled once the buyer has tested and confirmed acceptance of the equipment. These suppliers will also not allow for any methods of leasing, finance or operating. The Group has obtained a financing proposal from an independent third party financial institution willing to provide the Group with financing arrangements for the purchase of equipment. However, the proposal provided to the Group would cost the Group an effective interest rate of 17.4% per annum whilst only allowing the Group to get a loan to value ratio of 70%. The Directors consider that this will cause unnecessary financial burden on the Group with the need to incur such high finance cost.

(III) Customer demand

(A) U.S. Customer

The Group has been receiving increasing demand for its cordless fans, vacuum cleaners and work lights from the U.S. Customer, as seen by the increase in sales to them from approximately HK$116.5 million for 9M2018 to approximately HK$146.7 million for 9M2019. This increase in sales of approximately 25.9% demonstrates that there is significant demand for the Group's products.

The Group has been awarded with a new model of work lights by the U.S. Customer, which will be incorporating the Group's LED lights packaging. In regards to this new type of work light, the Group has submitted a sample of the work light for the U.S. Customer for any further fine tuning and expect production with the Group's own LED lights packaging will begin by the end of year 2020.

The Directors consider that, despite the export value of portable lights in China is expected to grow at a CAGR of 0.9% from 2019 to 2023, as the Group's market share in portable lights is relatively insignificant, it presents the Group with market potential in increasing its market share as the Group has shown the ability to produce electric tools to the standards required by the U.S. Customer and the ability to capture further orders for existing models and new models of electric tools. The retail sales value of electric portable lights industry in the U.S.

is expected to increase at a CAGR of approximately 5.5% from 2019 to 2022, the Group will experience a continuous and increasing demand for work lights. The Group has already sold in 9M2019 more work lights than in 9M2018.

The Group is also in advance negotiations with the U.S. Customer with a new model of vacuum cleaner, which, during negotiations regarding the specifications of such vacuum cleaner, the Directors understood from the U.S. Customer that there is currently no DC motor on the market that would fully satisfy their demand. As such, the Directors consider that the Group will be able to manufacture DC motors tailored to the specifications required by the U.S. Customer if the Group acquired the production line. The Directors understand from the U.S. Customer that they have recently begun looking for alternative suppliers for battery packs, where the Group is being one of the options. The U.S. Customer has indicated to the Group that they would like to have proposals from the Group for the Group's self-produced DC motors to incorporate into their products. Taking into account (i) the potential increase in orders for existing and new products and the market demand for the three components; (ii) the U.S. Customer may source from other suppliers for their battery packs as an alternative source of supply for back up and risk diversification; and (iii) the business relationship already established between the Group and the U.S. Customer, the Directors are of the view that the Group has a relatively high chance of being requested to produce DC motors and battery packs for the U.S. Customer and that there is market demand and the need for the Group to be able to produce these components so that the Group can generate a higher profit margin.

Having considered that the DC motors and LED lights packaging component are compatible to other products of the U.S. Customer and the incorporation of DC motors and LED lights packaging from the Group for other products can also save supplier management cost and transportation cost for the U.S. Customer, the Directors are of the view that the U.S. Customer has a strong intention to adopt and incorporate DC motors and LED lights packaging for other products produced by the Group and therefore has a high chance of awarding the DC motors and LED lights packaging production to the Group. The U.S. Customer has also requested the Group to submit proposals for the production of battery packs. The Directors are of the view that, given the Group's ability to secure orders for new items (cordless fans in 2017) and new models for existing items (new model of work light), and the ability in meeting the high standard required by the U.S. Customer, the U.S. Customer has a high chance of awarding the battery packs production to the Group.

(B) Others

Other than the U.S. Customer, the Directors will continuously look for potential new customers with which the Group can produce electric tools for, to maximise the benefits the Group will be able to enjoy if the Group was able to produce the three components.

One of the Group's customers is currently in discussion with the Group for the production of (i) area lights, which is also portable but is different to the work lights currently produced by the Group as area lights are usually stationary and can be hung up on walls or scaffoldings to provide light to a larger area such as a portion of a work site, while existing work lights being produced by the Group are usually handheld; and (ii) a new type of vacuum cleaner that can be used while wearing like a backpack.

The Group can also utilise the capability to produce battery packs for its own SMC cordless products. The Directors concur with Ipsos' view on the demand of cordless fans that, as cordless products gain further popularity due to the mobility provided by such electric tools, the demand for cordless electric tools will increase as a result. If the Group is able to produce battery packs, it will be able to capture this increase in demand and thereby increase the Group's profits.

(IV) Implementation plans

The Group plans to purchase the equipment below for expanding its manufacturing capabilities:

Type of equipment	Number of equipment	Cost
DC Motor		
Full set of machines required for production of DC motors including roto commutator, automatic spot welding testing machine, automatic axis pressing machine and automatic winding machine	One	HK$9.4 million
Multi-station automatic balancing machine, magnetizing apparatus and automatic spot welder	One	HK$0.9 million
Other DC motor production accessories	Multiple	HK$0.4 million
Subtotal		HK$10.7 million
LED lights packaging		
Full set of moulds required for production of LED lights packaging and light tester	One	HK$6.0 million
LED high speed spraying machine	One	HK$0.9 million
Other LED lights packaging production accessories	Multiple	HK$2.3 million
Subtotal		HK$9.2 million

Type of equipment	Number of equipment	Cost
Battery packs		
Battery pack production automation robotic line, including computerized battery testing system, automatic material feeder and belt welder	One set	HK$4.3 million
Full set of moulds required for production of battery pack and relevant tester	One set	HK$2.9 million
Silver paste crystallizer	One	HK$2.3 million
Other battery pack production accessories	Multiple	HK$0.1 million
Subtotal		HK$9.6 million
Total		HK$29.5 million

Production capacity

With the planned investments, the Group will be able to initially produce approximately 500,000, 100,000 and 1,700,000 units respectively and are expected to reach full capacity of approximately 900,000, 200,000 and 3,300,000 units by the end of 2021 respectively of DC motors, rechargeable battery packs and LED lights packaging per annum respectively. The Directors believe these will be able to satisfy the Group's current sales volume and possible future increase in demand from its customers. Taking into account of (i) the U.S. Customer has long relationship with the Group and the Group has understanding on the requirement of the U.S. Customer and the U.S. Customer has indicated that they would like to have proposals from the Group for the Group's self-produced DC motors to incorporate into their products; (ii) the Group has been awarded with a new model of work lights by the U.S. Customer, which will be incorporating the Group's LED lights packaging; (iii) the supply of DC motors, rechargeable battery packs and LED lights packaging by the Group will save the supplier management cost and transportation cost of the U.S. Customer; and (iv) DC motors, rechargeable battery packs and LED lights packaging are essential parts of the Group's products to the U.S. Customer, the Directors believe that there will be sufficient demand for the DC motors, rechargeable battery packs and LED lights packaging upon completion of the installation of relevant production line.

The Directors currently expect to be able to set up and test the production lines by the end of 2020 and have them fully operational by the end of 2021. Although the designed production capacity for work lights is currently restricted at 1,053,000 units per years, whereas the designed annual production capacity of 1,700,000 pieces of LED lights packaging is higher, some models of work lights requires more than just one LED light packaging in order to reach the required lumen set by the customer. During the Track Record Period, the Group purchased approximately 0.6 million, 0.9 million, 0.8 million and 0.7 million units of LED lights packaging and the work lights produced for the U.S. Customer only required one set of LED light packaging. As the Directors expect increasing orders from the U.S. Customer, as shown by the increase in the number of work lights sold during 9M2019, and that the model of work light newly awarded to the Group will comprise of seven LED lights packaging, and that the Group will continue to submit proposals for new models of work lights, which the Group has shown its ability to secure orders for new work light models, the full capacity of 3.3 million units of LED lights packaging will be utilised.

The Group intends to invest in the production of LED lights packaging, which can be inserted into the work lights currently being produced by the Group to the U.S. Customer, the Group's possible future work lights and also can be sold separately. The Group currently purchases from suppliers the LED lights for its work lights products. Having the capacity to produce LED lights packaging not only allow the Group to improve its profit margin, but also able to have a steady source of supply. The Group's production capacity for work lights is capped by the fixed number of moulds supplied by its suppliers. As at the Latest Practicable Date, the Group has concluded with its suppliers on the terms of additional mould supplies, with the supply capacity of approximately 500,000 work lights per year.

Payback period

In terms of payback period, the Directors estimate that, assuming a moderate growth in terms of orders from the U.S. Customer, after accounting for the additional gross profit margin earned less the relevant salaries for the assembly line specialist and engineers to be hired, the Group will be able to recoup its investments in approximately less than three years, four and a half years and around six years for DC motors, battery packs and LED lights packaging respectively. The Group would then no longer have to source these materials from its suppliers whilst providing a one-stop manufacturing solution for the U.S. Customer.

Below is a calculation of the estimated payback periods for each of the three components:

DC Motors:

			Year 1	Year 2	Year 3
			HK$'000	*HK$'000*	*HK$'000*
Cost of production line:	A		10,700		
Salary of maintenance staff:	B		340	340	340
Estimated increase in gross profit margin *(note 1)*:	D1	Cordless fan		5.6%	
	D2	Vacuum cleaner		3.5%	
Sales/forecasted sales amount *(note 2)*:	E1	Cordless fan	27,439	46,053	48,356
	E2	Vacuum cleaner	75,411	82,606	86,736
Additional gross profit if DC motor is incorporated:	F1 = D1 x E1	Cordless fan	1,537	2,579	2,708
	F2 = D2 x E2	Vacuum cleaner	2,639	2,891	3,036
Total new gross profit from DC motor production:	G = F1 + F2 – B		3,836	5,130	5,404
Payback	G – A		(6,864)	(1,734)	3,670

Notes:

(1) The additional gross profit margin for each product type is calculated based on the difference between the cost of purchasing the relevant component and the cost of producing (inclusive of material, labour and production cost) the relevant component by the Group itself.

(2) Sales for Year 1 is the sales of individual electric tools for FY2018. Sales for Year 2 is based on the sales for individual electric tools as estimated by the Directors. Sales for Year 3 is based on a moderate growth of 5% from the sales of Year 2. The 5% growth rate is estimated based on the CAGR of the Group's cordless fans and vacuum cleaners of approximately 87.3%, 15.2% during the Track Record Period, respectively. The estimation is reduced to 5% as a more conservative approach in estimating the future growth rate.

As seen from above, the Group will be able to recoup its investment cost in the DC motor production line in less than three years based on the additional gross profit the Group will be able to earn.

LED lights packaging:

			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost of production line:	A		9,200					
Salary of maintenance staff:	B		582	582	582	582	582	582
Estimated increase in gross profit margin *(note 1,2)*:	D1	Most commonly sold models			3.8%			
	D2	Other models			4.7%			
	D3	New work light model			4.7%			
Sales/forecasted sales amount *(note 3)*:	E1	Most commonly sold model of work light	46,183	40,495	42,520	44,646	46,878	49,222
	E2	Other models of work light	8,150	7,146	7,503	7,879	8,273	8,686
	E3	New work light model	1,980	2,376	2,376	2,376	2,376	2,376
Additional gross profit margin if LED lights packaging is incorporated:	F1 = D1 x E1	Most commonly sold model of work light	1,755	1,539	1,616	1,697	1,781	1,870
	F2 = D2 x E2	Other models of work light	383	336	353	370	389	408
	F3 = D3 x E3	New work light model	93	112	112	112	112	112
Total new gross profit from LED lights packaging production:	G = F1 + F2 + F3 – B		1,649	1,404	1,498	1,596	1,699	1,808
Payback	G – A		(7,551)	(6,148)	(4,650)	(3,054)	(1,355)	453

Notes:

(1) The additional gross profit margin for each product type is calculated based on the difference between the cost of purchasing the relevant component and the cost of producing (inclusive of material, labour and production cost) the relevant component by the Group itself.

(2) The additional gross profit margin of the new work light model is calculated based on the difference between the cost of purchasing the LED lights packaging component and the cost of producing (inclusive of material, labour and production cost) it by the Group itself without accounting for the gross profit the Group will earn from selling the new work light itself.

(3) Sales for Year 1 is the sales of work lights for FY2018. Sales for Year 2 is based on the sales for work lights as estimated by the Directors. Sales for Year 3, 4, 5 and 6 are based on a moderate growth of 5% from the sales of Year 2, 3, 4 and 5 respectively. The 5% growth rate is estimated based on the CAGR of the Group's work lights of approximately 7.4% during the Track Record Period. The estimation is reduced to 5% as a more conservative approach in estimating the future growth rate.

(4) Sales for new work light model is based on the preliminary production schedule in the first year as given by one of the Group's customer.

As seen from above, the Group will be able to recoup its investment cost in the LED lights packaging production line in around six years based on the additional gross profit the Group will be able to earn.

Battery pack:

			Year 1	Year 2	Year 3	Year 4	Year 5
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost of production line:	A		9,600				
Units to be produced for each electric tool *(in thousands)* *(note 1)*:	D1	Model A	30.0	34.5	43.1	51.8	55.2
	D2	Model B	20.0	23.0	28.8	34.5	36.8
	D3	Model C	15.0	17.3	21.6	25.9	27.6
Estimated sales price for each model of battery *(note 2)*:	E1	Model A			120.0		
	E2	Model B			185.0		
	E3	Model C			255.0		
Estimated cost of producing each battery *(note 3)*:	F1	Model A			96.8		
	F2	Model B			160.7		
	F3	Model C			230.3		
Estimated gross profit per battery sold:	G1 = E1 – F1	Model A			23.2		
	G2 = E2 – F2	Model B			24.3		
	G3 = E3 – F3	Model C			24.7		
Estimated gross profit earnt:	H1 = D1 x G1	Model A	696.0	800.4	1,000.5	1,200.6	1,280.6
	H2 = D2 x G2	Model B	485.4	558.2	697.8	837.3	893.1
	H3 = D3 x G3	Model C	369.9	425.4	531.7	638.1	680.6
Estimated increase in gross profit:	J = H1 + H2 + H3		1,551.3	1,784.0	2,230.0	2,676.0	2,854.3
Salary of maintenance staff:	B		97	97	97	97	97
Payback	J – A – B		(8,145.7)	(6,458.7)	(4,325.7)	(1,746.7)	1,010.6

Notes:

(1) Units of battery packs to be produced is conservatively estimated to be approximately 5.5% of the total number of cordless fans, vacuum cleaners and work lights produced in FY2018 and is estimated to grow in a range of approximately 6.6% to 25.2% in subsequent years. The estimated growth rate of 6.6% to 25.2% is estimated based on the increase in the number of electric tools the U.S. Customer orders from the Group after initially awarding the production, such as the increase in orders received by the Group for its cordless fans after initially being awarded its production in 2017 and the continual increase in orders received for its vacuum cleaners. The Directors expect production for battery packs to achieve similar trend in terms of demand.

(2) Sales price for the respective models of battery packs is based on Director's estimate of the unit cost per model and the desired margin to be earnt.

(3) Unit cost for the respective models of battery packs is based on the cost of production (inclusive of material, labour and production cost).

As seen from above, the Group will be able to recoup its investment cost in the battery pack production line in four and a half years based on the additional gross profit the Group will be able to earn.

The Group will be able to easily incorporate DC motors and/or LED lights packaging into its products as the Group's production of these components will be done based on the specifications required by the U.S. Customer, who does allow for alternative source of raw materials to be used. Further, the Group will not be changing any of the design or interior structure of the products, with the Group's existing engineering team responsible for the implementation of the Group's components.

Although the Group did not produce any DC motors, battery packs and LED lights packaging during the Track Record Period, the Directors consider that the knowledge and experience gained from its present production processes can be transferred into the production for the components as the work required to produce the components are similar.

In order to properly maintain the machineries to be purchased, the Group will also hire an assembly line specialist and two engineers to regularly maintain and ensure the effectiveness of the machines. Such assembly line specialist and engineers will be required to have at least a bachelor's degree with five years of relevant experience.

Conclusion

As demonstrated above, the Directors are of the view that the investments into the production of DC motors, battery packs and LED lights will allow the Group to increase its profitability, as the production cost for these components will be less than purchasing the same from third party suppliers. It creates another benefit of enabling the Group to secure the supply of a major component of its products, and in the case of a sudden surge in demand from its customers, the Group will be able to cater for the additional orders as it will be able to monitor its own production schedules, without suffering from an increase in deposit demanded by its suppliers and causing financial strain on the part of the Group. The Directors are of the view that, given the payback period is only from about three to six years, the fact that the machines can be used much longer than the payback period means that the benefits of purchasing these machines outweigh the costs associated with it.

Devote resources on new products and applications

(I) Background

As part of the Group's plan to expand its product offerings, the Group intends to apply approximately 23.0% of the net proceeds or approximately HK$10.3 million in (i) upgrading its existing testing and product development center to become a technology center for the design of new products and testing laboratory for electric tools by purchasing the relevant software and moulds and toolings amounting to approximately HK$8.9 million; and (ii) hiring the relevant experienced staff specialising in the research and development of electric tools, by applying approximately HK$1.4 million, equivalent to 12 months of salaries. In order to develop new products, both for its existing customer and under the Group's own "SMC" brand, the Directors believe that investing in a more advanced technology center, which will be equipped with softwares for computerized conceptual designs of potential new products, software for simulations of circuit boards and electronic designs and a designated testing laboratory for testing product life functionality of the prototypes and products. The technology center will be designated to modify existing products and develop new products with primary focus on work lights and other cordless products.

(II) Reasons and benefits for expansion

(A) Demand for work lights and other cordless products

Work lights

The Group plans to invest in the production process of work lights either under the Group's own "SMC" brand or for another brand owner. During the Track Record Period, the Group had a relatively high utilisation rate in its production facilities for work lights, reaching approximately 75.2% and 83.2% for FY2018 and 9M2019, respectively. The Group has received a relatively large number of purchase orders from its customer for work lights, therefore the Directors are of the view that work lights offers the Group an opportunity to expand its "SMC" product offerings, increase the Group's revenue stream while at the same time reducing its reliance on any single customer. Currently, the Group only has two product categories under its "SMC" brand, namely, electric fans and cordless fans. Based on the experienced gained from producing work lights for the U.S. Customer, the Group can produce work lights under its own brand and market it through the Group's existing customers and agent or solicit new customers from new regions. The marketing and subsequent sales of work lights will allow the Group to expand its "SMC" branded product offerings from electric fans and cordless fans. The Group has recently produced samples of work lights under its "SMC" brand for discussion with potential customers. The Group will incorporate its own LED lights packaging into these "SMC" work lights. The Group has been approached by interested distributors and agents enquiring about the Group's "SMC" cordless fans and work lights. These distributors and agents have made proposals to the Group in regards to the marketing of the Group's products in overseas markets and have requested the Group to send samples of its cordless fans and work lights for them to develop in detail a marketing and sales plan in their respective countries. The Group will continue to explore other sales channels including through the Group's existing agents and distributors or through new agents and distributors in other regions of the world.

The Group experienced a decrease of sales in its work lights in FY2018 when compared to FY2017 due to the fact that the Group sold more product parts in FY2017 at the request of the U.S. Customer while there was no such request in FY2018, but the utilisation rate increased in 9M2019 due to the increase in orders from the U.S. Customer. In addition, the Group has just been awarded orders for production for a new model of work lights as mentioned above, further proving the demand for work lights.

The type of work light the Group plans to develop are called area lights and is of a different type to the ones currently being produced and will be producing for the U.S. Customer. Area lights can be used in outdoor areas such as a small construction area or garden whereas the ones currently being produced and will be producing for the U.S. Customer are flashlights which are mostly used in indoor areas such as a workshop or garage. The Directors consider that the two lights provide for usage in different circumstances. Flashlights would mostly be handheld and directed at a more specific location while area lights would be set up in a particular area and directed in a more general area which requires lighting and in different locations. Flashlights would likely be used indoors while area lights would likely be used outdoors. As mentioned above, these existing and potential customers require the Group to have a fully established technology center before considering the Group to be a supplier of their products.

Other cordless products

The Group will continue to look for different ways to develop business relationships with new customers. Two of the Group's customers periodically requests the Group to provide them proposals for new products, such as different types and models of work lights and vacuum cleaners, which the Group would promptly provide to solicit new products to be produced and sold by the Group. Up to the Latest Practicable Date, no order has been received from the aforesaid two customers which the Directors consider partly attributable to the Group not having an in-house technology center. The Directors believe that with the technology center, the Group will be able to develop products with acceptable quality at a reasonable cost which will provide a strong support to solicit orders from existing customers as well as new customers. Furthermore, having the capabilities to produce DC motors, LED lights packaging and battery packs, which will experience increasing demand in the future, will enable the Group to provide services to potential customers as a one-stop electric tools production services provider, where these potential customers will have better knowledge of quality and quantity of the components in their electric tools without looking for other raw material suppliers.

Leveraging on the research ability provided by the technology center and the experienced staff that will be hired, the Group plans to further its researching into cordless products. According to the Ipsos Report, there was an increasing global demand for battery packs in recent years. It is also expected that such trend will continue to grow and sustain in the future with the widespread of cordless electric appliances and various hand-held devices. The Directors are of the view that this provides for huge potential for the Group as it plans to utilise the net proceeds from the Listing to invest in the production capabilities for DC motors and battery packs, which are two essential components in cordless electric tools, such as spray guns. Cordless electric tools are also in high demand for places where power points may not be readily available, as it provides for a certain level of power reserve whilst giving the user the convenience of being able to use the electric tool wherever required. The Group therefore intends to further research into and develop cordless electric tools, including spray guns, new types of vacuum cleaners and work lights. As at the Latest Practicable Date, the Group was still in discussion with its customers regarding the production of area lights, thus there is no indicative orders yet. However, based on the discussion with the such customers, the Directors believe that there will be additional demand for the Group's new products after satisfactory testing and development by its technology center.

(B) Speed up computerised conceptual designs and testing of new products

As part of its plans for further growth, the Group intends to widen its product offerings, by researching into the production of different electric tools and electric fans, which will comprise of both "SMC" and non-"SMC" branded products. The technology center allows the Group to speed up computerised conceptual designs of new products which can be used to showcase to the Group's existing and potential new customers when trying to obtain new business while also enabling the Group to look for ways to further improve the inner schematics of its existing products to try to improve both product and production efficiencies.

The Directors, through discussions with the Group's existing and potential customers, consider that it is imperative for the Group to upgrade its testing and product development center to become a technology center as these customers have indicated to the Group that in order for them to award the Group for production of new product categories, they first require a thorough review and examination of the technology center to their satisfaction. The Directors understood from its existing customers that, for them to award the Group with orders for new types of products, such as spray guns or other types of electric tools, the Group will need a technology center to include the design and testing capability for that type of product. Customers would site visit and assess the capability of the technology center, such as whether the technology center will be capable to test the products up to the standards required by the customer, in terms of durability and functionality of the product, and also to ensure the images and results of the designs and testing of the sample products are all performed with the designated computer softwares. Customers also review personally to see whether the softwares are up to standard. In addition, the U.S. Customer also assigns its employees to visit the Group's production facilities before finished products are delivered to them, in which case they would use the Group's technology center to test some of the finished products on a sampling basis. These customers also require the Group to have a fully functional prototype of a new product for them to assess. As such, the Group needs to have the required capability of designing and developing, and afterwards, the testing of the new product before the customers would even consider ordering from the Group. According to the Ipsos Report, product quality and design are the major selection criteria for customer in selecting their suppliers. Manufacturers with good quality control and designing skills, particularly those with established technology center, tend to inspire greater confidence on product safety and cater to a wider range of customers. It is also not uncommon that electric tools customers would examine the manufacturing facilities and the technology center to access the manufacturing capability as well as the product development capability of potential manufacturing partner in the selection process.

Moreover, a technology center enable manufacturers to perform in-house inspection, product design as well as prototype building which helps manufacturers to ensure the quality standards and specifications requested by their customers. Hence, a manufacturer with a well-established in-house testing and technology center may be more advantageous over its competitor. Once these customers have accepted the Group as the supplier for a particular product, these customers do not change suppliers often and increases their purchases of the new product significantly, as evidenced by the increase in orders received for the Group's cordless fans during the Track Record Period. The Directors are therefore of the view that, once the technology center is set up, it will provide the Group with significant benefits in the future.

(C) Existing team already occupied

The staff to be hired for operating the technology center will be responsible for the development of potential new products for the Group. The existing product development team is mainly responsible for any product development or adjustment required for the production of the Group's electric fans by its suppliers while the existing engineering team is mainly responsible for catering to the requests and requirements set by the U.S. Customer, such as improving the Group's current products which itself produces for the U.S. Customer and Customer B or helping with the design of the interior of the products after being provided with a conceptual design of a new product. Going forward, the Group's existing engineering team will continue to focus on working on the existing products for the U.S. Customer as they have the experience and know-how in liaising and satisfying the demands by them. The Group's existing engineering team does not actually have to perform any marketing studies to decide whether the products will indeed be welcomed by end customers as the study on the potential demand are done by the Group's customers themselves.

The staff to be hired for the technology center will be mainly responsible for the research, development and testing of "SMC" branded electric tools, such as the "SMC" cordless fan, and other electric tools the Group intends to develop for itself or for existing or new customers. The technology center employees will also need to analyse the potential demand for the products to be developed to ensure that the potential products will have satisfactory demand from consumers and obtain various product safety certifications for the target markets as necessary. The Group is currently in discussion with one of its customers, which is not the U.S. Customer, to potentially produce for them new work lights and vacuum cleaners. The technology center staff can then help with the development, testing and simulation of these new products.

Although the Group did not have its own technology center during the Track Record Period, the Group has had experience in developing products, such as the development and production of the cordless fans for the U.S. Customer. The Group's engineering team had to work on the interior workings of the products, ways to improve the efficiency of the Group's production and ways to reduce costs of components inside the products. As demand for the Group's products increases, the Directors are of the view that the current setups for the engineering team may not be sufficient to satisfy the Group's customers' demands. The Directors are therefore of the belief that it is crucial for the Group to have a dedicated technology center where both existing engineers and the technology center employees to be hired can have the equipment and software necessary to carry out their product development work. The Group also intends to hire a technology center head with relevant experience in previously managing a technology center similar to the one the Group intends to have, so that its operations will be run smoothly. The Group can also utilise the technology center to design and develop products not just for different brand owners but also for products under its own "SMC" brand.

(D) Benefits outweigh the cost of setup

Given the relatively low cost of investment required to establish the technology center and hire the relevant experienced staff, the benefits of the research and development of more cordless products by the Group will greatly outweigh the cost of investment. Since the Group already has a certain level of knowledge in cordless technology, given that the Group already produces cordless fans, work lights and vacuum cleaners, the Directors are of the view that if the Group was able to leverage on the research function provided by the technology center, the Group will be able to further develop cordless products, such as spray guns, which can be used in gardening situations. Further, area light is another potential product the Group is currently in discussion with an existing customer of the Group. Using the Group's production of cordless fans in the year production as a benchmark, the Group was able to earn approximately HK$7.8 million in the first year alone. Before being awarded the production of cordless fans, the Group had to first establish a designated testing and product development center at the beginning of 2017 before being awarded its production later in the year. Furthermore, the Group has established a testing and product development center for work lights and was awarded the production of work lights in 2007, which resulted in revenue of more than approximately HK$20.0 million for each of the financial year ended 31 December 2007 and 2008, respectively. Therefore, the Directors are of the view that the investment into the technology center will provide significant benefits for the Group in the future, both in terms of speeding up of new product designs and profitability potential and the benefits from the future development of cordless products will outweigh the relevant costs.

Implementation plans

Included in the HK$10.3 million as mentioned above is a portion, of approximately HK$1.4 million, for the hiring of experienced staff specializing in the research and development of electric tools. Currently, the Group intends to hire approximately four employees with approximately five to seven years of relevant experience in the research and development of electric tools with a least a bachelor's degree required, with a breakdown of the respective positions and experience as follows:

Positions	Expected salary	Number of staff to be hired	Number of years of relevant experience required
Head of technology center	RMB33,000 per month (approximately HK$39,000 per month)	1	seven
Hardware specialist	RMB25,000 per month (approximately HK$30,000 per month)	1	five
Simulation engineer	RMB20,500 per month (approximately HK$24,000 per month)	2	five

As mentioned above, the technology center is mainly for the development of new products for potential new customers or other existing customers, including the marketing, researching and testing of the new products. The responsibility of the technology center will not include the improvement of any existing production capacity. The improvement of existing production capacity will be achieved once the Group is able to purchase and utilise the automation robots as mentioned.

As the technology center will not require a significant area for operation, they Group will partition out a separate section from its existing factory floor to be used for the technology center, where the necessary design and simulation equipment will be placed.

Set up an e-commerce sales function to improve the reach of the Group's sales network

(I) Set up e-commerce sales function

During the Track Record Period, the Group sold its "SMC" products mainly through traditional means of sales selling by wholesale to distributors. The Group intends to expand its sales channel to have the ability to conduct e-commerce sales directly to its customers by applying approximately HK$7.4 million of its internal resources. According to the Ipsos Report, the high penetration of internet and mobile devices are shifting the consumers' purchasing habits of electric appliances and tools from brick-and-mortar stores to online stores. Online stores allow customers to shop at any time and any place they prefer. The shift in consumption habit from brick-and-mortar stores to online stores is especially obvious in developed regions where supporting infrastructure, such as logistic services, are well-established. According to the United States Census Bureau, e-commerce sales in the US increased by 15.6% from 2016 to 2017, indicating a strong shifting of consumption behaviors from brick-and-mortar stores to online stores. Most of the developed markets are witnessing this trend and it is expected to change the global electric appliances and tools market. The Group will engage the services provided by well-established e-commerce platforms. This allows the Group to leverage on the network coverage provided by these third party e-commerce platforms, especially the different markets these platforms are able to reach whilst not requiring the Group to invest significantly for each market the Group intends to expand in. The Group plans to allocate approximately 75% of the HK$4.4 million as advertising fee for these third party e-commerce platforms whilst the remaining 25% will be used to engage a third party marketing agent to help the Group to market the products according to the target market trend, including key words and related words advertising. This lessens the work load currently being handled by the Group's sales and marketing team and allow them to focus on their sales and marketing work on the Group's sales with existing customers.

Although direct sales to retailers and individual customers did not make up a significant portion of the Group's revenue during the Track Record Period, the Directors are of the view that one of the factors for this was due to the lack of marketing done by the Group and the relative inconvenience offered through traditional means of sales in shops. As consumers' purchasing habits changes to mobile platforms, where shopping can be done through applications on their mobile phones, the Directors are of the view that, coupled with the marketing done by e-commerce platforms the Group may intend to engage, the investment by the Group to enter into sales through digital means would provide the Group with the benefit of a much larger reach in terms of area not just for the possible electric tools the Group intends to develop, but also for the Group's electric fans. At the moment, a majority of the Group's electric fans are distributed to parts of Asia and the Middle East. Going forward, the Group, using the reach provided by the digital age and e-commerce platforms, the Group can market and sell its "SMC" electric tools and fans to different markets and beyond without the need to spend significant efforts to establish the respective sales and marketing partnerships in that particular target area. The Directors are of the view that, this offers the Group the benefit of being able to enter into a target market without the need to expending a significant sum in the studying, marketing and setting up a sales and marketing partnerships in the target area.

As mentioned above, the e-commerce sales function the Group intends to develop is not solely for the Group's sales of electric tools, but also electric fans. Although the Group's electric tools are for more specific industry applications, such as for the usage in workshops, in garages and small woodwork projects in one's backyard, items such as cordless fans can be taken to use indoor as well as outdoor. Furthermore, according to the Ipsos Report, demand for electric tools with better energy efficiency and which are more environmentally friendly is expected to grow in the future as consumers become more concerned with environmental implications of their lifestyle. It is the intention of the Group to capture this increasing demand for this type of electric tools, which the Group currently helps the U.S. Customer to produce and plan to have similar electric tools for its other customers or under its own "SMC" brand. In regards to electric fans, the Group intends to expand its sales regions using the flexibility and reach offered by e-commerce platforms.

(II) Upgrade purchasing and sales systems for link up with e-commerce sales

In order to upgrade the Group's monitoring of its purchasing and sales cycle and link up the Group's online sales in the future directly to the Group's enterprise resources planning systems, the Group plans to engage a software provider to upgrade the Group's current purchasing and sales systems by allocating approximately HK$3.0 million. The Directors are of the view that in order to cater for the systems used by third party e-commerce platforms, the Group will need to upgrade its existing software systems, which process sales transactions manually. However, as the number of transactions increase, which will be the case once the Group accepts sales orders through third party e-commerce platforms, the Group's existing sales system may not be adequate.

BUSINESS MODEL

The Group engages in the (i) manufacturing and selling of electric tools and (ii) the 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. For details of the competitive landscape and the Group's market share in the respective products' manufacturing industry in the PRC, please refer to the section headed "Industry Overview" in this prospectus. The Group manufactures and sells a wide range of electric tools including cordless fans, work lights, vacuum cleaners and other electric tools mainly to the U.S. and sources and sells electric fans for Customer A and under the Group's own brand name, "SMC".

The Group manufactures electric tools sold to its U.S. customers due to the relatively more stringent quality standard required by its customers, and a relatively higher level of technical difficulty needed in the products' production process. However, as the design and production of the Group's electric fans have matured and stabilised, the Group has outsourced the production process to its suppliers, who are manufacturers, to help produce such electric fans.

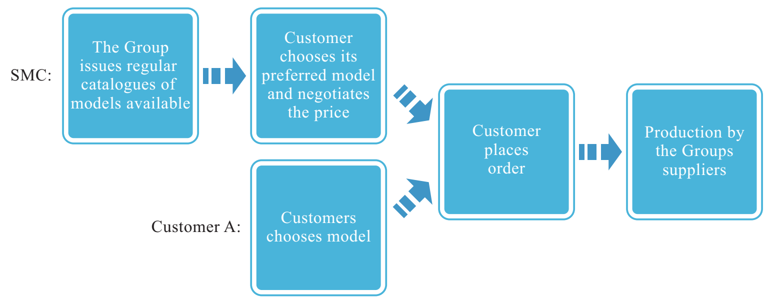
Manufacturing operations

The Group develops, manufactures and sells electric tools according to the requirements of its customers. The Group has been producing electric tools for the U.S. Customer since 2003. Under manufacturing operations, customers would provide the Group with a general concept for the type of electric tools that they want or specific requirements for production, such as the requirements of fulfilling particular quality standards or restrictions on hazardous materials. The Group then develops custom-made prototypes for the customers' selection. The customers place orders after they decide on the design and specifications of the products. Upon receipt of sales orders, the Group commences manufacturing of the products under the customers' own brands. The following diagram illustrates the manufacturing operations:

Sourcing and selling of electric fans

Under sourcing and selling of electric fans, electric fans are sold under the Group's own brand, namely, "SMC" to the Asian and African markets and under Customer A's brand for Customer A to the Australian market. The Group outsources the production of all electric fans to its suppliers in the PRC. For electric fans sold under the "SMC" brand, the customers would provide the Group with an indicative price range of fans they would be willing to purchase, and the Group would offer models that include different functionalities for the electric fans whilst maintaining a certain level of profit margin or specific models of electric fans they want to order. Once customers confirm their orders for the electric fans, production is outsourced to the Group's suppliers.

The following diagram illustrates the Group's sourcing and selling of electric fans business operations:



The following table sets forth revenue by business model for FY2016, FY2017, FY2018, 9M2018 and 9M2019:

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Business model										
Manufacturing operations	97,817	45.1	140,341	55.9	165,447	62.2	122,517	60.9	150,836	66.0
Sourcing and selling of electric fans	119,293	54.9	110,641	44.1	100,609	37.8	78,744	39.1	77,872	34.0
Total	217,110	100.0	250,982	100.0	266,056	100.0	201,261	100.0	228,708	100.0

PRODUCTS AND BRANDS

Due to the successes of its electric fans operations, where the Group began selling electric fans under its own "SMC" brand, the Group began producing non-"SMC" branded products, including electric tools for the U.S. Customer and electric fans for Customer A. The following table sets forth revenue by brand for FY2016, FY2017, FY2018, 9M2018 and 9M2019:

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Brand										
Non-SMC	158,195	72.9	193,424	77.1	220,292	82.8	163,893	81.4	183,688	80.3
SMC	58,915	27.1	57,558	22.9	45,764	17.2	37,368	18.6	45,020	19.7
Total	217,110	100.0	250,982	100.0	266,056	100.0	201,261	100.0	228,708	100.0

The Group's products can be categorised into (i) fans, (ii) work lights, (iii) vacuum cleaners and (iv) other electric tools. The following table sets forth revenue by product type for FY2016, FY2017, FY2018, 9M2018 and 9M2019:

	FY2016			FY2017			FY2018			9M2018			9M2019		
	HK$'000	*HK$'000*	*%*	*HK$'000*	*HK$'000*	*%*	*HK$'000*	*HK$'000*	*%*	*HK$'000* (unaudited)	*HK$'000*	*%*	*HK$'000*	*HK$'000*	*%*
Product type															
Cordless fans	—		—	7,819		3.1	27,439		10.3	14,242		7.1	40,070		17.5
Electric fans	119,293		55.0	110,641		44.1	100,609		37.8	78,744		39.1	77,872		34.1
Fans *(Note 1)*		119,293	55.0		118,460	47.2		128,048	48.1		92,986	46.2		117,942	51.6
Vacuum cleaners		49,294	22.7		64,102	25.5		75,411	28.4		59,510	29.6		63,503	27.8
Work lights		43,859	20.2		59,718	23.8		54,333	20.4		42,809	21.3		43,189	18.9
Others *(Note 2)*		4,664	2.1		8,702	3.5		8,264	3.1		5,956	2.9		4,074	1.7
Total		217,110	100.0		250,982	100.0		266,056	100.0		201,261	100.0		228,708	100.0

Notes:

1. Fans comprise of electric fans and cordless fans.

2. Others include hearing aids devices.

The Group primarily sells its products to overseas markets, including Americas, Europe, Oceania, Asia and Africa, with U.S. and Australia being its key export markets. Sales to the U.S. market accounted for approximately 25.4%, 38.0%, 37.6% and 38.8%, respectively, of the Group's revenue for each of FY2016, FY2017, FY2018 and 9M2019. Sales to the Australian market accounted for approximately 27.5%, 21.7%, 21.1% and 15.2%, respectively, of the Group's revenue for each of FY2016, FY2017, FY2018 and 9M2019. The following table sets forth revenue by geographical location for FY2016, FY2017, FY2018 and 9M2019:

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Geographical Location										
Americas	82,227	37.9	124,954	49.8	145,286	54.6	105,224	52.3	133,415	58.3
Oceania	65,669	30.2	59,907	23.8	63,771	23.9	47,525	23.6	40,227	17.6
Asia	41,567	19.2	45,671	18.2	33,740	12.7	30,004	14.9	32,820	14.4
Europe	13,089	6.0	9,789	3.9	12,204	4.6	10,417	5.2	8,279	3.6
Africa	14,558	6.7	10,661	4.3	11,055	4.2	8,091	4.0	13,967	6.1
Total	217,110	100.0	250,982	100.0	266,056	100.0	201,261	100.0	228,708	100.0

Electric fans

The Group's electric fans can generally be categorised into ceiling fans, wall-mounted fans, stand up fans and orbital fans. The Group's electric fans are mainly targeted at overseas consumers who tend to have greater demands regarding the quality and functionality of electric fans. In response to different consumer preferences, the Group's electric fans are manufactured in a wide spectrum of sizes, designs, colours, patterns and in various materials such as stainless steels and plastic. The Group sources and sells electric fans for Customer A under Customer A's brand in Australia and sell the Group's electric fans under its own "SMC" brand to Asia, Africa and countries in Oceania other than Australia.

Ceiling fans

A ceiling fan is a mechanical fan mounted on the ceiling of a room or space, usually electrically powered, suspended from the ceiling of a room, that uses hub-mounted rotating blades to circulate air. The Group sells ceiling fans for both the Customer A's brand and the Group's own "SMC" brand. Ceiling fans usually consists of three to five blades and can be made of plastic or stainless steel or wood.



Wall-mounted fans

Wall-mounted fans is a type of small, oscillating fan that is mounted on the wall of a room for air circulation. They are the ideal option for cooling limited spaces and rooms such as kitchens. Different to a ceiling fan, the blades of a wall-mounted fan are usually within a plastic or metal enclosure.

Stand up fans

A stand up fan is a kind of electric fan that has a stand that can be adjusted for height. They are commonly equipped with an oscillating feature to maximise air distribution in an area.

Orbital fans

An orbital fan has a caged fan design and unlike ordinary fans which generate air flow by rotating fan blades around the fan base, it has an orbital feature that can sway in 360 degrees.

During FY2016, FY2017, FY2018, 9M2018 and 9M2019, the average selling price of the Group's electric fans was approximately HK$185.3 per electric fan, HK$181.0 per electric fan, HK$192.6 per electric fan, HK$193.9 per electric fan and HK$189.0 per electric fan, respectively.

Electric tools

The Group's electric tools can generally be categorised into cordless fans, work lights, vacuum cleaners and other electric tools. The Group produces the electric tools for the U.S. Customer and Customer B, where both customers are based in U.S.. Moreover, the Group also produces its own "SMC" brand cordless fans for sale to customers.

Cordless fans

The Group produces rechargeable cordless fans for outdoor use, such as picnic, barbecue and camping due to its large battery capacity. It has a built-in USB socket for easier recharging.

The Group produces for the U.S. Customer cordless fans mainly used for workshops and jobsites. The fan can be stood up, hung or mounted on other fixtures. It also offers variable speed control and is powered by a battery.

During FY2016, the Group has not yet started to manufacture and sell cordless fans. During FY2017, FY2018, 9M2018 and 9M2019 the average selling price of the Group's cordless fans was approximately HK$258.0 per cordless fan, HK$248.4 per cordless fan, HK$250.1 per cordless fan and HK$231.5 per cordless fan, respectively.

Work lights

The Group produces work lights mainly used for workshops and jobsites for the U.S. Customer under the two brands in the U.S. The work lights offer multiple brightness settings to provide for flexibility both in terms of distance and light output and versatility in terms of placement of the lights in a workshop or jobsite.

During FY2016, FY2017, FY2018, 9M2018 and 9M2019, the average selling price of the Group's work lights were approximately HK$44.3 per item, HK$34.5 per item, HK$43.1 per item, HK$46.6 per item and HK$45.1 per item, respectively.

Vacuum cleaners

The Group produces vacuum cleaners mainly used for jobsites for the U.S. Customer under the two brands in the U.S.. These vacuum cleaners offer features designed for use in workshop or jobsite, such as a heavy-duty rubber hose to provide for durability and flexibility and larger power switch for easier access with one hand.

During FY2016, FY2017, FY2018, 9M2018 and 9M2019, the average selling price of the Group's vacuum cleaners were approximately HK$296.1 per item, HK$288.3 per item, HK$275.1 per item, HK$270.0 per item and HK$244.7 per item, respectively.

Others

The Group also produces hearing aid devices mainly for Customer B in the U.S. These hearing aid devices amplify sounds closest to the listener while reducing background noise and is ideal for one-on-one conversation, small-group and television listening.

During FY2016, FY2017, FY2018, 9M2018 and 9M2019, the average selling price of the Group's other electric tools were approximately HK$78.8 per item, HK$84.7 per item, HK$96.4 per item, HK$95.9 per item and HK$139.5 per item, respectively.

The Group's electric tools are more complex as compared to general household products due to the following reasons:

(i) as required by the U.S. Customer, the electric tools that the Group produces have to go through a designated testing and product development center in which the product is tested for its strength, durability, functionality along with other requirements set by the U.S Customer, which are of higher standards than ordinary household products;

(ii) the electric tools that the Group produces, namely cordless fans, work lights and vacuum cleaners, are all portable and can be handheld by the user if desired. These cordless and portable electric tools require more stable interior electric components and as the size of the area which encase the electric components are relatively smaller than household compliances, the electric components themselves have to also be smaller and the compact interior workings are more complex to allow for the mobility demanded by the user; and

(iii) the electric tools are targeted towards industrial usage, such as in workshops or small jobsites. Thus, the electric tools may be subject to rough environments or hazardous chemicals. The materials used for the Group's electric tools therefore are required to be of a different and higher standard compared to normal household appliances. For example, the Group's electric tools are subject to drop tests, where the product is dropped from a certain height for a set number of times and still be able to function before the product has met the required standard.

PRODUCT DEVELOPMENT

In general, electric tools manufactured by the Group for the U.S. Customer are developed by the Group. In contrast, electric fans sold by the Group to Customer A and under its own "SMC" brand are developed and manufactured by Sien Hua, Huaxia and other suppliers.

The Directors believe the Group's strong capability in product development and supply chain management will help to strengthen its market position in the PRC electric tools export market. As at the Latest Practicable Date, the Group's engineering team comprised of 8 staff stationed in Shunde. These staff have extensive experience in the electric tools production industry, of which some have had over 14 years of experience in the engineering of electric tools.

Engineering of electric tools for the U.S. Customer and other customers

Electric tools produced by the Group to the U.S. Customer and other customers are manufactured by the Group, where they usually provide the Group with a conceptual design and basic specification of the appearance of a new product they believe would be marketable and welcomed by customers, and the Group's engineering team would decide on the interior of the product including the placement and structure of the components inside, which would then be passed back to the respective customers for approval. Once the drafts, after examination and evaluation of the interior structure of the product, are approved, a sample would be produced by the Group for the customers' further approval. Once the customers confirm the sample, the purchase order will be passed to the production department for production. The sample produced for the customer's approval would be designed and produced according to the specifications requested by the customer, such as the safety features, functionalities and dimensions. To the best knowledge of the Directors, the Group's customers would provide the Group with specifications which would meet the safety requirements in the country in which the product will be marketed and sold.

In order for the Group to improve its profit margin while meeting the product quality standards set by its customers, the Group's engineering team regularly looks for ways to improve the efficiency of the Group's production, ways to reduce costs of components inside the products and ways to improve the engineering of the inside workings of a product and therefore removes any redundancies of the Group's productions.

Development of electric fans for Customer A

Electric fans sold by the Group to Customer A is operated under a different business model compared to electric tools produced by the Group for the U.S. Customer and hearing aids developed for Customer B, respectively. Customer A provides to the Group some general requirements as to some of the materials and quality standards that the Group needs to maintain. As the Group has maintained a long term relationship with Customer A, with over 10 years of business relationship with them, the designs of the electric fans sold under their brand has matured and no longer requires the Group to invest in large amount of resource in the design of the electric fans, with only slight adjustments made to the production of the fans if Customer A provides the Group with any feedbacks.

If the Group is provided with any feedbacks from Customer A regarding the products, the Group would pass on the relevant feedbacks to its suppliers where the Group's product development team would work with the relevant suppliers in fulfilling Customer A's requests.

Development of fans under "SMC" brand

The Group's history can be traced back to the 1950s. Since then, it has developed, marketed and sold electric fans under its own "SMC" brand in Hong Kong and further expanded its market to overseas, including other parts of Asia, Africa and Oceania. As the product designs for different models of the Group's "SMC" electric fans have stabilised and the "SMC" brand has established a solid reputation in the Group's target markets and securing a certain level of demand from its customers, the Group has not had to make any drastic design changes or develop any new prototypes for its electric fans.

The Group has also started to develop and produce its own "SMC" branded rechargeable cordless fans since 2018. Currently, the Group mainly sells its own cordless fans in the local market.

The sales and marketing team is responsible for collecting feedbacks from customers through communications with them via email/telephone. The sales and marketing team will compile and pass on such customers feedbacks to the product development team which help to determine the latest seasonal themes, colours, size, functions and materials to be used and identify new trends and development in the electric fans industry to enhance further development of the Group's products. The Group has also engaged a number of agents to help market the Group's products, and they would also provide to the Group feedbacks from customers in their respective region.

RESEARCH AND DEVELOPMENT

During the Track Record Period and up to the Latest Practicable Date, the Group did not engage in any research and development activities or incur any research and development expenses.

The Group's product development team comprised of 1 staff only as at the Latest Practicable Date and the Group did not incur any research and development cost during the Track Record Period as the production, functions and appearances of the Group's fans have matured and stabilised, therefore reducing the need for the Group to spend significant resources into research and development.

PRODUCTION FACILITIES AND PROCESSES

Production facilities

The Group's manufacturing facilities are located in Shunde, Foshan, Guangdong Province, the PRC, which were leased from MMSD. Please refer to the subsection headed "Properties" under this section and the section headed "Continuing Connected Transactions — Continuing Connected transactions — Tenancy agreement and management fee agreement between MMSD and SMC Electric China" in this prospectus for further details. As at 30 September 2019, the Group operated 1 production line for cordless fans, 2 production lines for work lights, 1 production line for vacuum cleaners and 1 production line for other electric tools. These production facilities occupied a combined area of approximately 3,666 sq. m. with an annual designed production capacity of approximately 163,000 pieces of cordless fans, 1,053,000 pieces of work lights, 249,000 pieces of vacuum cleaners and 249,000 pieces of other electric tools as at 30 September 2019. The Group's production lines for electric tools includes, among others, surface mount systems and soldering machines.

The following table sets out the designed production capacity, actual production volume and utilisation rate for each of the Group's product types during the Track Record Period:

	FY2016 *number of pieces*	**FY2017** *number of pieces*	**FY2018** *number of pieces*	**9M2018** *number of pieces*	**9M2019** *number of pieces*
Cordless fans					
— Designed production capacity *(Note 1)*	—	69,200	149,760	112,320	122,460
— Actual production volume *(Note 5)*	—	30,301	110,451	56,938	173,075
— Utilisation rate *(Note 6)*	N/A	43.8%	73.8%	50.7%	141.3%
Work lights					
— Designed production capacity *(Note 2)*	1,053,269	1,053,269	1,053,269	789,953	789,953
— Actual production volume *(Note 7)*	640,885	900,508	792,100	653,268	656,905
— Utilisation rate *(Note 6)*	60.8%	85.5%	75.2%	82.7%	83.2%
Vacuum cleaners					
— Designed production capacity *(Note 3)*	208,000	249,600	249,600	187,200	187,200
— Actual production volume *(Note 5)*	166,478	222,369	274,110	220,414	259,551
— Utilisation rate *(Note 6)*	80.0%	89.1%	109.8%	117.7%	138.6%
Other electric tools					
— Designed production capacity *(Note 4)*	208,000	208,000	249,600	187,200	187,200
— Actual production volume *(Note 5)*	59,164	102,800	85,728	62,120	29,200
— Utilisation rate *(Note 6)*	28.4%	49.4%	34.3%	33.2%	15.6%

Notes:

1. Designed production capacity is calculated by multiplying the theoretical maximum daily production capacity for cordless fans by planned production days (5 days x 52 weeks). The theoretical maximum daily production capacity is computed on the basis on the number of output at the optimal production speed, which is derived by taking into account the skill level of workers at the relevant time and the speed of the conveyor belt, of cordless fans of approximately 50 pieces per hour (assuming 173 production days due to the production of cordless fans commenced in May of 2017), 72 pieces per hour and 78.5 pieces per hour, for 8 working hours a day for FY2017, FY2018 and 9M2019, respectively.

2. Designed production capacity for work lights is calculated based on the maximum supply capacity from the Group's supplier of mould for the handle parts of the work lights of approximately 184 pieces per hour for 22 hours a day for FY2016, FY2017, FY2018 and 9M2019. This is due to the fact that the mould supplier can only produce a fixed number of moulds per day.

3. Designed production capacity is calculated by multiplying the theoretical maximum daily production capacity for vacuum cleaners by planned production days (5 days x 52 weeks). The theoretical maximum daily production capacity is computed on the basis on the number of output at the optimal production speed, which is derived by taking into account the skill level of workers at the relevant time and the speed of the conveyor belt, of vacuum cleaners of approximately 100 pieces per hour, 120 pieces per hour, 120 pieces per hour and 120 pieces per hour, for 8 working hours a day for FY2016, FY2017, FY2018 and 9M2019, respectively.

4. Designed production capacity is calculated by multiplying the theoretical maximum daily production capacity for other electric tools by planned production days (5 days x 52 weeks). The theoretical maximum daily production capacity is computed on the basis on the number of output at the optimal production speed, which is derived by taking into account the skill level of workers at the relevant time and the speed of the conveyor belt, of other electric tools of approximately 100 pieces per hour, 100 pieces per hour, 120 pieces per hour and 120 pieces per hour, for 8 working hours a day for FY2016, FY2017, FY2018 and 9M2019, respectively.

5. The number of pieces set forth in this table is calculated based on the number of electric tools sold.

6. Utilisation rate is calculated by dividing the actual production volume for the year/period by the designed production capacity for the year/period.

7. The number of pieces of work lights set forth is calculated based on the number of handles of work lights sold as the customer requested some work lights to be sold in separate parts.

8. The designed production capacity for the Group's electric tools is derived from the optimal combination level of production line and labour. The production capacity will not necessarily improve by merely increasing the labour.

In case of sudden upsurge in demand and hence purchase orders by the Group's customers, the Group's production lines, other than the production line for other electric tools, are capable of switching into production of different products if required to cope with the increased demand of a particular product. As the production line for other electric tools is solely for the manufacturing of hearing aid devices, which requires a totally different set of production equipment compared to the Group's production for cordless fans, vacuum cleaners and work lights, it is not compatible to the other production lines. Generally, the Group would require its workers to work overtime, or hire part time workers to work to continue its production operations beyond the normal eight hours work per day, in case of an increase in demand or orders from its customers, resulting in possible over-utilisation of its designed production capacity. The Group's existing production facilities, apart from the production line for other electric tools and cordless fans under the "SMC" brand, have been set up uniquely for the production of the U.S. Customer's products, with certain machines tailored for their products' shapes and sizes, the Directors believe it is time consuming and economically inefficient to adjust its current production lines to produce for other new products other than the U.S. Customer.

Cordless fans

The Group has only begun to produce for the U.S. Customer's cordless fans in FY2017, therefore no capacity was recorded in FY2016. As efficiency for production of cordless fans improved from approximately 50 pieces per hour in FY2017 to approximately 78.5 pieces per hour in 9M2019 because the workers became more familiarised with the production process, the Group's production capacity increased. The Group experienced over-utilisation for 9M2019 due to significant increase in purchase orders from its customer.

Work lights

As the production capacity for work lights is limited by the fixed number of moulds the Group's supplier is able to produce each day, the production capacity has been stable throughout the Track Record Period. In terms of utilisation, the utilisation rate remained over 70% from FY2017 to 9M2019.

Vacuum cleaners

Production capacity for vacuum cleaners slightly increased from FY2016 to FY2017 due to the improved efficiency in the Group's production from approximately 100 pieces per hour to approximately 120 pieces per hour, because the workers became more familiarised with the production process, and remained stable in FY2018. The utilisation rate for vacuum cleaners also increased, and the Group experienced over-utilisation for FY2018 and 9M2019 due to significant increase in purchase orders from its customer. During FY2018 and 9M2019, the Group had to request its production workers to work overtime in order to satisfy the upsurge in demand.

Other electric tools

For other electric tools, the Group maintained the same level of production capacity from FY2016 to FY2017, and experienced an increase in production efficiency during FY2018 from approximately 100 pieces per hour in FY2017 to approximately 120 pieces per hour in FY2018 because the workers became more familiarised with the production process.

Repair and maintenance

The Group endeavours to repair and maintain its equipment or machinery on a regular basis. As at the Latest Practicable Date, the Group had 2 employees within the production department, who are responsible for carrying out daily, weekly and monthly inspections and routine daily cleaning and maintenance of the production equipment depending on the operating frequency and cycle. Manufacturers of the Group's equipment also provide equipment maintenance services during warranty period. The useful life of the principal machinery and equipment ranges from approximately 3 years to approximately 10 years. Equipment will be replaced when it is no longer functioning normally.

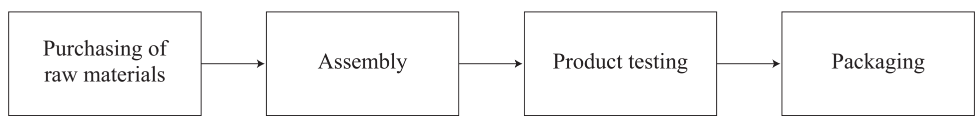
The Group did not experience any material or prolonged interruptions to its production process due to equipment or machinery failure during the Track Record Period.

Production process

Each of the production of cordless fans, work lights, vacuum cleaners and other electric tools is a customised process that involves significant skills and craftsmanship and production lead time is generally one to two months.

Production process for electric tools

The Group's production process is set out in the diagram below:



Description of each of the key production steps of electric tools sold are set forth below:

Purchasing of raw materials

After the receipt of orders from the Group's customers, the Group would purchase the necessary raw materials, including electric motors, moulds and packaging materials. After the receipt of raw materials, the Group performs quality checks on them on a sample basis to ensure the materials received are up to the Group's and its customers specifications and standards.

Assembly

After the Group has ensured the raw materials are up to the required standard, they are passed to the Group's production lines where some materials are cut into the required sizes and shapes. Once complete, the components inside a product are assembled together using screws and glues, where tests may be performed to check whether the components are assembled and functioning correctly. The Group would also perform soldering processes if required during the assembly process. If no fault is discovered in the relevant tests, the outer cover of the product would be assembled together also.

Product testing

The Group conducts work in progress inspection on its products to assess product safety, structural integrity and conformity with design and colour specifications to ensure the products meet the requirements of the Group's customers as well as the standard as specified in the Group's standard manual.

If the final product passes work in progress inspection including inspection on size, standard, structure and function, the product will be sent for final inspection of any defects before packaging. The final inspection involves putting all products to a specific testing room built to address the quality standards set by the Group's customers, requirements such as the wind power a cordless fan is able to generate, the number of times the control panel can be turned/pressed without failing and the lumen a work light is able to radiate at a certain distance, etc.. If the product does not pass all the tests required by the Group's customers, the product will be sent back to the relevant station for reworking or reprocessing.

Packaging

Once the products have passed the relevant tests, they will be packed according to the specifications of the customers and be prepared for shipment.

RAW MATERIALS AND SUPPLIERS

Raw materials

The raw materials used for the manufacturing of electric tools mainly include, electric motors, moulds and packaging materials. During the Track Record Period, the Group procured its raw materials from suppliers that are based in Hong Kong and the PRC. As part of its cost saving measures, the Group consistently look for cost effective suppliers. Once the raw materials are checked by the Group's quality control department and are deemed to be of the required standard, they will be passed to the Group's production department and be used in the production process. For further details on the Group's production process, please refer to the subsection headed "Production process" in this section.

Finished goods

For electric fans the Group sources and sells under the Customer A's brand and the Group's own "SMC" brand, the Group engages suppliers, who are manufacturers, to produce its products. The suppliers are generally responsible for procurement of raw materials for the production of the Group's products. Over the years of its operations, the Group has built its network of reliable suppliers whom it has good understanding of their individual skills, craftsmanship and production capacity.

The Group selects suppliers from its existing network based on various requirements, including product price, order size, complexity of product design, their experience, level of craftsmanship, production capacity, human resources and effectiveness of quality control. In order to ensure that the Group's products can be delivered to its customers on time, the Group estimates the time required for production based on its past experience and discuss with its suppliers to fix a production schedule.

In the event of engaging a new supplier, the Group's quality control team will conduct on-site examinations of the potential supplier's facilities to assess its production and technical capabilities and working conditions of the manufacturing facilities in order to ensure compliance with the Group's manufacturing standards. The Group also requests the potential suppliers to produce sample products for examination. The Group only selects those suppliers who pass its examinations.

Some of the Group's customers have set certain standards and requirements the Group has to meet in terms of the quality of the products sold by the Group. As part of these customers assessment of whether the Group's products have indeed met the required standards, these customers perform factory visits periodically, where their own quality control teams perform site visits to the Group's suppliers. Once these customers are satisfied with the suppliers, these suppliers would enter these customers' approved supplier list. As these suppliers have become an approved supplier for the respective customers, and these customers would only allow these approved suppliers to produce its products by only providing moulds to its approved suppliers, the Group is therefore required to source the products from these approved suppliers.

During the Track Record Period, the Group had established business relationships with over 300 suppliers. Up to the Latest Practicable Date, the Group had established approximately 3 years to 31 years of business relationships with its five largest suppliers for the Track Record Period.

For further details regarding the Group's suppliers, please refer to the paragraph headed "Suppliers" in this section below.

The Group did not conduct any hedging activities with respect to the price fluctuation in the raw materials during the Track Record Period. In order to minimise its exposure from fluctuations in raw material and finished products prices, the Group prepares fee quotations to its customers taking into account factors such as: (i) cost of raw materials consumed and labour cost; (ii) exchange rates; (iii) quotations obtained from suppliers and (iv) market price. During the Track Record Period, the Group did not experience any shortage of raw materials or quality issues with its raw materials that materially affected the Group's operation. For the sensitivity analysis of the impact of hypothetical changes in the material costs on the Group's profit before tax and profit for the year during the Track Record Period, please refer to the section headed "Financial Information — Material costs" in this prospectus.

For FY2016, FY2017, FY2018 and 9M2019, the material costs amounted to approximately HK$147.9 million, HK$169.9 million, HK$172.7 million and HK$145.7 million, respectively, representing approximately 94.4%, 94.4%, 93.2% and 92.9% of the Group's cost of revenue, respectively.

Suppliers

All of the Group's suppliers are located in Hong Kong or the PRC. The payments made to the suppliers are primarily in HK$, US$ or RMB by remittance. The suppliers generally offer the Group a credit term up to 120 days from the time when the goods are received from them. During the Track Record Period, the Group did not encounter any major difficulty in the procurement of raw materials and finished products from its suppliers.

In order to reduce the Group's dependence on any single supplier, the Group generally maintains more than one supplier for its major raw materials.

For FY2016, FY2017, FY2018 and 9M2019, purchases from the single largest supplier accounted for approximately 25.0%, 24.4%, 22.8% and 18.6% of the Group's total purchases, respectively and purchases from the five largest suppliers together accounted for approximately 60.3%, 54.0%, 48.8% and 53.1% of the Group's total purchases, respectively. The five largest suppliers during the Track Record Period were mainly suppliers of electric fans, mould and plastic products and switches.

The following table sets out the top five suppliers during the Track Record Period:

For FY2016

	HK$'000	*%*
Sien Hua	37,612	25.0
江門威靈廠電器有限公司 (Jiangmen Welling Electric Appliance Co Ltd*)	33,902	22.5
深圳市宏拓精密模具製品有限公司 (Hot Top Precision Mould Manufacturing Co Ltd*)	7,856	5.2
Supplier A	6,297	4.2
Shek Fai Plastic Factory Limited	5,072	3.4
Five largest suppliers in aggregate	90,739	60.3
Other suppliers	59,955	39.7
Total purchases	150,694	100.0

For FY2017

	HK$'000	*%*
Sien Hua	41,792	24.4
江門威靈廠電器有限公司 (Jiangmen Welling Electric Appliance Co Ltd*)	32,510	19.0
深圳市宏拓精密模具製品有限公司 (Hot Top Precision Mould Manufacturing Co Ltd*)	8,198	4.8
東莞市海昱潔淨防護製品有限公司 (Dongguan Haiyu Clean Protective Products Co Ltd*)	4,953	2.9
佛山市太納模具科技有限公司 (Foshan Taina Mould Technology Co Ltd*)	4,888	2.9
Five largest suppliers in aggregate	92,341	54.0
Other suppliers	78,808	46.0
Total purchases	171,149	100.0

For FY2018

	HK$'000	*%*
Sien Hua	40,035	22.8
江門威靈廠電器有限公司 (Jiangmen Welling Electric Appliance Co Ltd*)	20,829	11.8
佛山市順德區新力航塑料製品有限公司 (Foshan Shunde Xinlihang Plastic Products Co Ltd*)	13,388	7.6
Nichibo (Hong Kong) Co Ltd *(Note)*	6,312	3.6
東莞市祥宏吹塑制品有限公司 (Dongguan Xianghong Blow-Molding Products Co Ltd*)	5,326	3.0
Five largest suppliers in aggregate	85,890	48.8
Other suppliers	90,087	51.2
Total purchases	175,977	100.0

Note: The purchase amount consists the amount of Nichibo (Hong Kong) Co Ltd and its related company.

For 9M2019

	HK$'000	*%*
江門威靈廠電器有限公司 (Jiangmen Welling Electric Appliance Co Ltd*)	26,517	18.6
Sien Hua	24,646	17.3
佛山市順德區新力航塑料製品有限公司 (Foshan Shunde Xinlihang Plastic Products Co Ltd*)	14,664	10.3
Nichibo (Hong Kong) Co Ltd *(Note)*	6,171	4.3
東莞市祥宏吹塑制品有限公司 (Dongguan Xianghong Blow-Molding Products Co Ltd*)	3,638	2.6
Five largest suppliers in aggregate	75,636	53.1
Other suppliers	66,689	46.9
Total purchases	142,325	100.0

Note: The purchase amount consists the amount of Nichibo (Hong Kong) Co Ltd and its related company.

Set out below is the background information of the five largest suppliers during the Track Record Period:

Supplier	Major materials supplied	Background and principal business nature	Location	Length of business relationship with the Group as at 31 December 2018	Credit period
Sien Hua	Electric fans	A co-operative joint venture established in the PRC which principally engages in the manufacturing of electric fans and its capital was contributed as to approximately 28.92% by the Group.	PRC	31 years	N/A *(Note 2)*
江門威靈廠電器有限公司 (Jiangmen Welling Electric Appliance Co Ltd*)	Electric fans	A private limited company incorporated in the PRC which principally engages in the manufacturing of home appliances.	PRC	9 years	N/A *(Note 2)*
深圳市宏拓精密模具製品有限公司 (Hot Top Precision Mould Manufacturing Co Ltd*)	Moulds and plastic products	A private limited company incorporated in the PRC which engages in the manufacturing of moulds and plastic products.	PRC	9 years	90 days
Supplier A *(Note 1)*	Fan controller	A limited liability company (foreign joint venture) which principally engages in production of transformers, smart home products and smart switches.	PRC	3 years	60 days
Shek Fai Plastic Factory Limited	Plastic products	A company incorporated in Hong Kong engaging in the manufacturing and dealing in plastic.	PRC	9 years	90 days
東莞市海昱潔淨防護製品有限公司 (Dongguan Haiyu Clean Protective Products Co Ltd*)	Air filters	A private limited company incorporated in the PRC which principally engages in the manufacturing of air filters.	PRC	9 years	90 days
佛山市太納模具科技有限公司 (Foshan Taina Mould Technology Co Ltd*)	Moulds and plastic products	A private limited company incorporated in the PRC which principally engages in the manufacturing of moulds and plastic products.	PRC	3 years	90 days
佛山市順德區新力航塑料製品有限公司 (Foshan Shunde Xinlihang Plastic Products Co Ltd*)	Moulds and plastic products	A private limited company incorporated in the PRC which principally engages in the manufacturing of moulds and plastic products.	PRC	3 years	90 days

Supplier	Major materials supplied	Background and principal business nature	Location	Length of business relationship with the Group as at 31 December 2018	Credit period
Nichibo (Hong Kong) Co Ltd and its related company	Motors	A group of private limited companies incorporated in Hong Kong and the PRC which principally engages in the manufacturing of motors.	Hong Kong and PRC	3 years	90 days
東莞市祥宏吹塑制品有限公司 (Dongguan Xianghong Blow-Molding Products Co Ltd*)	Moulds and plastic products	A private limited company incorporated in the PRC which principally engages in the manufacturing of moulds and plastic products.	PRC	3 years	30 days

Notes:

1. Supplier A is a related company of Customer A. Please refer to the subsection headed "Entities Who Are the Group's Suppliers and also Its Customers" in this section for further details of reason of business with both Supplier A and Customer A.

2. No credit period is stipulated in purchase orders from the Group to Sien Hua and Jiangmen Welling Electric Appliance Co Ltd* respectively. However, the Group usually settles its invoices to them within two weeks after receipt of invoice.

Except for Sien Hua, all of the Group's five largest suppliers during the Track Record Period are Independent Third Parties. To the best knowledge of the Directors, other than Sien Hua, none of the Directors, their respective close associates nor any Shareholder who, to the knowledge of the Directors, owns more than 5% of the Group's issued shares had any interest in any of the five largest suppliers during the Track Record Period. Please refer to the section headed "History, Reorganisation and Corporate Structure — Corporate development — Sien Hua" in this prospectus for further details of Sien Hua.

Reason for engaging Sien Hua as a supplier

During the Track Record Period, the Group purchased from Sien Hua for its sales of electric fans, with purchases amounting to approximately HK$37.6 million, HK$41.8 million, HK$40.0 million and HK$24.6 million, respectively. Certain customers of the Group have set certain standards and requirements the Group has to meet in terms of the quality of the products sold to them. As part of these customers assessment of whether the Group's products have indeed met the required standards, these customers perform factory visits periodically, where their own quality control teams perform site visits to the Group's suppliers. Once these customers are satisfied with the suppliers, these suppliers would enter these customers' approved supplier list. As Sien Hua has become an approved supplier for a certain customer in the production of its products, the Group decided to purchase from Sien Hua for the products sold to the customer.

Although Sien Hua has been approved as a supplier by Customer A, the Directors are of the view that Customer A would not bypass the Group and engage Sien Hua directly due to the following reasons:

(i) Customer A has had a business relationship with the Group since 2008 and has never had any material dispute that has caused any disruption in the supply of electric fans by the Group and has been satisfied with the performance of the Group;

(ii) Customer A's purchase orders are sent directly to the Group first for processing before the Group engages Sien Hua for production;

(iii) the reason Customer A accepts Sien Hua as a manufacturer of their electric fans is due to the Group's long business history, reputation and knowhow for electric fans, the Group is therefore able to monitor Sien Hua's production of electric fans to meet Customer A's standards and requirements;

(iv) overseas customers such as Customer A prefer to establish business relationships with companies headquartered in Hong Kong as they consider Hong Kong businesses to be more efficient and responsive than companies in the PRC; and

(v) the Group is able to offer Customer A a credit period of 45 days whereas the Group usually settles its invoices with Sien Hua within one to two weeks after the receipt of its invoices.

Due to the above reasons, the Directors are of the view that Customer A will continue to engage the Group for the supply of their electric fans. In the event Sien Hua is not able to produce electric fans for Customer A, the Group will be able to engage another supplier of electric fans for Customer A.

The Directors understood from Customer A that it is Customer A's preference to have their electric fans continue to be produced by Sien Hua due to the below reasons:

(i) Sien Hua has been a long time approved supplier of electric fans and Customer A has been satisfactory with the quality of the electric fans;

(ii) having the same supplier for the same model of electric fans allow Customer A to streamline its after sales services so that if end users require any possible sales service for its electric fans, Customer A can arrange for repair or maintenance with Sien Hua through the Group; and

(iii) as Customer A's electric fan models have been stable over the years and no new models have been introduced, there is no reason for Customer A to request for a change in manufacturer as it will require Customer A to spend additional time and resource in assessing new suppliers.

When selecting suppliers for the purchases of goods (both independent third parties and related parties), the Group would normally obtain quotations from more than one supplier. Furthermore, the Group would consider other qualitative factors in its determination, such as the raw material used in a particular model, prices of raw material, each supplier's quality of service and the years of business relationship with the Group, etc. before placing orders. After the consideration of the aforementioned factors, if the management of the Group believes it is in the best interest of the Group to purchase from Sien Hua, the Group will do so and will continue to do so after Listing.

Disposal of Huaxia

On 28 October 2018, Quanta Global entered into a sale and purchase agreement to dispose of its equity interest of 19.0% in Huaxia to an Independent Third Party as part of the Reorganisation, for a cash consideration of US$1.00 with the transaction completed on 20 November 2018. Given that the Group has already written off its investment in Huaxia long before the Track Record Period and it has not received any return from its investment during the Track Record Period and at the request of the purchaser, the Directors believe such disposal would not have any material impact to the Group's operation and financial performance. Moreover, Huaxia has been fully impaired long before the Track Record Period, coupled with the fact that the Group has had not significant control over the operations of Huaxia and had no return from its investment, the Directors, at the request of the purchaser, disposed of its equity interest in Huaxia. To the best knowledge of the Directors, the purchaser is the director of Huaxia. Other than this, the purchaser has not had any past or present relationship (business or otherwise) with the Company, its subsidiaries, the Directors, shareholders, senior management or any of their respective associates. As advised by the PRC Legal Adviser, there was no record of any administrative penalties imposed on Huaxia before such disposal. The Directors believe that Huaxia did not have any material non-compliance during the Track Record Period and up to the point of disposal.

As mentioned above, when selecting suppliers for the purchases of goods (both independent third parties and related parties), the Group would normally obtain quotations from more than one supplier. After considering the aforementioned factors, if the management of the Group believes it is in the best interest of the Group to purchase from Huaxia, the Group will do so and will continue to do so after Listing, and has continued to purchase from Huaxia subsequent to its disposal.

The Directors are of the view that the Group's purchases from Sien Hua and Huaxia were conducted on normal commercial terms and in the interests of the Group. The Sponsor, after conducting the relevant due diligence, is of the view that the Group's purchases from Sien Hua and Huaxia were conducted on normal commercial terms and on terms comparable with those offered by independent third party and in the interests of the Group and the Shareholders as a whole.

Inventory control and management

The Group actively monitors its inventories, which include raw materials, work in progress and finished products. It has undertaken several measures to maintain appropriate levels of inventory. The Group, in most cases, sources raw materials and other accessories from its suppliers for production only after its customers have confirmed their orders and their specifications. This allows the Group to avoid excessive procurement of raw materials. As such, the Group normally does not maintain high level of inventory of raw materials. The purchasing and logistics department closely monitors the Group's inventories, including inventory levels, age and turnover rate. The Group also conducts stock takes of its inventories on a monthly, semi-annual and annual basis, which are coordinated by the production department and finance department.

Although some customers of the Group provide it with a forecast of upcoming orders, it only manufactures or sources its products upon confirming purchase orders from its customers and would only keep buffer stock upon their request.

As at 31 December 2016, 2017, 2018 and 30 September 2019, inventory balances were approximately HK$14.5 million, HK$15.4 million, HK$13.9 million and HK$9.2 million, respectively, and the average inventory turnover days were approximately 31.6 days, 30.3 days, 28.8 days and 20.1 days, respectively. Please refer to the section headed "Financial Information — Inventory" in this prospectus for further information.

The Group makes provisions in accordance with its accounting policy. For FY2016, FY2017, FY2018 and 9M2019, the Group made provision for slow-moving inventories (before reversal of such provision made in prior years, if any) of approximately HK$260,000, HK$188,000, HK$8,000 and nil, respectively.

SALES AND DISTRIBUTIONS

The Group sells its products directly through its sales and marketing team.

SALES PROCEDURES

Set out below is the description of each major step of sales procedures:

Provide quotation and receive purchase orders

For electric tools, the Group's sales and marketing team liaises with customers regarding product type and quantity, with prices of the products pre-agreed at the start of each year. Once the orders are confirmed, the order is passed to the production department for process and the Group will begin production.

For electric fans under other brand names, the Group's sales and marketing team liaises with customers regarding product type and quantity, with prices of the products pre-agreed at the start of each year. Once the orders are confirmed, the order is passed to the Group's suppliers for production.

For fans under the "SMC" brand, the Group's sales and marketing team liaises with customers regarding product type and pricing. The sales and marketing team provides the customers with quotation corresponding to a specific model. Customers may negotiate the price with the Group and a final quotation will be sent to the customers upon approval by the director of the sales and marketing team. After the price of the product is confirmed, the customer will place a formal purchase order with the sales and marketing team.

Process purchase orders

The production department will (i) process purchase orders, and (ii) inform the sales and marketing team that the purchase orders are in order. The production department will then plan the production schedule with reference to the purchase orders received and proceeds with production.

Quality check

The Group places strong emphasis on product quality to ensure that finished products are of high standard. As such, the Group has implemented its own quality control measures.

Electric tools

For electric tools produced by the Group, the quality control team of the Group's engineering department is responsible for (i) examining raw materials procured by the Group's suppliers on a sampling basis; (ii) examining raw materials and components procured by the Group on a sampling basis; (iii) performing inspections throughout the production process; and (iv) examining and thoroughly testing the finished products before delivery.

Electric fans

For electric fans produced by the Group's suppliers and sourced and sold by the Group, the quality control team of the Group's engineering department is responsible for (i) examining raw materials procured by the Group's suppliers on a sampling basis; (ii) performing on-site inspections throughout the production process; and (iii) examining finished products before delivery.

Generally, for electric fans produced by the Group's suppliers, raw materials are sourced by the Group's suppliers in the PRC. As part of its quality management process, the Group would examine the quality of raw materials purchased by its suppliers on a sampling basis, perform its testing and have the raw materials tested by the Group at the supplier's site and by third party laboratories if necessary.

The Group's quality control staff of the engineering department visits the production facilities of its suppliers before they start manufacturing the products in order to ensure that the raw materials are up to the Group's and customers' quality control standard. The Group's on-site quality control staff works closely with its suppliers to monitor the production process and gives advice on production details and product quality so that finished products are of good and consistent quality. Examination of semi-finished products and finished products are carried out by the Group's quality control staff on a sampling basis. The Group also performs testing, on a sampling basis, on the finished products. Moreover, the Group's suppliers hire quality control professionals, who station on-site, which performs their own quality control testings on the finished products and passes on the relevant report to the Group for further review.

When the Group's quality control staff undertakes production inspections, they will report their findings of any defects or irregularities to the Group's management and make necessary internal records. The Group will review such findings and follow up with its suppliers. At the same time, the Group monitors and manages the production schedule to ensure that production of its products will be completed according to the agreed schedule as set out in the purchase orders.

After the manufacturing process is completed, the Group's suppliers will pack finished products according to its instructions. The Group's quality control staff will inspect the packaging on a sampling basis to ensure that the packaging of finished products meets its requirements and specifications.

Arrange for delivery and settlement

After quality checks, the production department will notify the purchasing and logistics department which will in turn arrange for delivery of the finished products to the customers. The purchasing and logistics department has to (i) ensure that the finished goods are delivered to the customers as scheduled by following up closely with the shipping agencies, (ii) provide the customers with documents required for customs clearance, (iii) send invoices to the customers for export insurance purposes, and (iv) follow up with the customers regarding the settlement of the invoices.

Sales secured through agents

The Group engages two UAE agents, namely (i) D.J. General Trading Co., LLC which principally engaged in general trading business including all electric fans and electronic products; and (ii) Lucky Traders LLC which principally engaged in general trading business including but not limited to electric fans and LED lighting products, to help facilitate sales of the Group's "SMC" fans to UAE customers, where the agents would receive an agreed fixed commission per fan sold. The Group has engaged these agents since the 2000s to help expand the Group's geographical reach within the UAE. The amount of sales secured through these agents during the Track Record Period were HK$21.0 million, HK$22.9 million, HK$8.6 million and HK$11.8 million for FY2016, FY2017, FY2018 and 9M2019, respectively. The Group has entered into agency agreements with these agents and the major terms are as follows:

— **Purpose:** The agent will assist the Group in the sales of the Group's "SMC" electric fans.

— **Scope of service:** The agent will be responsible for selling and promoting the Group's "SMC" ceiling fans.

— **Area exclusivity:** The UAE.

— **Term of the service:** Agreements are generally signed on a yearly basis and be renewed by mutual consent.

— **Payment terms:** The Group settles its fees by telegraphic transfer or by deducting the total balance due from the agents if the customers pay their amount due through the agents.

These agents would first locate the relevant customers, who are usually distributors and local retailers in the UAE, or the customers would contact these agents, and understand the type and quantity of fans required by these distributors and retailers. Once these details are confirmed, these agents would contact the Group's sales and marketing team who would in turn contact the Group's suppliers for the production of the requested electric fans. Once production is completed, suppliers would contact the Group and the Group's purchasing and logistics department would prepare for shipment. Once the products are ready for shipment, the Group would prepare the sales invoices and shipping arrangements, with the products to be delivered to the distributors and retailers directly. In terms of sales on expansion targets, there are no such arrangements for the agents. In terms of payment, the distributors exercise their discretion and generally settle with the Group by way of (i) payment to the Group; or (ii) payment through the agents, whereby the agents will make such payments to the Group on behalf of the distributors. For the Track Record Period, the portion of payment settled through the agents amounted to approximately HK$12.8 million, HK$13.1 million, HK$6.6 million and HK$8.3 million, respectively, representing approximately 23.9%, 24.3%, 15.7% and 19.8% of the Group's sales to distributors for FY2016, FY2017, FY2018 and 9M2019 respectively while the distributors directly settled the remaining portion of 76.1%. 75.7%, 84.3% and 80.2%, of the Group's sales to distributors for FY2016, FY2017, FY2018 and 9M2019, respectively. Since the Group only ships the products once it has received the payment either from the distributors or the agents, the possibility of default payment is zero.

Usually, the Group enters into business relationship in specific regions with distributors of larger size and granting them exclusivity in their regions, such as granting area exclusivity with its distributor in the Oceania region. However, as the UAE market is comparatively fragmented with no one particularly large distributor or retailer in the region, the Group therefore decided to engage two UAE agents to help its sales and marketing efforts in the area, thereby reducing the time and effort required by the Group if it was to sell its products directly to the local distributors and retailers.

If a potential distributor or local retailer in the UAE region bypassed the agents and contacted the Group directly, the sales and marketing team of the Group would refer these potential customers to the UAE agents engaged by the Group in alternating fashion.

Distributors and retailers and individual customers

The Group's history can be traced back to the 1950s. Since then, it has developed, marketed and sold electric fans under its own "SMC" brand in Hong Kong and further expanded into selling its "SMC" electric fans to customers in Asia, Africa and Oceania, where demand for the Group's products are high. To avoid incurring significant costs whilst still maintaining a certain level of geographical presence, the Group sells its products on a wholesale basis to third party distributors, who do not have their own retail points and would sell the products to other retailers, and direct to retailers, who sell the products to end consumers, such as schools and restaurants, through their retail points. The Group also occasionally sells electric fans to end customers in Hong Kong.

The following table sets forth the revenue generated through sales of the Group's "SMC" electric fans to distributors and retailers and sales of non-"SMC" products to respective brand owners during the Track Record Period:

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Customer type										
Distributors	53,697	24.7	53,856	21.5	42,034	15.8	34,400	17.1	41,923	18.3
Retailers and individual customers	5,218	2.4	3,702	1.4	3,730	1.4	2,968	1.5	3,097	1.4
Subtotal	58,915	27.1	57,558	22.9	45,764	17.2	37,368	18.6	45,020	19.7
Sales to respective brand owners	158,195	72.9	193,424	77.1	220,292	82.8	163,893	81.4	183,688	80.3
Total	217,110	100.0	250,982	100.0	266,056	100.0	201,261	100.0	228,708	100.0

The Directors believe this business model is an effective way for the Group to maintain and expand its sales of its "SMC" products to overseas markets without incurring significant costs and also believe this business model is in line with the market practices in the electric fans export industry in the PRC.

The following table sets forth information about the movements of the number of distributors , including the exclusive distributors and distributors solicited by the two UAE agents, for the years indicated:

	FY2016	FY2017	FY2018	9M2019
Number of third party distributors				
At the beginning of the year	30	25	25	18
Add: new third party distributors	4	6	2	5
Less: discontinued third party distributors	9	6	9	1
At the end of the year	25	25	18	22

Note: As the Group has only entered into distributorship agreements with some of its distributors, the number of distributors as of beginning and end of each year of the Track Record Period and new and discontinued distributors each year is determined based on the number of distributors who placed purchase orders with the Group during each year/period.

For FY2016

The decrease in the number of third party distributors was due to the nine discontinued distributors during the year, where the Group decided not to take on orders from one distributor from the U.S. and one from Europe due to the small amount of purchase from them each time. For the seven other distributors, as their orders are on an order by order basis, the Group did not receive any orders from them during the year.

For FY2017

The number of third party distributors remained stable when compared with FY2017, due to the addition of six new distributors while offsetted by six discontinued ones. These distributors were also on an order by order basis and six new distributors put in purchase orders to the Group during the year while the Group did not receive any orders from six distributors that previously had a business relationship with the Group.

FY2018

The decrease in the number of third party distributors was mainly due to the increase in average selling price for the Group's "SMC" electric fans from approximately HK$181.0 each for FY2017 to approximately HK$192.6 each for FY2018, therefore reducing the number of distributors that submitted purchase orders from the Group during FY2018.

9M2019

The increase in the number of third party distributors was mainly due to the addition of five new distributors, two of which were returned distributors that had business relationship with the Group in FY2017 and before the Track Record Period, respectively.

Selection criteria for third party distributors and retailers

The Group has developed a process for selecting its third party distributors and retailers based on a number of criteria, including, among others, their background, industry experience, scale of operation, financial condition, reputation and retail point location.

The agents solicits the distributors the Group does business with in their respective regions, thus the Group does not need to carry out the same type of selection process in choosing its customers in those regions. Usually, these agents would look for distributors that are in the business of sourcing and selling of electric appliances such as electric fans. Conversely, local distributors in those regions who wishes to have the Group's "SMC" electric fans as part of their product offerings would contact agents specialising in the sourcing of overseas brands, and request agents to contact the respective brand owners, such as the Group, in order to purchase their required products.

Distributorship agreements with the Group's third party distributors and retailers

During the Track Record Period, the Group entered into distributorship agreements with all of the Group's third party distributors outside the UAE. The salient terms of the distributorship agreements are as below:

— **Duration:** approximately one year.

— **Geographical territory and exclusivity:** some of the third party distributors are authorised to sell to retailers within designated geographical territory on an exclusive basis.

— **Other terms:** all inquires received by the Group from a particular country will be directed to the distributor with exclusivity in that region.

Some of the distributors the Group has business with have not entered into distributorship agreements with the Group as they put their orders through the Group's agents and their transactions are on an order by order basis, therefore did not enter into any long-term agreements. The agents would contact the Group through email regarding orders by these distributors, and the Group would issue an invoice upon confirmation and shipment of the products. Some distributors in other regions who has business relationships directly with the Group do so on an order by order basis also, so they did not enter into distributorship agreements with the Group. As retailers also are on an order by order basis, the Group did not enter into any agreements with them.

Measures to mitigate risk of cannibalisation between distributors within the same country

The Directors believe that there may be potential cannibalisation between its distributors stationed within the same country. Thus, the Group has the following measures to mitigate such risk:

— in the Group's product development process, the Group collects market data, through its agents and distributors, on past sales performance of products and analyse preferences of the Group's customers;

— the Group evaluates and reviews the sales performance and feedbacks of its distributors through its agents and distributors from time to time and provide them with different supports and services;

— the Group sells the same products to different distributors in the same region at the same prices, thereby maintaining the same level of costs for its distributors;

— although the distributors operate in the same country, they operate within different regions of the country, and therefore are unlikely to compete against each other; and

— have a mutual understanding with the agents that they cannot solicit distributors that already has a business relationship with the other agent. In the event that the agents breach the understanding, the Group will not proceed with that transaction and ask the distributors to place order through the agent who has the initial business relationship.

Although the Group does not maintain stringent control over its distributors, the Directors believe that, with the above measures, the Group can mitigate the risk of cannibalisation between its distributors within the same country and can also maintain good working relationships with them. Moreover, for distributors in the UAE region, the Group liaises only with the two agents located in the region as the Directors consider it to be inefficient for the Group to look for and maintain business relationships with local distributors. The Group also chooses to rely on the experience and knowledge of the UAE market provided by the two agents so that the Group can better focus its resources in other markets. For distributors in the other regions, the Group has entered into exclusive distribution agreements with them in their respective regions. The Group recognises revenue once the products have been shipped according to the shipping terms stipulated on its sales invoices. The Group also does not allow for any return of products from its distributors unless due to quality issues.

The Group's transaction with its distributors generally do not provide for minimum purchase commitments, sales targets and targeted inventory levels. However, the Group reviews and evaluates its third party distributors' performance from time to time. As the Group's agreements with its distributors do not include any minimum purchase commitments or sales targets, with a number of these distributors making purchases on an order by order basis without having entered into any binding agreements with the Group, the Directors are of the view that these distributors would only put in purchase orders to the Group when they have end user demand for the Group's electric fans. During the Track Record Period, there was no premature termination of any distributorship agreement entered into with any distributors.

The Group considers that it is unlikely for "channel-stuffing" to occur under the distribution model because (i) the Group's distributors are not entitled to return products (except for defective products); and (ii) the Group does not allow for any credit terms to any distributors and the Group receives 100% of the payment before shipment. The Directors believe that the Group's current mode of operation is sufficient to prevent "channel-stuffing" by the distributors because the Group has long-term relationships with many of the distributors which are all independent third parties, which take title to the Group's products and are legally and contractually the Group's customers. The fact that there was no recoverability issue noted from distributors during the Track Record Period (as the distributors are required to fully settle before shipment) and the lack of returned goods are good indicators that there is unlikely any material channel-stuffing, as such issues would have otherwise surfaced over time.

To the best knowledge, information and belief of the Directors, the Directors confirm that these distributors have not had any past or present relationship (apart from the normal business activity of being a willing buyer and a willing seller) with the Company, its subsidiaries, its Directors, shareholders, senior management or any of their respective associates.

MARKETING

The Directors believe that brand awareness and recognition of the Group's brands are critical to its success. The Group conducts its marketing activities of its "SMC" products mainly through its agents, distributors and retailers, and through its sales and marketing staff.

Electric fans

Agents

The agents help increase the awareness of the "SMC" brand in the region they are located in by regularly contacting local distributors in their respective regions.

Distributors and retailers

Distributors and retailers of the Group would help advertise the "SMC" brand in their respective geographical regions via their own internet websites and word of mouth.

Electric tools

In order to maintain its relationship with the Group's customers in which it produces electric tools for, the Directors and senior management are in constant communications with them to understand the customers' demands and requests. The Group also discusses with its customers on any further collaboration opportunities, such as the production of new product types for its customers.

Sales and marketing staff

As at the Latest Practicable Date, the sales and marketing team consisted of 5 staff who are dedicated to sales and marketing of the Group's products. They also collaborate with the agents in selling the Group's "SMC" brand products in overseas markets. The sales and marketing team staff hold regular discussions with customers to secure purchase orders for its products, keep its customers informed of its product offerings and obtain feedbacks from its customers. These regular discussions also enable the Group to increase its understanding of its customers' needs and market changes. The Group also regularly issues product catalogues to its customers to keep its customers abreast of new products offered by the Group.

Transfer pricing

During the Track Record Period, the production of electric tools (e.g. cordless fans, work lights, vacuum cleaners and hearing aid devices) under the Multi-Media Group was carried out by MMSD. The finished products were manufactured and sold by MMSD to MM Trading and MMHK for sales to third party customers.

Following the completion of the Asset Reorganisation on 31 December 2018, the production of electric tools is carried out by SMC Electric China. Finished products will be manufactured by SMC Electric China and sold to SMC Electric HK for sales to third party customers. The transfer pricing arrangements between MMSD, MM Trading and MMHK will continue to be adopted by SMC Electric China and SMC Electric HK after the Listing, and there will be no material change in inter-company pricing policy, cost structure, and other arrangements with respect to the transactions undertaken by these group entities after the Listing.

During the Track Record Period, Shell China, Quanta Global and Speed Power acted as the trading arms of electric fans. Various products were purchased and sold among these trading units before selling to ultimate third party customers. Based on this fact, these three trading units in effect performed the same functions, bore the same risks as they served the Group's customers. More importantly, they were under the same business unit, performed significantly similar trading functions, and they shared the same group of staffs (for both trading and back-office activities). Therefore, it is not unreasonable to combine them and treat them as a single trading unit for the Group and analyze the combined financial results. This high-level combination of the financial results of the three trading arms provides a holistic picture of the trading operation within the electric fans business as a whole. In other words, it is not reasonable to isolate these three trading units when conducting transfer pricing analysis as they shared the same people function, and assumed the same economic risk in these trading activity.

The Group has engaged BDO Tax Limited as the independent tax adviser to review the Group's transfer pricing arrangements so as to evaluate whether the Group is in compliance with the applicable transfer pricing regulations or guidelines during the Track Record Period. BDO Tax Limited provides tax and transfer pricing services, and has previously been engaged in various projects for companies listed on the Hong Kong Stock Exchange and companies preparing for listing in Hong Kong. BDO Tax Limited was engaged to review the inter-company buy-sell of tangible goods under the electric tools business and the electric fans business.

FY2016–FY2018

Based on the economic analysis for comparable manufacturers in relation to inter-company buy-sell of tangible goods of MMSD under the electric tools business, the inter-quartile range of net cost plus ("**NCP**") derived from the comparable companies is from 1.98% to 6.30%, with a median of 3.75% using the 3-year weighted average from FY2015 to FY2017. It is essential to compare the 3-year weighted average result obtained by the comparable companies to the 3-year weighted average result of the tested parties (i.e. MMSD). The 3-year weighted average NCP earned by MMSD for the Track Record Period is 12.42%, which is above the inter-quartile range of NCP mentioned above.

Based on the economic analysis for comparable distributors in relation to inter-company buy-sell of tangible goods of MM Trading and MMHK under the electric tools business and the three trading units under the electric fans business, the inter-quartile range of operating margin ("**OM**") derived from the comparable companies is from 1.89% to 4.44%, with a median of 3.48% using a 3-year weighted average from FY2015 to FY2017. The 3-year weighted average OMs of MM Trading, MMHK, and the electric fans business for the Track Record Period are listed in the tables below.

	3-Year Weighted Average (FY2016 to FY2018)
MM Trading	2.49%
MMHK	20.52%
3 trading units of the electric fans business	8.51%

For MM Trading and MMHK, their respective 3-year weighted average OM for the Track Record Period is within and above the inter-quartile range of the 3-year weighted average OM of the comparable companies respectively.

As mentioned above, the financial results of the three trading units under the electric fans business are combined since they performed the same functions and bore the same risks for the electric fans business. The overall OM of the 3-year weighted average for the Track Record Period is above the inter-quartile range of the 3-year weighted average OM of the comparable companies.

One of the trading units under the electric fans business, Shell China, held 28.92% of equity interest in Sien Hua (as an associate of the Group). Sien Hua is regarded as related party from the PRC transfer pricing perspective. The related party transactions that Shell China purchased products from Sien Hua for trading purpose has been considered in the economic analysis as part of the three trading units under the electric fans business above. The overall OM of the three trading units, including Shell China, on 3-year weighted average is above the inter-quartile range of the 3-year weighted average OM of the comparable companies.

9M2019

Based on the update of economic analysis for comparable manufactures in relation to inter-company buy-sell of tangible goods of SMC Electric China in the electric tools business, the arm's length inter-quartile range of NCP derived from the comparable companies is from 4.38% to 7.4%, with a median of 5.89% using the 3-year weighted average from FY2016 to FY2018. Since SMC Electric China carried out the same business activities, undertook the same functions and risks as MMSD, the weighted average NCP for SMC Electric China (9M2019) and MMSD (FY2017 to FY2018) from FY2017 to 9M2019 is calculated as 13.08%, which is above the inter-quartile range of NCP mentioned above.

Based on the update of economic analysis for comparable distributors in relation to inter-company buy-sell of tangible goods of SMC Electric HK in the electric tools business and the three trading units in the electric fans business, the inter-quartile range of OM derived from the comparable companies is from 1.17% to 4.43%, with a median of 3.27% using a 3-year weighted average from FY2016 to FY2018. The weighted average OMs of SMC Electric HK and the electric fans business from FY2017 to 9M2019 are listed in the table below.

	Weighted Average (FY2017 to 9M2019)
SMC Electric HK	23.01%
3 trading units of the electric fans business	8.09%

For SMC Electric HK, since it carried out the same business activities, undertook the same functions and risks as MMHK, the weighted average OM of SMC Electric HK (9M2019) and MMHK (FY2017 to FY2018) from FY2017 to 9M2019 above is calculated, which is above the inter-quartile range of the 3-year weighted average OM of the comparable companies.

For the 3 trading units of the electric fans business, the weighted average OM from FY2017 to 9M2019 is above the inter-quartile range of the 3-year weighted average OM of the comparable companies.

Similarly, the related party transactions that Shell China purchased from Sien Hua for trading purpose has been considered in the update of economic analysis as part of the three trading units under the electric fans business above. The overall OM of the three trading units, including Shell China, on weighted average is above the inter-quartile range of the 3-year weighted average OM of the comparable companies.

Based on the above facts and circumstances surrounding the relevant inter-company transactions, BDO Tax Limited considered that the inter-company buy-sell of tangible goods conducted by MMSD, SMC Electric China, MM Trading, MMHK, SMC Electric HK under the electric tools business, as well as by Shell China, Quanta Global and Speed Power under the electric fans business were at arm's length in accordance to the PRC, Hong Kong and OECD transfer pricing regulations and/or guidance.

The Group has adopted the following measures to ensure ongoing compliance with the relevant transfer pricing laws and regulations in the PRC and Hong Kong:

— Mr Tang Che Yin, Executive Director of the Company, joined the Group in April 1991. He has been overseeing the overall management and operation of the Group. Mr. Tang is responsible for the Group's application and monitoring of transfer pricing arrangements to ensure the Group's related party transactions are conducted in compliance with the arm's length principle pursuant to the applicable transfer pricing guidelines, and will monitor the profit level of each subsidiaries to ensure the transfer pricing arrangements are effective from time to time;

— the related-party transactions are properly recorded, filed and maintained for inspection by the Group's finance and accounting team to avoid any discrepancy before any filing to the PRC and Hong Kong tax authorities; and

— the Group's finance and accounting team will monitor the amount of related party transactions to determine whether contemporaneous documentation reports in relation to transfer pricing are required to be prepared and filed to the relevant tax authorities.

As at the Latest Practicable Date, the Directors were not aware of any inquiry, audit or investigation by any tax authority in the PRC or Hong Kong with respect to the Group's related-party transactions. The Company has adopted all suggested measures in relation to the ongoing compliance with the relevant transfer pricing laws and regulations in the PRC and Hong Kong.

Having considered the above, the Directors are of the view, and the Sponsor concurs, that such measures are sufficient and effective. Please refer to the section headed "Risk Factors — The Group's operation may be subject to transfer pricing adjustment" in this prospectus for details of the Group's risks in relation to transfer pricing.

The Directors confirm that the Group has properly filed the necessary tax assessments and has so far not been subject to any tax investigation by the relevant tax authorities. As at the Latest Practicable Date, the Directors confirm that the Group does not have any tax disputes with any relevant tax authority.

There is no change in the relevant transfer pricing regulations up to the Latest Practicable Date. The Directors are of the view, and the independent tax adviser concurs, that the arm's length principle holds when the entities' profit level and the transfer prices are not below the arm's length range. Thus, it is reasonable to believe that the tax authorities would not challenge the outcomes based on the transfer pricing analyses performed and the independent comparable companies selected. The Directors further confirm, and the independent tax adviser concurs, that there is no transfer pricing impact of the Inland Revenue (Amendment) (No. 6) Ordinance 2018 on the Group as the same arm's length principle is prescribed where there is no violation of such principle during the Track Record Period.

BDO Tax Limited confirms that, during the Track Record Period, the profitability of MMSD, MMHK, SMC Electric China, SMC Electric HK and the 3 trading units of the electric fans business were above the inter-quartile range of independent companies. This means that these companies did not violate the arm's length principle stipulated in the PRC, Hong Kong and OECD transfer pricing regulations and/or guidelines. During the process of the transfer pricing analysis, the inter-company transaction with Sien Hua was also included. Based on the PRC and Hong Kong transfer pricing regulations as well as the OECD transfer pricing guidelines, it is not unreasonable to focus on the targeted parties' profit level when using the methods as described above, which is the appropriate transfer pricing method selected to analyse the intercompany transactions for Shell China within the 3 trading units of the electric fans business.

WARRANTIES AND PRODUCT RETURNS

For electric tools, as agreed between the Group and the U.S. Customer, the Group is allowed a certain percentage of product defect rate out of the total number of products sold per year where the U.S. Customer will not request for product returns. If the product defect rate is over such percentage, the U.S. Customer will return such products not up to the required quality standard for the Group to reprocess. During the Track Record Period, the Group's product defect rate has not been over the threshold. For electric fans sold to Customer A, the Group provides warranty of three years. For electric fans sold under the Group's "SMC" brand, the Group provides warranty of within one year. Warranty does not include: (i) any condition resulting from other than ordinary residential wear or any use for which the product was not intended such as use in rental or trade; (ii) any condition resulting from incorrect or inadequate maintenance or care; and (iii) damage resulting from misuse, abuse, negligence, accident or shipping damage. If it is determined that the product is repairable, the Group will request the item to be sent back from its customers to the Group's production facilities or the Group's suppliers where it will be repaired. After the expiry of the warranty period, the Group will not be liable for the labour cost to effect the repair. Furthermore, the Group will not pay for the packaging or shipping of any products to and from the customer.

If it is determined that a reported defect is irreparable, the Group offsets the costs of the relevant item from the total amount the customer paid to the Group for that product. If the defect is attributable by any specific components, the Group may seek compensation from its suppliers pursuant to the terms of the relevant supply agreements. During the Track Record Period, the Group did not provide for product warranty, which is estimated based on the sales volumes and past experience of the level of repairs and returns.

The Group also provides after-sales services, such as product return and technical support, to its customers. During the Track Record Period and up to the Latest Practicable Date, the Group had not experienced any material dispute arising from or in connection with the quality of its products and no provision of product return had to be made during the Track Record Period.

In March 2017, Customer A returned some of the electric fans sold by the Group due to a slight defect in the motor of the electric fans. The Group therefore had to offset such amount received from future purchases by Customer A for the batch of electric fans returned, amounting to approximately HK$2.0 million. Subsequent to this one-off event, the Directors confirm that the Group has been able to achieve the product quality standard required by Customer A and there has been no further material product return.

Apart from disclosed above, the Group had not received any material product return requests from its customers or third party distributors or receive any material complaints from its customers. Having considered the above, the Group has not made any material provision for obsolete stock and returned products during the Track Record Period.

CUSTOMERS

The end customers of the Group's products sold under its manufacturing operations are mainly overseas consumers who tend to have greater demands regarding the quality and functionality of electric tools. The customers of the Group's products are mainly some of the largest electric tools brand owners in the U.S..

For electric fans under Customer A's brand, the Group has been helping to source and sell such fans since 2008. The fans are sold to Australia due to the high demand and reputation of the brand. For electric fans sold under the Group's own "SMC" brand, the Group engages suppliers, who are manufacturers, to manufacture for the Group's different electric fan models which the Group mainly sells to customers in Asia, Africa and Oceania, with some sold in Hong Kong.

Agreement in relation to the production of the products for the U.S. Customer

As one of the customers of the Group under the Group's manufacturing operations, the Group entered into a manufacturing agreement with the U.S. Customer, an Independent Third Party, in relation to the production of the U.S. Customer's products, in 2003, and renewed in 2016 through to 30 September 2021. The salient terms of the manufacturing agreement are as follows:

— **Rights:** The U.S. Customer will buy and the Group will manufacture and supply products as ordered by the U.S. Customer from time to time.

— **Current term:** From 1 October 2016 to 30 September 2021. The agreement may, upon written notice by the U.S. Customer to the Group, be renewed for additional periods of one year thereafter.

— **Payment terms:** Payments are settled in US$ and within 120 days after receipt of relevant shipping documents.

— **Shipping terms:** As stated in each purchase order.

— **Termination:** The agreement can be terminated immediately by written notice by either party, (i) if the other party materially breaches any of the provisions of the agreement, and such breach is not cured within 30 days following receipt of a written notice or (ii) if the other party becomes insolvent. Notwithstanding the above, the U.S. Customer have the right to terminate the agreement by giving a 90-days written notice to the Group.

— **Governing law:** the agreement is governed by the laws of the United States of America.

Sale of electric fans to Customer A

During the Track Record Period, the Group sold electric fans to Customer A under their brand, amounting to approximately HK$58.4 million, HK$52.9 million, HK$54.9 million and HK$32.9 million. The Group did not enter into any long-term agreement with Customer A. However, Customer A would submit a purchase order to the Group for each purchase, which lists out certain terms and conditions of each purchase, with the major terms as shown below:

— **Currency:** Payments are settled in US$ and in 45 days from invoice date

— **Shipping instruction:** As stated in each purchase order

— **Unit price:** As stated in each purchase order

— **Piece:** As stated in each purchase order

— **Total amount:** As stated in each purchase order

For electric fans sold under the Group's "SMC" fans, the agents or customers would submit a purchase order to the Group for each purchases, which lists out certain terms and conditions of each purchase, with the major terms as shown below:

— **Currency:** Payments are settled in US$

— **Payment terms:** Settled upon receipt of goods or before delivery

— **Shipping terms:** Free on board

— **Unit price:** As stated in each purchase order

— **Piece:** As stated in each purchase order

— **Total amount:** As stated in each purchase order

The Group's relationship with major customers during the Track Record Period is relatively stable, ranging from 10 to 18 years as at the Latest Practicable Date.

During the Track Record Period and up to the Latest Practicable Date, the Group did not have material disputes with its customers.

For FY2016, FY2017, FY2018 and 9M2019, sales to the Group's five largest customers in aggregate amounted to approximately HK$174.0 million, HK$205.2 million, HK$235.1 million and HK$199.2 million, respectively, representing approximately 80.1%, 81.8%, 88.4% and 87.1%, respectively, of the Group's total revenue. For FY2016, FY2017, FY2018 and 9M2019, sales to the largest customer amounted to approximately HK$93.2 million, HK$131.6 million, HK$157.1 million and HK$146.6 million, representing approximately 42.9%, 52.4%, 59.1% and 64.1%, respectively, of the Group's total revenue.

The following table sets forth a breakdown of the Group's revenue by major customers as well as their respective revenue contribution during the Track Record Period:

For FY2016

	HK$'000	*%*
The U.S. Customer	93,153	42.9
Customer A	58,430	26.9
Afrikon Industrial Company Limited	11,650	5.4
Tradepac Exports	5,878	2.7
Rafic Gazzaoui & Co Sal	4,847	2.2
Five largest customers in aggregate	173,958	80.1
Other customers	43,152	19.9
Total revenue	217,110	100.0

For FY2017

	HK$'000	*%*
The U.S. Customer	131,639	52.4
Customer A	52,879	21.1
Customer B	8,702	3.5
Rafic Gazzaoui & Co Sal	6,633	2.7
Tradepac Exports	5,371	2.1
Five largest customers in aggregate	205,224	81.8
Other customers	45,758	18.2
Total revenue	250,982	100.0

For FY2018

	HK$'000	*%*
The U.S. Customer	157,107	59.1
Customer A	54,920	20.6
Customer B	8,265	3.1
Tradepac Exports	7,626	2.9
Afrikon Industrial Company Limited	7,161	2.7
Five largest customers in aggregate	235,079	88.4
Other customers	30,977	11.6
Total revenue	266,056	100.0

For 9M2019

	HK$'000	*%*
The U.S. Customer	146,633	64.1
Customer A	32,938	14.4
Afrikon Industrial Company Limited	9,981	4.4
Tradepac Exports	5,526	2.4
Customer B	4,073	1.8
Five largest customers in aggregate	199,151	87.1
Other customers	29,557	12.9
Total revenue	228,708	100.0

Set out below is the background information of the five largest customers during the Track Record Period:

Customer	Major materials sold by the Group	Background and principal business nature	Market Location	Customer Type	Length of business relationship with the Group as at 31 December 2018	Credit period
The U.S. Customer	Cordless fans, work lights and vacuum cleaners	A Fortune 500 American manufacturer listed and traded on the New York Stock Exchange and is a component of the Standard & Poor's 500 Composite Stock Price Index. It is principally engaged in the sale of industrial tools and household hardware. It recorded total revenue of over US$12 billion for FY2017.	U.S.	Brand owner	15 years	120 days
Customer A *(Note)*	Electric fans	A Fortune Global 500 company listed on the Euronext Exchange which principally engages in energy management and automation solutions. It recorded total revenue of over €24 billion for FY2017.	Australia	Brand owner	10 years	45 days
Rafic Gazzaoui & Co Sal	Electric fans	A company incorporated in Lebanon which engages in the sale of electrical in the Middle-East.	Lebanon	Distributor	15 years	180 days
Customer B	Hearing aid products	A company incorporated in the U.S. which engages in the sale of wireless audio related products including, but not limited to, live audio over wi-fi, digital, FM, infrared and others.	U.S.	Brand owner	18 years	0 days
Afrikon Industrial Company Limited	Electric fans	A company incorporated in Hong Kong which engages in wholesale trade of seasoning and electrical products to Africa.	Nigeria	Distributor	13 years	0 days
Tradepac Exports	Electric fans	A sole proprietorship set up in Singapore which engages in general wholesale trade globally (including importers and exporters).	Papua New Guinea	Distributor	14 years	14 days

Note: Customer A is a related company of Supplier A. Please refer to the subsection headed "Entities who are the group's suppliers and also its customers" in this section for further details of reason of business with both Supplier A and Customer A.

During the Track Record Period, none of the Directors or their respective close associates or any Shareholder (whom to the knowledge of the Directors owns more than 5% of the issued Shares) had any interest in any of the Group's five largest customers during the Track Record Period and as at the Latest Practicable Date.

Customer concentration

For the Track Record Period, the Group's largest customer accounted for approximately 42.9%, 52.4%, 59.1% and 64.1% of the Group's total revenue respectively. The U.S. Customer, had stayed with the Group throughout the Track Record Period. The Directors consider that such customer concentration is not uncommon for the electric tools and electric fans industry and the business model of the Group is sustainable despite the customer concentration due to the following factors:

(i) The electric tools market in the world is dominated by several leader international brand owners

According to the Ipsos Report, the U.S. Customer is one of the leading players in the global electric tools market accounted for approximately 24.7% of the market share in 2018. As such, the electric tools market is virtually dominated by several renowned international brand owners. These brand owners would partner with manufacturers for the production of electric tools.

In contrast to the highly concentrated electric tools industry, the electric tools manufacturing industry is highly fragmented and overflowed with thousands of manufacturers. Accordingly, each market participant only accounts for a tiny fraction of the electric tools manufacturing market. With reference to the Ipsos Report, there were approximately 24,190 electric machinery and equipment manufacturers in the PRC in 2018.

Since (i) the global electric tools industry is concentrated in several brand owners; and (ii) the electric tools manufacturing market is highly fragmented with numerous small to medium sized enterprises producing electric tools, the tremendous production orders placed by these brand owners come to represent a substantial portion of the Group's total revenue during the Track Record Period.

(ii) Optimise the utilisation of current production capacity of the Group

The Directors consider that purchase orders from sizable customers including but not limited to the U.S. Customer are relatively stable given that customers such as them would provide production schedule that allows the Group to manage its production plan beforehand and thus optimise the utilisation of production capacity of the Group. The utilisation rate of the production facilities of the Group was approximately 141.3%, 83.2% and 138.6% for cordless fans, work lights and vacuum cleaners for 9M2019 respectively. For details, please refer to the subsection headed "Production facilities and processes" in this section.

The Directors manage to reduce idle capacity of the Group during the Track Record Period by establishing relationship with its customers that lead to recurring purchase orders. In light of the considerable production scale, it is an ordinary market practice for sizable brand owners, including but not limited to the Group's largest customer during the Track Record Period, to place recurring purchase orders on the same products in the stage of mass production. The Directors are of the view that annual demand for the Group's products could be secured by soliciting sales to several sizable customers.

(iii) Well established business relationship with the U.S. Customer

The Group has had business relationship of approximately 15 years with the U.S. Customer as at the Latest Practicable Date. The Directors believe that the Group has established a stable and long term business relationship with them.

The Group regularly works with its customers on new product developments, and communicates with its customers through face-to-face meetings, phone calls and email communications. Through such frequent contacts, the Directors believe that the Group has a sound understanding of the needs and preferences of its customer, which helps to maintain the relationship between the Group and its customer. The Directors believe that these relationships are attributable to the consistent product quality, timely delivery of the Group's products and the quick response to market demand for different product specifications. The Group shall endeavor to strengthen the continuing alliance with its customers.

(iv) Admitted by the U.S. Customer as a qualified supplier

The leading international brand owners, such as the U.S. Customer, carry out periodic site visit and communication with the Group to evaluate the production capacity and technical level of the Group during the Track Record Period, to which as far as the Directors understand, is a quality control practice commonly adopted by brand owners on their respective list of qualified suppliers from which quotations are sought from time to time.

Trade war

A recent trade war has been initiated between the U.S. and the PRC, and trade flows for certain products exported from the PRC to the U.S. were impacted.

For FY2016, FY2017, FY2018 and 9M2019, sales of the products with the U.S. as the destination for delivery amounted to HK$55.0 million, HK$95.4 million, HK$100.0 million and HK$88.8 million, respectively, which accounted for 25.4%, 38.0%, 37.6% and 38.8% of the total revenue for the same periods respectively.

As at the Latest Practicable Date, the vacuum cleaners exported by the Group to the U.S. were on the list of products that are subject to tariffs while the proposed tariffs on cordless fans and work lights have been suspended indefinitely after the U.S. and the Chinese governments entered into the phase one deal on 15 January 2020. However, the existing orders and upcoming orders given by the U.S. Customer to the Group will still result in a steady growth for the year ended 31 December 2019 when compared to the amount sold for FY2018.

Furthermore, although the average selling prices for some of the Group's products sold to the U.S. Customer has been on a decreasing trend, the main reason for such decrease was due to the Group's ability to lower its production costs from the efficiencies being improved by the Group in its production methods as required by the agreement entered into between the Group and the U.S. Customer. The Directors believe that the general increasing trend of gross profit margin of non-SMC brand products during the Track Record Period has demonstrated the Group's effort in cost saving strategies and the economies of scale of production, continuation of improving the production efficiencies such as streamlining the production line between processes and identification of suppliers nearby to lower the delivery cost will enable the Group to combat with any possible effect due to the Sino-U.S. trade war.

To the best knowledge of the Directors after making reasonable enquiries, the recent trade war between the U.S. and the PRC up to the Latest Practicable Date did not have and expect will not have any material adverse impact on the Group's financial conditions, results of operations and growth prospects because of the following reasons, namely (i) during the Track Record Period and up to the Latest Practicable Date, the U.S. Customer provided to the Group an increasing amount of orders along with a rolling 12 months forecasts that shows an increasing amount of indicative orders, where the U.S. Customer purchased from the Group according to and sometimes even exceeded the amount in the forecast despite the ongoing trade war; (ii) the existing orders and upcoming orders for the next 12 months, which is updated consistently by the U.S. Customer so as to provide the Group with the indicative orders for the next 12 months as of any given moment, given by the U.S. Customer to the Group will still result in a growth for the year ended 31 December 2019 and the year ending 31 December 2020 when compared to the amount sold for FY2018; (iii) as at the Latest Practicable Date, none of the Group's customers have cancelled any orders as a result of the trade war; (iv) the requirement to attain certain high quality standards, coupled with the fact that during the Track Record Period, the Group's product defect rate has been within allowed threshold; (v) the well established business relationship with the U.S. Customer as discussed in the above paragraph; (vi) the popularity of the products sold by the Group, as noted by the increasing orders received by the Group from the U.S. Customer; (vii) the Group will not be the party responsible for the payment of any tariffs as it ships its products to the U.S. Customer on an FOB basis; and (viii) although a large portion of the Group's sales from its manufacturing operations are for the U.S. Customer, there are non-U.S. destined markets, such as Europe, South East Asia and others, thus avoiding tariffs on the Group's products.

ENTITIES WHO ARE THE GROUP'S SUPPLIERS AND ALSO ITS CUSTOMERS

During the Track Record Period, to the best knowledge and belief of the Directors, 4 of the Group's suppliers were also its customers. For FY2016, FY2017, FY2018 and 9M2019, the Group's purchases from such suppliers accounted for approximately 54.9%, 48.0%, 39.2% and 39.0%, respectively, of its total purchases. During the same periods, the Group's sales to such suppliers accounted for approximately HK$1.4 million, HK$0.4 million, HK$0.5 million and HK$0.5 million, respectively.

During the Track Record Period, Sien Hua was the Group's supplier and also a customer. For FY2016, FY2017, FY2018 and 9M2019, the Group's purchases from Sien Hua accounted for approximately HK$37.6 million, HK$41.8 million, HK$40.0 million and HK$24.6 million, approximately 25.0%, 24.4%, 22.8% and 17.3% of the Group's total purchases. During the same periods, sales by the Group to Sien Hua accounted for approximately HK$0.4 million, nil, nil and nil, respectively.

During the Track Record Period, Jiangmen Welling Electric Appliance Co Ltd was the Group's supplier and also a customer. For FY2016, FY2017, FY2018 and 9M2019, the Group's purchases from Jiangmen Welling Electric Appliance Co Ltd accounted for approximately HK$33.9 million, HK$32.5 million, HK$20.8 million and HK$26.5 million, approximately 22.5%, 19.0%, 11.8% and 18.6% of the Group's total purchases. During the same periods, sales by the Group to Jiangmen Welling Electric Appliance Co Ltd accounted for approximately HK$25,000, HK$55,000, HK$17,000 and HK$0.1 million, respectively.

During the Track Record Period, Huaxia was the Group's supplier and also a customer. For FY2016, FY2017, FY2018 and 9M2019, the Group's purchases from Huaxia accounted for approximately HK$4.8 million, HK$3.5 million, HK$4.8 million and HK$1.8 million, approximately 3.2%, 2.0%, 2.7% and 1.3% of the Group's total purchases. During the same periods, sales by the Group to Huaxia accounted for approximately HK$0.8 million, HK$0.2 million, HK$0.4 million and HK$0.2 million, respectively.

During the Track Record Period, Supplier A was the Group's supplier and also a customer. For FY2016, FY2017, FY2018 and 9M2019, the Group's purchases from Supplier A accounted for approximately HK$6.3 million, HK$4.4 million, HK$3.4 million and HK$2.5 million, approximately 4.2%, 2.6%, 1.9% and 1.8% of the Group's total purchases. During the same periods, sales by the Group to Supplier A accounted for approximately HK$0.2 million, HK$0.2 million, HK$0.1 million and HK$0.2 million, respectively. Moreover, to the best knowledge, information and belief of the Directors, Supplier A is a related company of Customer A. During the Track Record Period, sales to Customer A amounted to approximately HK$58.4 million, HK$52.9 million, HK$54.9 million and HK$32.9 million. As Supplier A is a related company of Customer A, Customer A has designated Supplier A to the Group as a supplier of switches for electric fans sold to Customer A.

On the other hand, during the Track Record Period, to the best knowledge and belief of the Directors, one of the Group's customers was also its supplier. For FY2016, FY2017, FY2018 and 9M2019, the Group's sales to Customer B accounted for approximately HK$4.7 million, HK$8.7 million, HK$8.3 million and HK$4.1 million, approximately 2.1%, 3.5%, 3.1% and 1.8% of the Group's total revenue. During the same periods, purchase from Customer B accounted for approximately HK$0.5 million, HK$0.2 million, HK$0.1 million and nil, respectively.

Occasionally, these suppliers require certain raw materials in the production of electric fans to be sold by the Group. However, as the Group's customers have stringent quality requirements in terms of the materials used in the production of the electric fans, which the Group's suppliers may not be able to source from within the PRC, the Group would help to source these materials, and in turn charge these suppliers the cost of sourcing these raw materials. As such, the commodities the Group purchased from its suppliers were finished products, such as a fully functional electric fan and its switches, whereas the Group helped these entities source raw materials. On the other hand, since Customer B required certain raw materials to be installed in its product that the Group manufactures for it, the Group would purchase those raw materials from Customer B, install them during the assembly process and sell the end products to Customer B.

To the best knowledge, information and belief of the Directors, having made reasonable enquiries, these entities, save for the two related party suppliers, namely Sien Hua and Huaxia, are Independent Third Parties. The Directors confirm that purchases from and amounts received from these entities are conducted on arm's length basis. In particular, the products the Group purchases from these entities are altogether different to the items the Group sources for these entities.

PRICING STRATEGY

The Group adopts a cost-plus pricing approach taking into account a number of factors in determining prices, including the following factors:

- Cost of raw materials and manufacturing cost (including direct labour costs and overhead costs);
- Expected profit margin;
- Product features and quality;
- Product development cost involved; and
- Comparable product prices set by the Group's competitors.

PRODUCT LIFE CYCLE AND SEASONALITY

For electric tools sold, the Group does not experience apparent fluctuations in its monthly sales, as the Group only produces and sells to its customers when it receives purchase orders. During the Track Record Period, there has not been any major seasonality in electric tools sold to its customers.

For electric fans under Customer A's brand, the Group usually experiences stable demand in terms of sales, to Customer A throughout the year.

For electric fans sold under the "SMC" brand, the Group receives an increase in orders from customers in Asia in around December to January of each year, where the Group would in turn provide its suppliers with purchase orders, for delivery of finished goods in around April the year after for the expected increase in demand from end customers during the summer time from May to September of each year.

COMPETITION

The Group's competitors are mainly PRC-based electric tools manufacturers. According to the Ipsos Report, the electric tools manufacturing industry in the PRC is considered mature and fragmented with a large number of players, with approximately 24,190 manufacturers of electrical machinery and equipment in 2018. The Group competes with these PRC-based electric tools manufacturers principally on product quality, value added services and relationship with suppliers and customers. The Directors believe that the Group's competitive strengths, details of which are set out in the subsection headed "Competitive Strengths" under this section, distinguish the Group from its competitors.

Please refer to the section headed "Industry Overview" in this prospectus for further details of the competitive landscape.

None of the Directors, their respective close associates or any Shareholder who, to the knowledge of the Directors, owns more than 5% of the issued Shares, had any interest in any of the Group's competitors during the Track Record Period and up to the Latest Practicable Date.

QUALITY CONTROL SYSTEMS

The Group focuses on the quality of its products and performs various quality inspections and testing procedures, including, among others, carrying out random sampling at different stages of the manufacturing process for electric tools and carry out full check of its products before delivery to its customers.

As at the Latest Practicable Date, the Group had 8 staff in its quality control department. Certain senior members of the Group's quality control team have more than 20 years of experience in quality control and the electric tools market. The quality control department is responsible for monitoring the quality control system and ensuring that the quality of the Group's products meets its standards and its customers' requirements. The quality control system of the Group's manufacturing operations and sourcing and selling of electric fans business operations are set out below.

Selection and use of approved suppliers

The quality assurance process begins with ensuring that the Group uses quality raw materials and purchases finished products are of the required quality standards. The Group has maintained a list of approved suppliers compiled by its purchasing department and assisted by production department and quality control department. Please refer to the subsection headed "Raw materials and suppliers — Suppliers" under this section for details of the Group's selection process of new suppliers.

Moreover, certain customers of the Group issues a report to the Group stating the names of the suppliers approved by them, which would then be used as the approved suppliers for the Group. These customers also enforce certain standards that a supplier needs to maintain for the supplier to continue to be able to manufacture products to be sold to them. They would perform site visits on a yearly basis to the suppliers to ensure continual compliance by them.

For manufacturing operations

Incoming inspection

In the raw material procurement stage, incoming raw materials are subject to detailed quality analysis on a random sampling basis before production. All the raw materials the Group purchased are subject to general visual and manual inspections. The Group also conducts tests on the mechanical test and environmental test at its production facilities to determine the following:

- Mechanical test on the functionality of the raw materials; and

- Environmental test to determine the temperature cycle of the raw materials.

The Group maintains a standard form report of its inspection procedures and only those raw materials that pass the quality control tests enter the Group's inventory records and warehouses. Those materials that fail the Group's quality control tests are reported to its purchasing department and quality control department will then return such materials to the Group's suppliers for replacement or refund.

Those raw materials that enter the Group's warehouse will be carefully labelled and organised according to their name of supplier, specifications, quantity, and inventory date. The Group tests the raw materials in its internal laboratory and returns raw materials that fail to pass inspection to the suppliers and such materials will not be used for production.

Inspection during production process

During the production process, in-process quality control inspections on a random sampling basis at various stages of production process are carried out. For details, please refer to the subsection headed "Raw materials and suppliers — Raw materials" under this section. Any unusual deviations are promptly identified, investigated and corrected.

The Group has established a standard manual available and committal to all its employees to ensure that the manufacturing process meet with the Group's prescribed specifications and standards. Semi-finished products that fail to meet the quality standards will be removed from the production process, returned to the relevant production station for reworking or reprocessing.

For every new type of product, the Group will manufacture a finished product as prototype. The quality control department, production department and sales and marketing team will conduct checks on the quality of finished product samples during prototype making process. For details of the inspection process, please refer to subsection headed "Raw materials and suppliers — Raw materials" under this section.

Upon completion of the production process, the products are sent for packaging.

Outgoing inspection

Upon completion of the production process and after customary packaging and before delivering the products to the customers, the Group's quality control department will be responsible for final inspection on all the products to assess product safety, structural integrity and conformity with design and colour specifications to ensure that the products meet the specifications and the standard as specified in the standard manual or by the customers. The customers may also have their own quality control team to sample check the finished products to ensure the specifications are met. If quality defects are found in the products, the quality control team will submit a report to the production department for follow up actions including reworking and reprocessing.

For operations under sourcing and selling of "SMC" and other brands

The quality control team of the Group is responsible for (i) examining raw materials procured by suppliers on a sampling basis; (ii) performing on-site inspections throughout the production process; and (iii) examining finished products before delivery.

Generally, raw materials of the Group's products are sourced by its suppliers in the PRC. As part of its quality management process, the Group would examine the quality of raw materials purchased by its suppliers on a sampling basis, perform its testing and may have the raw materials tested by third party laboratories as designated by the Group.

The Group's quality control staff of the product design and development department visits the production facilities of its suppliers when they start manufacturing the products in order to ensure that the raw materials are up to the Group's quality control standard. The Group's on-site quality control staff works closely with its suppliers to monitor the production process and give advice on production details and product quality so that finished products are of good and consistent quality. Examination of semi-finished products and finished products are carried out by the Group's quality control staff on a sampling basis. The Group also performs testing, on a sampling basis, on the finished products.

When the quality control staff undertakes production inspections, they will report their findings of any defects or irregularities to the management and make necessary internal records. The Group will review such findings and follow up with its suppliers. At the same time, the Group monitors and manages the production schedule to ensure that production of its products will be completed according to the agreed schedule as set out in its purchase order.

Moreover, the Group's suppliers hire quality control professionals, who station on-site, which performs their own quality control testings on the finished products, and passes on the relevant report to the Group for further review.

After the manufacturing process is completed, the Group's suppliers will pack finished products according to its instructions. The Group's quality control staff will inspect the packaging on a sampling basis to ensure that the packaging of finished products meets its requirements and specifications.

ENVIRONMENTAL AND SOCIAL MATTERS

Environmental

The Group is committed to environmental protection and conservation and it has adopted environmental policies and has been undertaking initiatives in relation to environmental protection and conservation.

The Group is subject to environmental laws and regulations where its businesses operate. Please refer to the section headed "Regulatory Overview" in this prospectus for further details.

The Directors consider the protection of the environment to be important and are fully committed to comply with all applicable requirements under the PRC environmental laws and regulations. If the Group fails to comply with present or future laws and regulations, it would be subject to fines, suspension of business or cessation of operations. During the same period, no administrative sanctions or penalties had been imposed upon the Group for the violation of environmental laws or regulations. The Company's PRC Legal Advisers have confirmed that during the Track Record Period, the Group had not been subject to any fines, penalties or other legal actions by environmental authorities in the PRC resulting from any non-compliance with any environmental protection laws and regulations in the PRC and there was no threatened or pending action by any PRC environmental authorities in respect thereof. During the Track Record Period and up to the Latest Practicable Date, the Group did not incur material cost of compliance with respect to environmental laws and regulations. The Group estimates that its annual costs of compliance going forward will increase slightly due to business expansion.

Social

The Group has adopted the following policies on compensation and dismissal, equal opportunities, diversity, anti-discrimination, and other benefits and welfare:

- equal opportunities, diversity and inclusiveness: the Group respects the gender, age and ethnicity of each person. Each job applicant has an equal job opportunity. All of them will be treated equally and there is no discrimination as to gender, age and ethnicity. Further, any promotion within the Group would be based solely on the employee's performance, experience and capability. As such, any factors not related to work, such as marital status, would have no impact on employee's promotion; and

- employee's protection and benefits: the Group will enter into an employment contract with all of its employees so as to accord protection to its employee by relevant labour laws. In addition, the Group purchases medical insurance for employees so that they could enjoy medical services and provide reasonable compensation for employees when there is work-related injuries and death in accordance with the labour laws.

The Group's operations are subject to regulation and monitoring by local work safety authorities. If it fails to comply with present or future laws and regulations, it would be subject to fines, suspension of business or cessation of operations.

The Group has established work safety policies and procedures to ensure that its operations are in compliance with applicable work safety laws and regulations as well as its customers' stringent requirements. The Group's work safety policies set forth overall principles as well as procedures of internal inspections of work safety related matters. The Group provides its employees working in its production plants with adequate safety equipment. In addition, the Group provides work safety-related education to its employees to increase their awareness of safety in the workplace. Employees are required to follow an operation manual for each major step of the Group's production process. The Company's PRC Legal Advisers have confirmed that during the Track Record Period, the Group had not been subject to any fines, penalties or other legal actions by work safety authorities in the PRC resulting from any non-compliance with any work safety laws or regulations in the PRC and there was no threatened or pending action by any PRC work safety authorities in respect thereof. The Directors confirm that during the Track Record Period, the Group had not had any work safety related incidents or complaints which materially and adversely affected its business operation.

During the Track Record Period, the Group had no work-related fatalities or injuries and there had been no claims for personal or property damages or related compensation paid to the employees.

MAJOR LICENCES AND CERTIFICATIONS

Set out below are the major licences and certifications maintained by SMC Electric China which are required for the Group's business in the PRC as at the Latest Practicable Date:

Type of license/certification		Date of grant	Expiry date of the license/certification
PRC			
1.	Business License	21 December 2018	16 November 2047
2.	Pollutant Discharge Permit (廣東省污染物排放許可証)	3 December 2018	2 December 2021

The Directors confirmed that the Group has obtained all relevant permits/registrations for its existing operations in Hong Kong during the Track Record Period and up to the Latest Practicable Date.

As advised by the PRC Legal Advisers, SMC Electric China has obtained relevant material requisite licences, permits and approvals for operating its business in the PRC during the Track Record Period and up to the Latest Practicable Date.

INTELLECTUAL PROPERTY

By a patents licence agreement dated 3 January 2019 entered into between Sunny Resource as licensor and SMC Electric Holdings as licensee, Sunny Resource granted a license to the Group to use the patents concerning the production of electric fans. For further details of the patents licence agreement and the patents, please refer to the section headed "Continuing Connected Transactions — Patents Licence Agreement between Sunny Resource and SMC Electric Holdings".

By a trademarks licence agreement dated 3 January 2019 entered into between Sunny Resource as licensor and SMC Electric Holdings as licensee, Sunny Resource granted a license to the Group to use certain trademarks owned by Sunny Resource. For further details of the trademarks licence agreement and the trademarks, please refer to the section headed "Continuing Connected Transactions — Trademarks Licence Agreement between Sunny Resource and SMC Electric Holdings".

Save for the patents, trademarks and domain names disclosed in the subsection headed "B. Further Information about the Business — 2. Intellectual property rights" in Appendix V to this prospectus, the Group's business and profitability is not materially dependent on any trademark, patent or other intellectual property.

During the Track Record Period and up to the Latest Practicable Date, the Directors confirmed that they were not aware of (i) any infringement of intellectual property rights by the Group; (ii) any dispute or litigation regarding any intellectual property rights between the Group and any third party; and (iii) any infringement of the Group's intellectual property rights by any third party.

INSURANCE

The Group maintains various insurance policies to safeguard against risks and unexpected events, covering the Group's product liability and fixed and liquid assets.

For its Hong Kong operations, the Group maintains labour insurance for its staff. Depending on the terms of the relevant contracts, the Group may be required to take out insurance to cover risks of injuries suffered by personnel and damages to properties and equipment at its work site. The Directors are of the view that the Group's insurance coverage is sufficient for its operations.

For its PRC operations, the Group maintains social insurance for its employee according to the relevant laws and regulations in the PRC. The Directors are of the view that its insurance coverage is sufficient for its operations.

The Directors believe that the Group's insurance coverage is adequate for its operations. As at the Latest Practicable Date, the Group had not made, nor been the subject of, any material insurance claim.

HEDGING

During the Track Record Period and up to the Latest Practicable Date, the Group did not engage in any hedging activity.

EMPLOYEES

Number of staff and employees by function

As at the Latest Practicable Date, the Group has a total of 163 employees. Employees of the Group are stationed in the PRC and Hong Kong.

Set out below is the number of the Group's employees by function as at the Latest Practicable Date:

	Hong Kong	The PRC	Total
Accounting and finance	5	3	8
Administration	1	3	4
Purchasing and Logistics	12	10	22
Management	2	2	4
Product development	1	—	1
Production	2	98	100
Quality Control	2	6	8
Engineering	2	8	10
Sales and marketing	3	2	5
Total	30	132	162

Relationship with staff

The Directors consider that the Group has maintained good relationship with its employees. The Directors confirm that the Group has complied with all applicable labour laws and regulations in the PRC and Hong Kong.

The Directors confirm that the Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has the Group experienced any difficulties in the retention of experienced staff or skilled personnel during the Track Record Period.

Training and recruitment policies

The Directors believe that the quality of the staff plays an important role in maintaining the Group's operation and production efficiency, as well as the consistency of the Group's product quality. The Group intends to use its best effort to attract and retain appropriate and suitable personnel to serve the Group. The Group assesses the available human resources on a continuous basis and will determine whether additional personnel are required to cope with the Group's business development. The Group provides internal guidelines, quality control handbook and emergency safety handbook to its employees to illustrate the Group's internal rules. The Group provides regular trainings to the Group's staff on area such as technical know-how, safety education and hands-on skills.

Remuneration policy

The Group entered into separate employment contracts with each of the Group's employees in accordance with the applicable labour laws and regulations in the PRC and Hong Kong.

Hong Kong

In Hong Kong, the Group has participated in the mandatory provident fund prescribed by the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). All requisite contributions had been paid by the Group in accordance with the aforesaid law as at the Latest Practicable Date.

The PRC

In the PRC, the Group has participated in the basic pension insurance, basic medical insurance, unemployment insurance, occupational injury insurance and maternity insurance prescribed by the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) which was promulgated on 28 October 2010 and became effective on 1 July 2011, and housing fund prescribed by the Regulations on the Administration of Housing Fund (住房公積金管理條例) which was promulgated and became effective in 3 April 1999, as amended on 24 March 2002. All requisite contributions had been paid by the Group in accordance with the aforesaid law and regulations as at the Latest Practicable Date.

PROPERTIES

Leased properties

Set out below is a summary of the Group's property interests in the PRC and Hong Kong. The Directors confirm that as at the Latest Practicable Date, the Group did not own any properties in the PRC and Hong Kong.

No.	Location	Gross floor area *(approximately)*	Term	Landlord	Key terms of tenancy	Usage
1	Portion of 1/F and 4/F and a car parking space located in Shell Industrial Building 12 Lee Chung Street Chai Wan Hong Kong	3,611 sq. feet for 1/F, 7,679 sq. feet for 4/F	1 January 2019 to 31 December 2020	Shell Holdings	Monthly rental of HK$138,280	Factory, ancillary office and car park
2	4/F Kantone Centre 1 Ning Foo Street Chai Wan Hong Kong	6,050 sq. feet	1 January 2019 to 31 December 2020	Shell Holdings	Monthly rental of HK$72,600	Warehouse
3	3rd Floor, Block A, No. 18, San Le Dong Road, Bei Jiao Residents' Committee Industrial Park, Shunde District, Foshan, Guangdong Province, the PRC	3,666 sq. m.	1 December 2018 to 31 December 2020	MMSD	Monthly rental of RMB47,658	Factory and office

During the Track Record Period, the Group did not experience any difficulty in renewing the leases. The properties leased by the Group were from connected persons of the Company. Please refer to the section headed "Continuing Connected Transactions" in this prospectus for the lease details.

LEGAL PROCEEDINGS

Litigation, claims and arbitration

As at the Latest Practicable Date, save as disclosed below, no member of the Group was engaged in any litigation, claim or arbitration of material importance nor, to the best of the knowledge of the Group, is any litigation, claim or arbitration of material importance pending or threatened against any member of the Group.

On 28 December 2017, an insurance company incorporated in the State of Illinois, the United States (the "**Plaintiff**") initiated a civil proceeding against Shell China in the United States District Court for the Maryland for damages in the amount of US$316,322.01 together with interest and legal cost for the legal action alleging losses as a result of Shell China's strict product liability, negligence and breach of implied warranty of merchantability of a floor pedestal fan (the "**Subject Product**") which can be used in residential properties. The insurance company subsequently reduced the claim amount to US$167,000.

A fire occurred on 14 August 2016 at the Plaintiff's insured premises which caused significant damage to the insured premises. The Plaintiff claimed that a post-fire investigation indicated that the fire was originated from the Subject Product which was manufactured by Shell China.

The Plaintiff also claimed that the Subject Product was the subject of a product recall by the United States Consumer Products Safety Commission ("**CPSC**").

The Group stopped selling floor pedestal or oscillating type fans in the United States since 2006. Shell China is arranging a joint laboratory inspection of the damaged fan product to examine whether it was a fan that was subject to product recall in 2004 as disclosed above and alleged by the Plaintiff. As the inspection has not been conducted, the Directors are not in a position to confirm whether the Plaintiff's claims can be substantiated.

Having considered that further cost and time would be incurred and that the Plaintiff failed to provide evidence to support identification of the Subject Product, in April 2019, the counsel representing the Group's insurance company proposed to settle the claim at US$25,000. In May 2019, the Plaintiff agreed to settle the claim at US$30,000, among which US$25,000 is to be contributed by the Group's insurance company and US$5,000 is to be contributed by Home Depot U.S.A. As at the Latest Practicable Date, the settled amount of US$30,000 have been fully paid to the Plaintiff and the case was fully settled.

In June 2004, SMC Marketing Corp., a subsidiary of Shell Electric Mfg. and Home Depot U.S.A. voluntarily recalled about 2.2 million "SMC" brand oscillating floor fans which were supplied by Shell China as the electric power cord could be damaged by the fan's oscillation motor which might result in a short circuit and possible ignition of the plastic case. SMC Marketing Corp. agreed to pay US$500,000 civil penalty to CPSC to settle the allegations that SMC Marketing Corp. failed to report to CPSC in a timely manner about fires and incidents involved in oscillating floor fans as SMC Marketing Corp. did not report the incidents which involved the defected fans imported by them in accordance with the US law. Save as disclosed above, none of the Group's products were subject to product recall or civil penalty by the regulatory authorities in the United States.

Having considered (i) the amount of claim involved; (ii) there is insurance cover available to the Group; and (iii) the Controlling Shareholders' indemnity given under the Deed of Indemnity, the Directors are of the view that this legal proceeding will not have any material adverse impact on the business or operation on the Group, and thus no provision has been made in the Accountants' Report set forth in Appendix I to the prospectus.

LEGAL COMPLIANCE

The Directors confirm that the Group had conducted its operations and carried out its business in material compliance with the relevant laws and regulations in the PRC and Hong Kong during the Track Record Period and up to the Latest Practicable Date.

BUSINESS ACTIVITIES IN COUNTRIES SUBJECT TO INTERNATIONAL SANCTIONS

During the Track Record Period, the Group sold electric fans to certain customers in Iraq and Lebanon. Transactions with customers in Iraq and Lebanon were conducted in USD, and payments were generally made by telegraphic transfer. The revenue generated from sales of products to Iraq and Lebanon was approximately HK$4,847,000, HK$6,633,000, HK$6,150,000 and HK$3,145,000 representing approximately 2.2%, 2.6%, 2.3% and 1.4% of the Group's total revenue for FY2016, FY2017, FY2018 and 9M2019, respectively. Iraq and Lebanon were subject to targeted sanctions during the Track Record Period.

Hogan Lovells, the Group's International Sanctions Legal Advisers, performed the following procedures to evaluate its risk of exposure to penalties imposed under International Sanctions laws and regulations:

(a) reviewed documents provided by the Group about itself, ownership structure and management, and the Group's business operations, revenues, sales documents and counterparty list relating to deliveries involving Iraq and Lebanon;

(b) reviewed the Group's list of counterparties relating to deliveries to Iraq and Lebanon during the Track Record Period against the lists of persons and organisations subject to International Sanctions, and confirmed that they are not on such lists; and

(c) reviewed written confirmation from the Group that except as otherwise disclosed in this prospectus, neither the Group nor any of its affiliates (including any representative office, branch, subsidiary or other entity which forms part of the Group) conducted during the Track Record Period any business dealings in or with any other countries or persons that are subject to International Sanctions.

As advised by the International Sanctions Legal Advisers after performing the procedures set out above, the Group's activities during the Track Record Period do not appear to implicate restrictions under International Sanctions. Further, given the scope of the Share Offer and the expected use of proceeds as set out in the section headed "Future Plans and Use of Proceeds" in this prospectus, the International Sanctions Legal Advisers are of the view that the involvement by parties in the Share Offer will not implicate any applicable International Sanctions on such parties, including the Company, the Company's investors, shareholders, the Stock Exchange and its listing committee and group companies, or any person involved in the Share Offer and accordingly, the sanction risk exposure to the

Company, its investors and shareholders, and persons who might, directly or indirectly, be involved in permitting the listing, trading and clearing of the Company's shares (including the Stock Exchange, its listing committee and related group companies) is very low.

The Directors confirm that they have not been notified of that any International Sanctions will be imposed on the Group for the product sales to Iraq and Lebanon during the Track Record Period. None of the Group's customers involving deliveries to Iraq and Lebanon are specifically identified on the Specially Designated Nationals and Blocked Persons List maintained by OFAC or other restricted parties lists maintained by the European Union, Australia and the United Nations and therefore would not be deemed as sanctioned targets. Such sales and/or deliveries do not involve industries or sectors that are currently subject to International Sanctions and therefore are not deemed to be prohibited activities under the relevant International Sanctions.

The Group's internal control procedures

The Company will not use the proceeds from the Share Offer, as well as any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any countries subject to International Sanctions or any other government, individual or entity sanctioned by the U.S., the European Union, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions.

In addition, the Group will not enter into any future business that would cause itself, the Stock Exchange, HKSCC, HKSCC Nominees or its Shareholders and investors to violate or become a target of sanctions laws by the United States, the European Union, the United Nations or Australia. The Company will also disclose on the respective websites of the Stock Exchange and itself if it believes that the transactions the Group entered into in countries subject to International Sanctions or with Sanctioned Persons would expose the Company or its Shareholders and investors to risks of being sanctioned, and in the Company 's annual reports or interim reports its efforts on monitoring its business exposure to sanctions risk, the status of future business, if any, in countries subject to International Sanctions and with Sanctioned Persons and the Group's business intention relating to countries subject to International Sanctions and with Sanctioned Persons. If the Company is in breach of such undertakings to the Stock Exchange, the Company would be subject to the risk of possible delisting of its Shares on the Stock Exchange.

The Group has adopted enhanced internal control and risk management measures to continuously monitor and evaluate its business and take measures to protect the interest of the Group and the Shareholders from economic sanctions risks. The following measures have been implemented as at the Latest Practicable Date:

- the Group will evaluate the sanctions risks prior to determining whether it should embark on any business opportunities in countries subject to International Sanctions and with Sanctioned Persons. According to the Group's internal control procedures, its special task group (comprised by the Group's chairman, chief executive officer and a designated person from the sales and marketing team) needs to review and approve all relevant business transaction documentation from customers or potential customers from countries subject to International Sanctions and with Sanctioned Persons. In particular, its special task group will review the information (such as identity and nature of business as well as its ownership) relating to the counterparty to the contract along with the draft business transaction documentation. The special task group will check the counterparty against the various lists of restricted parties and countries maintained by the U.S., the European Union, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions which lists are publicly available, and determine whether the counterparty is, or is owned or controlled by, a person located in countries subject to International Sanctions or a Sanctioned Person. If any potential sanctions risk is identified, the Group will seek advice from reputable external international legal counsel with necessary expertise and experience in International Sanctions matters;

- the Group's senior management will periodically review the Group's internal control policies and procedures with respect to sanctions matters. As and when the Group's senior management considers necessary, the Group will retain external international legal counsel with necessary expertise and experience in sanctions matters for recommendations and advice; and

- if necessary, external international legal counsel will provide training programs relating to the sanctions to the Directors, the Group's senior management and other relevant personnel to assist them in evaluating the potential sanctions risks in the Group's daily operations. The Group's external international legal counsel will provide current list of countries subject to International Sanctions and Sanctioned Persons to the Directors, senior management and other relevant personnel, who will in turn disseminate such information throughout its domestic operations.

The Group's International Sanctions Legal Advisers have reviewed and evaluated these internal control measures and are of the view that these measures are adequate and effective for the Company to comply with its undertaking to the Stock Exchange.

Having taken the above advice of the International Sanctions Legal Advisers into account, the Directors are of the view that the Group's measures provide a reasonably adequate and effective internal control framework to assist the Group in identifying and monitoring any material risk relating to sanctions laws so as to protect the interests of the Shareholders and the Group. After undertaking the relevant due diligence, and subject to the full implementation and enforcement of such measures, the Sponsors are of the view that these measures will provide a reasonably adequate and effective internal control framework to assist the Company in identifying and monitoring any material risk relating to sanction laws.

INTERNAL CONTROL

The Group has engaged an independent external consulting firm as its internal control adviser (the "**Internal Control Adviser**") in September 2018 to perform a detailed assessment of the Group's internal control system including the areas of financial, operation, compliance and risk management with an aim to, among other matters, improve the Group's corporate governance.

The Internal Control Adviser provides internal control review services, and has been previously engaged in internal control review projects for a number of companies listed on the Stock Exchange and companies preparing for listing in Hong Kong.

The Internal Control Adviser has completed the first review of the design and operating effectiveness of the Group's internal control system in November 2018. As at the Latest Practicable Date, the Group has adopted the internal control measures and rectified the weakness in the internal control system as recommended by the Internal Control Adviser.

The Internal Control Adviser has completed follow up reviews on the enhanced internal control measures in January 2019 and confirmed that all weaknesses had been rectified. Taking into account the facts that (i) there were no findings of material weakness or materials insufficiency in the Group's enhanced internal control system after the follow up reviews by the Internal Control Adviser; and (ii) the Group has properly implemented the enhanced internal control measures recommended by the Internal Control Adviser, the Directors are of the view that the enhanced internal control measures are adequate and effective for the Group's operations.

DIRECTORS

The Board consists of six Directors including two executive Directors, one non-executive Director and three independent non-executive Directors. The following table sets forth certain information relating to the Directors:

Name	Age	Date of Appointment as Director	Date of Joining the Group	Position/Title	Roles and Responsibilities	Relationship with other Directors and/or senior management
Mr. Yung Kwok Kee Billy (翁國基)	66	5 December 2018	February 1977	Chairman of the Board and non-executive Director	Strategic direction and overall management of the strategic planning of the Group	None
Mr. Leung Chun Wah (梁振華)	73	2 January 2019	January 1977	Executive Director and CEO	Overall management, operation and implementation of strategic planning of the Group	None
Mr. Tang Che Yin (鄧自然)	64	2 January 2019	April 1991	Executive Director	Human resource and operation of the Group's China manufacturing operation	None
Mr. Leung Man Chiu Lawrence (梁文釗)	71	2 October 2019	October 2019	Independent non-executive Director	Provide independent advice to the Board	None
Mr. Poon Chak Sang Plato (潘澤生)	74	2 October 2019	From 1982 to 1984, 1986 to 2007, Rejoin in October 2019	Independent non-executive Director	Provide independent advice to the Board	None
Mr. Lam Sai Yu Geoffrey (林世愉)	36	2 October 2019	October 2019	Independent non-executive Director	Provide independent advice to the Board	None

SENIOR MANAGEMENT

Name	Age	Date of Joining the Group	Position/Title	Roles and Responsibilities	Relationship with other Directors/ Senior Management
Mr. Lee Yen Lim (李炎林)	38	March 2007	Assistant General Manager	Overseeing the manufacturing, sales and marketing of the Group	None
Mr. Chang Peng Tse (張鵬澤)	46	From April 1997 to March 2002, Rejoin from April 2018	Assistant General Manager	Overseeing the electric fan division of the Group	None
Ms. Ma Yuk Ling (馬玉玲)	60	August 1991	Deputy Factory Manager	Overseeing factory production of the Group	None
Ms. Lee Ka Man (李嘉文)	46	January 2019	Company Secretary	Company secretarial matters of the Group	None

EXECUTIVE DIRECTORS

Mr. Leung Chun Wah (梁振華), aged 73, was appointed as an executive Director and CEO of the Company on 2 January 2019. Mr. Leung joined the Group in January 1977. He was an executive director of Shell Electric Mfg. from 1990 until March 2010 and was responsible for its daily business operations and production at that time. 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 is currently the general manager of electric fan division of the Group and is responsible for its daily business operations and management. He is a director of certain subsidiaries of the Group. Mr. Leung obtained a Bachelor degree of Business Administration from the City University of Macau in 1989.

Mr. Leung has not held any directorship in any public listed company during the three years immediately preceding the date of this prospectus.

Mr. Leung was previously a director of the companies shown in the table below which were dissolved by deregistration pursuant to section 291AA of the Predecessor Companies Ordinance due to cessation of business:

Company	Place of incorporation	Date of incorporation	Date of dissolution
Kar Hang Limited (家恒有限公司)	Hong Kong	30 April 1992	14 August 2009
Sien Hua Electric Mfg. Company Limited (蜆華電器製造廠有限公司)	Hong Kong	27 January 1989	29 June 2007

Mr. Leung confirmed that the above companies were solvent at the time of deregistration and there is no wrongful act on his part leading to the above dissolutions of the companies and he is not aware of any actual or potential claim which has been or will be made against him as a result of dissolutions of these companies.

Mr. Tang Che Yin (鄧自然), aged 64, 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 China manufacturing operation. Mr. Tang joined the Group in April 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 in 1991, 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 in April 1991.

Mr. Tang obtained his Master of Science from the University of Manchester of the United Kingdom in December 1980 and his Master degree of Business Administration from the Chinese University of Hong Kong in December 1987. He was elected as a member of The Institution of Electronic and Radio Engineers in April 1986. He obtained the qualification of Chartered Engineer of The Engineering Council in the United Kingdom in February 1987. He was admitted as a Chartered Electrical Engineer by the Institution of Electrical Engineers in March 1991. Mr. Tang has over 20 years of experience in technical and factory management. Mr. Tang is a non-executive director of PFC Device Inc. (stock code: 8231).

Save as disclosed above, Mr. Tang has not held any directorship in any public listed company during the three years immediately preceding the date of this prospectus.

Mr. Tang was previously a director of the companies shown in the table below which were dissolved by deregistration pursuant to section 291AA of the Predecessor Companies Ordinance due to cessation of business:

Company	Place of incorporation	Date of incorporation	Date of dissolution
Harmony Management (H.K.) Limited (安萬利(香港)有限公司)	Hong Kong	26 May 1994	28 July 2000
SMC Microtronic Company Limited (蜆売電子有限公司)	Hong Kong	29 November 1983	13 March 2015

Mr. Tang confirmed that the above companies were solvent at the time of deregistration and there is no wrongful act on his part leading to the dissolutions of the above companies and he is not aware of any actual or potential claim has been or will be made against him as a result of the dissolutions of these companies.

NON-EXECUTIVE DIRECTOR

Mr. Yung Kwok Kee Billy (翁國基), aged 66, is one of the Controlling Shareholders. Mr. Yung 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 obtained a Bachelor degree in Electrical Engineering from University of Washington, USA, in August 1975 and a Master degree in Industrial Engineering from Stanford University, USA, in January 1977. Mr. Yung has over 31 years of experience in managing manufacturing, transportation, semiconductor and real estate businesses in the USA, Hong Kong and China.

Mr. Yung has joined the Group since February 1977 and had been the executive director of Shell Electric Mfg. from 1984 to 2010, a Hong Kong-based industrial company, now known as China Overseas Grand Oceans Group Ltd. (stock code: 0081), which shares are listed on the Main Board of the Stock Exchange. Since then, Mr. Yung has become a non-executive director and vice chairman. Mr. Yung has been the chairman and the chief executive of Shell Holdings since 2009. Mr. Yung is also a non-executive director and chairman of PFC Device Inc. (stock code: 8231), a company of which Red Dynasty and Shell Holdings are its controlling shareholders.

Save as disclosed above, he has not held any directorship in any public listed company during the three years immediately preceding the date of this prospectus.

Mr. Yung was previously a director of the companies shown in the table below which were dissolved by deregistration pursuant to section 291AA of the Predecessor Companies Ordinance due to cessation of business:

Company	Place of incorporation	Date of incorporation	Date of dissolution
Asia Gain Development Limited (廣京發展有限公司)	Hong Kong	27 March 2006	3 April 2009
Beauty O2O Limited	Hong Kong	16 June 2014	29 March 2018
Cenegenics Consultant (Hong Kong) Limited	Hong Kong	4 February 2003	9 October 2009
Charter Metro Limited	Hong Kong	14 April 1989	31 October 2003
China Step Transportation Limited (華達運輸有限公司)	Hong Kong	13 July 2011	2 January 2015
China Super Computing Centre Limited (中國超級計算中心有限公司)	Hong Kong	15 June 2004	25 November 2005
Crown Silver Investment Limited (銀冠投資有限公司)	Hong Kong	15 November 2007	9 May 2014
Dragon Vick Company Limited (龍益有限公司)	Hong Kong	14 March 1986	16 November 2001
Extra Result Limited (程際有限公司)	Hong Kong	4 December 2007	19 June 2009
Franchise Limited (豐超有限公司)	Hong Kong	25 July 1996	21 December 2007

Company	Place of incorporation	Date of incorporation	Date of dissolution
Great Profit International Investment Limited (威捷國際投資有限公司)	Hong Kong	14 September 1993	19 December 2003
Harvest Goal Ltd (裕利高有限公司)	Hong Kong	2 January 2013	3 June 2016
Kar Hang Limited (家恒有限公司)	Hong Kong	30 April 1992	14 August 2009
Neo Future Limited (加尚有限公司)	Hong Kong	3 December 2007	3 June 2011
Pandue Investments Limited	Hong Kong	24 January 2008	26 November 2010
Richlane Development Ltd (富立發展有限公司)	Hong Kong	16 April 2010	18 August 2017
Shell & Asap Limited	Hong Kong	14 April 2000	15 February 2008
Shell Fan Limited (蜆壳風扇製造有限公司)	Hong Kong	14 November 1980	27 April 2007
Shell Holdings Limited (蜆壳實業集團有限公司)	Hong Kong	15 September 1992	15 February 2008
Sien Hua Electric Fan Mfg. Company Limited (蜆華風扇廠有限公司)	Hong Kong	25 October 1990	25 January 2008
Sien Hua Electric Mfg. Company Limited (蜆華電器製造廠有限公司)	Hong Kong	27 January 1989	29 June 2007
SMC Holdings Limited	Hong Kong	15 September 1992	15 February 2008
SMC LED Corporation Limited	Hong Kong	24 February 2011	17 July 2015
SMC Microtronic Company Limited (蜆壳電子有限公司)	Hong Kong	29 November 1983	13 March 2015
SMC Microwave Products Company Limited (蜆壳微波製品廠有限公司)	Hong Kong	14 November 1980	15 February 2008
SMC Real Estate Fund Limited (蜆壳地產基金有限公司)	Hong Kong	14 April 2000	4 July 2008

Company	Place of incorporation	Date of incorporation	Date of dissolution
Super Dragon Company Limited (越龍有限公司)	Hong Kong	8 January 1985	22 June 2001
Yung Yau Company Limited (翁祐有限公司)	Hong Kong	24 September 1985	9 March 2007

Mr. Yung was previously a director of the companies shown in the table below which were dissolved by striking off pursuant to section 291 of the Predecessor Companies Ordinance due to cessation of business:

Company	Place of incorporation	Date of incorporation	Date of dissolution
Worldscale Developments Limited (宏利信發展有限公司)	Hong Kong	26 September 1991	21 June 2002
SMC Advertising Limited (蜆壳電器集團廣告有限公司)	Hong Kong	3 April 1981	15 March 2002

Mr. Yung was previously a director of the company shown in the table below which was dissolved by members' voluntary winding up due to cessation of business:

Company	Place of incorporation	Date of incorporation	Date of dissolution
Profit Interface No. 7 Limited	Hong Kong	20 December 2000	17 August 2006

Mr. Yung confirmed that the above companies were solvent at the time of deregistration, striking off or members' voluntary winding up and there is no wrongful act on his part leading to the dissolutions of the above companies and he is not aware of any actual or potential claim which has been or will be made against him as a result of the dissolutions of these companies.

In April 2002, Mr. Yung, being the former chairman and chief executive officer of Shell Electric Mfg. has admitted to various breaches of the repealed Securities (Disclosure of Interests) Ordinance (the "**Breaches**") for failing to report in a timely manner the entering into of a contract for the purchase of an option or right to acquire shares of Shell Electric Mfg. and also the purchase of the shares of Shell Electric Mfg. Mr. Yung was fined a total of HK$35,000 and ordered to pay costs of HK$34,771 to the SFC. The Breaches by Mr. Yung was inadvertent and was due to the unfamiliarity with the relevant ordinances with respect to disclosure of interests.

The Counsel is of the view that the Breaches would not necessarily adversely affect Mr. Yung's suitability to act as a non-executive Director of the Company as Mr. Yung's failure not to report in a timely manner under the repealed Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong, which was repealed and replaced by SFO that came into force on 1 April 2003), did not indicate that he was at the material time not acting in good faith nor was acting dishonestly, provided that (a) Mr. Yung has the character, experience and integrity and is able to demonstrate a standard of competence commensurate with his position as a director; and (b) Mr. Yung is able to fulfill fiduciary duties and duties of skill, care and diligence to a standard at least commensurate with the standard established by the Hong Kong law.

Mr. Yung had acquainted himself in regulatory compliance matters through (i) his perusal of the relevant guidelines on disclosure of inside information published by SFC based on which he familiarised himself with the requirements under relevant laws and regulations of Hong Kong; (ii) his perusal of training materials provided by the legal advisers to the Company as to Hong Kong laws concerning the obligations of directors of listed companies based on which he familiarised himself with the requirements under relevant laws and regulations of Hong Kong prior to the listing application; and (iii) his attendance at a training session conducted by the legal advisers to the Company as to Hong Kong laws.

The Company will also require, as an internal control measure, its Directors to notify in writing a director designated by the Board and receive a dated written acknowledgement before any dealing in the securities of the Company. A response to a request for clearance to deal must be given to the relevant director within five business days of the request being made, and the aforesaid clearance to deal must be valid for no longer than five business days of clearance being received. A reminder for making timely disclosure of interests will be given to such director cleared of making a dealing.

The Sponsor considers that, after carrying out enquiries on the facts and circumstances leading to the Breaches, the background of Mr. Yung, including education, experience of directorship and public service, the steps taken by Mr. Yung to adhere to the rules and regulations governing his obligations as a listed company director and his position as non-executive director of two listed companies, China Overseas Grand Oceans Group Ltd. (stock code: 0081) and PFC Device Inc. (stock code: 8231), and having considered the views of the Counsel, it concurs with the view of the Counsel that Mr. Yung has the character, experience and integrity and is capable to fulfill fiduciary duties and duties of skill, care and diligence to a standard at least commensurate with the standard established by the Hong Kong laws, and that the Breaches do not affect the suitability of Mr. Yung to act as a non-executive Director of the Company under Rules 3.08 and 3.09 of the Listing Rules. The Directors also consider that, as concurred by the Sponsor, the steps taken by the Group's measures as discussed above would help avoiding recurrence of non-compliance of similar nature in the future.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Man Chiu Lawrence (梁文釗), aged 71, 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 audit committee, a member of both the nomination committee and the remuneration committee of the Company.

Mr. Leung Man Chiu Lawrence is a fellow member of the Association of Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He graduated in 1969 from the Hong Kong Technical College (now the Hong Kong Polytechnic University) with a higher diploma in accountancy. He was admitted as an associate of the Association of Certified Accountants in 1972 and was registered as a certified public accountant in 1974. He was admitted as a fellow member of the Hong Kong Society of Accountants and the Association of Certified Accountants in 1978. He is a practising certified public accountant and has extensive experience in accounting and auditing and served in listing and auditing projects for a number of Hong Kong public listed companies.

He had been employed by Lowe, Bingham & Matthews, The Taikoo Dockyard & Engineering Company of Hong Kong Limited and MW Kwan & Company. The latter subsequently merged with Wong Tan & Co. in 1976 to form Kwan Wong Tan & Fong which later merged with Deloitte Touche Tohmatsu in 1997. He was a partner of Deloitte Touche Tohmatsu until May 2005. He then joined Tang and Fok as a partner in November 2005.

Mr. Leung Man Chiu Lawrence has extensive experience in accounting and auditing. He is now a partner in Tang and Fok, certified public accountants. Mr. Leung Man Chiu Lawrence is currently an independent non-executive director of Pak Fah Yeow International Limited (stock code: 239), Safety Godown Co Ltd (stock code: 237), PFC Device Inc. (stock code: 8231) and World Super Holdings Limited (stock code: 8612), all of which are public listed companies in Hong Kong.

Mr. Leung Man Chiu Lawrence was engaged as an engagement quality control reviewer to perform an engagement quality control review to assist an audit firm to perform auditing of the consolidated financial statements of a Hong Kong listed company and its subsidiaries for the year ended 30 June 2011. The relevant financial statements failed to reflect a contingent consideration receivable arising from an acquisition of a group of companies. Mr. Leung Man Chiu Lawrence failed to identify the omission in the calculation of the amount of contingent consideration receivable in the quality control review and such calculation was also omitted by the audit team. Mr. Leung Man Chiu Lawrence was in breach of Hong Kong Standard on Auditing 220 and the Fundamental Principle of Professional Competence and Due Care in the Code of Ethics for Professional Accountants. Pursuant to a resolution by agreement (the "**Resolution by Agreement**") entered into by Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), Mr. Leung Man Chiu Lawrence and the audit firm in 23 May 2017, Mr. Leung Man Chiu Lawrence was reprimanded and fined by HKICPA in June 2017 for his failure or neglect to observe, maintain or otherwise apply professional standard issued by HKICPA. He was ordered to pay an administrative penalty of HK$10,000 and had to be responsible to jointly pay the costs involved in the investigation. The failure to Mr. Leung Man Chiu Lawrence to observe the Hong Kong Standard on Auditing 220 and to apply the professional standard issued by HKICPA was due to his different interpretation of the Hong Kong Standard on Auditing 220.

The Counsel is of the view that the failure of Mr. Leung Man Chiu Lawrence to observe Hong Kong Standard on Auditing 220 and to apply the professional standard issued by HKICPA would not adversely affect Mr. Leung Man Chiu Lawrence's suitability to act as an independent non-executive Director for the following reasons: (i) the Resolution by Agreement is a form of alternative dispute resolution whereby HKICPA and Mr. Leung Man Chiu Lawrence resolved amongst themselves as to the complaint and the Resolution by Agreement is a form of alternative dispute resolution adopted by HKICPA to handle complaints made against accountants and is not part of disciplinary proceedings under the Professional Accountants Ordinance (Cap. 50 of the Laws of Hong Kong); (ii) as disclosed in the guidelines for resolution by agreement published by HKICPA in February 2014, a Resolution by Agreement may be offered to its members involved in cases considered to be moderate after taking into account the nature and seriousness of a complaint; any relevant precedent cases; any past disciplinary records of the Respondent; and any aggravating or mitigating circumstances. Resolution by Agreement would apply to cases not involving complaints of dishonesty; (iii) the non-compliance incident of Mr. Leung Man Chiu Lawrence did not include and/or implicate any act of dishonesty, insider dealings, market misconduct, and/or absolute prohibitions under the SFO; and (iv) Mr. Leung Man Chiu Lawrence has not been disciplined in his 40 years of service in the accountancy profession and the matter as referred to in the Resolution by Agreement is the only non-compliance incident.

The Sponsor considers that, after carrying out enquiries and interview with Mr. Leung Man Chiu Lawrence on the facts and circumstances leading to the failure of Mr. Leung Man Chiu Lawrence to observe the Hong Kong Standard on Auditing 220 and to apply the professional standard issued by HKICPA, the background of Mr. Leung Man Chiu Lawrence, including education, his prolonged practising experience in the accounting industry, his experiences of acting as an independent non-executive director of other listed companies in Hong Kong, that the non-compliance incident did not involve any allegation of dishonesty and call into question his integrity by HKICPA and that he has never been subject to any regulatory and disciplinary action or suspension to practice by HKICPA save for the non-compliance incident, it concurs with the view of the Counsel that Mr. Leung Man Chiu Lawrence has the character, experience and is capable to fulfill fiduciary duties and duties of skill, care and diligence to a standard at least commensurate with the standard established by the Hong Kong laws.

Save as disclosed above, Mr. Leung Man Chiu Lawrence has not held any directorship in any public listed company during the three years immediately preceding the date of this prospectus.

Mr. Lam Sai Yu Geoffrey (林世愉), aged 36, 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.

Mr. Lam obtained a Bachelor degree of Science from Tufts University, the United States in 2006. Mr. Lam obtained a Master degree of Science in Finance from The College of Business of the University of Michigan-Dearborn, the United States in 2012. He is also a Chartered Financial Analyst.

Mr. Lam is currently the manager in Business Development & Strategy in Lam Geotechnics Limited. From 2007 to 2009, he worked as an analyst in Lam Construction Group Limited and institutional sales in Sun Hung Kai Financial. From March 2009 to June 2013, he worked in Sun Hung Kai Real Estate Agency Limited as project coordinator, project officer and senior project officer. He also worked as an associate in acquisitions division in Asia Pacific Land Limited.

Mr. Lam has not held any directorship in any public listed company during the three years immediately preceding the date of this prospectus.

Mr. Poon Chak Sang Plato (潘澤生), aged 74, 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 had studied at Yuet Wah College, Macau (澳門粵華中學) from September 1959 to June 1965 and completed his secondary school education at Yuet Wah College, Macau in June 1965.

Mr. Poon has more than 20 years of working experience in export industry. He worked in Shell Electric Mfg. from 1982 to 1984 as a senior manager and was responsible for overseas exports. From 1992 to 2007, he was an executive director of Shell Electric Mfg. He was the general manager of its electric fan division from 1986 to 2007 and was responsible for overseeing import and export matters, production materials and operations in the electric fan division.

Mr. Poon has not held any directorship in any public listed company during the three years immediately preceding the date of this prospectus.

Mr. Poon was previously a director of the companies shown in the table below which were dissolved by striking off pursuant to section 291 of the Predecessor Companies Ordinance due to cessation of business:

Company	Place of incorporation	Date of incorporation	Date of dissolution
Great Choice Investment Limited (彩智投資有限公司)	Hong Kong	8 July 1993	27 November 2009
Iau Heng Insurance Company Limited (祐興保險有限公司)	Hong Kong	9 September 1980	16 February 2001

Mr. Poon confirmed that these companies were solvent at the time of striking off and there is no wrongful act on his part leading to the dissolutions of the above companies and he is not aware of any actual or potential claim which has been or will be made against him as a result of the dissolutions of these companies.

SENIOR MANAGEMENT

Mr. Lee Yen Lim (李炎林), aged 38, is the assistant general manager of SMC Electric HK. He joined the Group in March 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 March 2006 to February 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 March 2005 to February 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 from January 2003 to July 2003 where he was responsible for assisting maintenance technician to set up fully automated production line and equipment. Mr. Lee obtained a Bachelor degree of Engineering in Mechatronics from London South Bank University in 2004 and an advanced diploma in Electrical and Electronic Engineering course from Institut Teknologi Dan Pengurusan Lebuh Victoria, Malaysia in 2003.

Mr. Lee has not held any directorship in any public listed company during the three years immediately preceding the date of this prospectus.

Mr. Chang Peng Tse (張鵬澤), aged 46, 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 April 1997 to March 2002 and worked as a sales manager and rejoined from April 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 degree of Arts in Business Studies from the Hong Kong Polytechnic University in 1996.

Mr. Chang has not held any directorship in any public listed company during the three years immediately preceding the date of this prospectus.

Ms. Ma Yuk Ling (馬玉玲), aged 60, is the deputy factory manager of electric tools division of the Group. She joined the Group in August 1991 as a production leader of SMC Microtronic Co. Ltd, a subsidiary of Shell Electric Mfg, then as an assistant production supervisor from June 1992 until November 1998. She was then appointed as a production supervisor by SMC Microtronic Co. Ltd and worked in the production plant of MMSD since December 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.

Ms. Ma has not held any directorship in any public listed company during the three years immediately preceding the date of this prospectus.

COMPANY SECRETARY

Ms. Lee Ka Man (李嘉文), aged 46, is an associate member of both The Institute of Chartered Secretaries & Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. Ms. Lee obtained a Bachelor degree in Business Administration from The Open University of Hong Kong in June 2002. She obtained a Master Degree in Business Administration from The Open University of Hong Kong in December 2004. She has over 15 years of experience in the fields of company secretarial and compliance. She is now a senior manager of Fair Wind Secretarial Services Limited, a secretarial company rendering secretarial services. Ms. Lee is also the company secretary of a number of public listed companies, including HNA Technology Investments Holdings Limited (stock code: 2086), Forgame Holdings Limited (stock code: 484), PFC Device Inc. (stock code: 8231), Tern Properties Company Limited (stock code: 277), Grand Brilliance Group Holdings Limited (stock code: 8372) and Haitian International Holdings Limited (stock code: 1882), all of which are listed on the Stock Exchange.

Ms. Lee has not held any directorship in any public listed company during the three years immediately preceding the date of this prospectus.

Even though Ms. Lee is currently named company secretary of six other listed companies, she is assisted by her teams of secretarial staff in Fair Wind Secretarial Services Limited to perform and undertake the company secretarial services of the Group and also for other listed companies. The Directors are satisfied that she will be able to devote sufficient time and resources to the provision of company secretarial services to the Company.

BOARD COMMITTEE

Audit Committee

The Company has established the audit committee in compliance with Rule 3.21 of the Listing Rules. Written terms of reference in compliance with paragraph C.3.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules has been adopted. Among other things, the primary duties of the audit committee are to make recommendations to the Board on appointment or reappointment and removal of external auditor; review financial statements of the Company and judgments in respect of financial reporting; and oversee internal control procedures of the Company.

The audit committee consists of three members, namely Mr. Leung Man Chiu Lawrence, Mr. Poon Chak Sang Plato and Mr. Yung Kwok Kee Billy. Mr. Leung Man Chiu Lawrence is the chairman of the audit committee.

Remuneration Committee

The Company has established a remuneration committee in compliance with Rule 3.25 of the Listing Rules with written terms of reference in compliance with paragraph B.1.2 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group and ensure that none of the Directors determine their own remuneration.

The remuneration committee consists of three members, namely Mr. Yung Kwok Kee Billy, Mr. Poon Chak Sang Plato and Mr. Leung Man Chiu Lawrence. Mr. Poon Chak Sang Plato is the chairman of the remuneration committee.

Nomination Committee

The Company has established a nomination committee with written terms of reference in compliance with paragraph A.5.2 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to review the structure, size and composition of the Board annually; identify individuals suitably qualified to become Board members; assess the independence of the independent non-executive Directors; and make recommendations to the Board on relevant matters relating to appointment or re-appointment of Directors and succession planning for the Directors.

The nomination committee consists of three members, namely Mr. Yung Kwok Kee Billy, Mr. Leung Man Chiu Lawrence and Mr. Poon Chak Sang Plato. Mr. Yung Kwok Kee Billy is the chairman of the nomination committee.

COMPLIANCE OFFICER

Mr. Leung Chun Wah is the compliance officer of the Company. Please refer to the paragraph headed "Executive Directors" above for his biography.

REMUNERATION POLICY

The Directors' remuneration is determined with reference to the prevailing market practice, the Company's remuneration policy and their duties and responsibilities with the Group. The Group also reimburses the Directors and senior management for expenses which are necessarily and reasonably incurred for provision of services to the Group or executing their functions in relation to the Group's operations. The Group also regularly reviews and determines the remuneration and compensation packages of the Directors and senior management by reference to, among other things, market level of remuneration and compensation paid by comparable companies, respective responsibilities of the Directors and performance of the Group.

After the Listing, the remuneration committee will review and recommend to the Board the remuneration and compensation packages of the Directors with reference to their experience, responsibilities, workload, time devoted to the Group and performance of the Group. The Directors may also be offered options under the Share Option Scheme.

During FY2016, FY2017, FY2018 and 9M2019, the aggregate of the remuneration paid and benefits in kind granted to the Directors were approximately HK3,440,000, HK$4,669,000, HK$4,971,000 and HK$1,629,000, respectively.

Each of the executive Directors will enter into a service agreement with the Company for an initial term of three years commencing from the Listing Date subject to termination provisions contained therein. Each of the executive Directors is entitled to a basic salary. Under the service agreements, the annual director's fee payable by the Company to the executive Directors are set out below:

Executive Directors	*HK$*
Mr. Leung Chun Wah	20,000
Mr. Tang Che Yin	20,000

Non-executive Director

Mr. Yung will enter into a service agreement with the Company for an initial term of three years commencing from the Listing Date subject to termination provisions contained therein. The annual director's fee payable by the Company to Mr. Yung is HK$20,000.

Each of the independent non-executive Directors will enter into an appointment letter with the Company with an initial term of three years commencing from the Listing Date subject to termination provisions contained therein. Under the appointment letters, the annual director's fee payable by the Company to the independent non-executive Directors are as follows:

Independent non-executive Directors	*HK$*
Mr. Leung Man Chiu Lawrence	180,000
Mr. Poon Chak Sang Plato	180,000
Mr. Lam Sai Yu Geoffrey	180,000

The director's fee for each of the independent non-executive Directors during the three-year term is initially fixed, subject to the Board's review from time to time in its discretion after taking into account the recommendation of the remuneration committee.

The remuneration of each of the independent non-executive Directors is determined by reference to market terms, seniority, his/her experiences, duties and responsibilities within the Group. The Directors are entitled to statutory benefits as required by law from time to time such as pension.

Save as disclosed above, no other remunerations have been made or are payable by the Group to the Directors in respect of the Track Record Period.

BOARD DIVERSITY POLICY

The Board adopts 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.

The nomination committee is responsible for ensuring the diversity of the Board. After Listing, the nomination committee will review the board diversity policy from time to time to ensure its continued effectiveness and implementation.

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.

COMPLIANCE ADVISER

The Company has appointed the Sole Sponsor as the compliance adviser in accordance with Rule 3A.19 of the Listing Rules from the Listing Date. The compliance adviser will advise the Group on on-going compliance requirements and other issues under the Listing Rules and other applicable laws and regulations in Hong Kong after the Listing.

Save for the Sole Sponsor's obligations under the Underwriting Agreements as disclosed in the section headed "Underwriting" in this prospectus, the Sole Sponsor does not have any shareholding interest in the Group nor any right to subscribe for or to nominate any person to subscribe for securities in the Company or any member of the Group.

Services to be provided by the compliance adviser under the compliance adviser agreement between the Group and the compliance adviser include:

- to advise the Company with regard to its obligations under various rules and regulations of the Stock Exchange and the SFC, and to provide the Company with proper guidance and advice with reasonable care and skill as to compliance with the requirements under the Listing Rules and all other applicable laws, rules, codes and guidelines;

- to act as the Company's principal channel of communication with the Stock Exchange;

- upon the request of the Company, to accompany the Group to any meetings with the Stock Exchange that the Company is asked to attend, unless otherwise requested by the Stock Exchange;

- to review with the Company, the operating performance and financial condition of the Group against the Company's future plan included in this prospectus in order to assist the Company in determining whether any announcement is necessary under requirements in Chapter 13 of the Listing Rules;

- to review all announcements, listing documents and circulars required to be issued under the Listing Rules, the Takeovers Code and the SFO, the annual reports and half-year reports of the Company to ensure that the Directors understand the importance of disclosing all material information to the Company's shareholders and the market;

- to advise the Company on its obligations upon enquiry about any transaction which might be a notifiable or connected transaction and any inquiry from the Stock Exchange under Rule 13.10 of the Listing Rules and any transaction which is contemplated including share issues and share repurchases;

- in relation to an application by the Company for a waiver from any of the requirements in Chapter 14A of the Listing Rules, to advise the Company on its obligations and in particular the requirement to appoint an independent financial adviser;

- to assess the understanding of all new appointees to the Board regarding the nature of their responsibilities and fiduciary duties as a director of a listed company, and, to the extent the compliance adviser forms an opinion that the new appointees' understanding is inadequate, discuss the inadequacies with the Board and make recommendations to the Board regarding appropriate remedial steps such as training; and

- to discharge such duties and functions as may be required to be performed by the compliance adviser under the Listing Rules from time to time and as reasonably requested by the Company.

The term of the appointment shall commence on the Listing Date and end on the date of which the Group complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year after the date of the Listing, which, for the avoidance of doubt, shall mean the financial year ending 31 December 2021, or until the compliance adviser agreement is terminated, whichever is the earlier.

STAFF RELATIONS

The Group believes that the employee relations are satisfactory in general. The Group believes that the management policies, working environment, career prospects and benefits extended to the employees have contributed to employee retention and building of amicable employee relations.

SHARE CAPITAL

The share capital of the Company immediately following the completion of the Capitalisation Issue and Share Offer is set out in the table below. The table is prepared on the basis of the Capitalisation Issue and Share Offer becoming unconditional and the issue of Offer Shares pursuant to the Share Offer is made as described herein. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme or repurchased by the Company under the general mandates for the allotment and issue or repurchase of Shares granted to the Directors as referred to below or otherwise.

		Nominal Value *(HK$)*
Authorised share capital:		
5,000,000,000	Shares of HK$0.01 each	50,000,000
Shares in issue or to be issued, fully paid or credited as fully paid:		
38,000,000	Shares in issue as at the date of this prospectus	380,000
1,274,500,000	Shares to be issued pursuant to the Capitalisation Issue	12,745,000
187,500,000	Shares to be issued pursuant to the Share Offer	1,875,000
1,500,000,000	Total	15,000,000

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08 of the Listing Rules, at least 25% of the total issued share capital of the Company must at all times be held by the public. The Offer Shares represent 25% of the issued share capital of the Company upon Listing.

RANKING

The Offer Shares will rank *pari passu* in all respects with all the Shares now in issue or to be allotted and issued as mentioned in this prospectus and will qualify for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the Listing Date save for any entitlement to the Capitalisation Issue.

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme, the major terms of which are set out in the section headed "Statutory and General Information — E. Share Option Scheme" in Appendix V to this prospectus.

CAPITALISATION ISSUE

Pursuant to the resolutions in writing of the sole Shareholder passed on 7 February 2020, conditional upon the share premium account of the Company being credited as a result of the issue of Offer Shares pursuant to the Share Offer, the Directors are authorised to allot and issue a total of 1,274,500,000 Shares credited as fully paid to the holders of Shares on the register of members of the Company as at the date of sole Shareholder's resolution by way of capitalisation of the sum of HK$12,745,000 standing to the credit of the share premium account of the Company, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Share Offer becoming unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with the Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such securities convertible into Shares, and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with subject to the requirement that the aggregate number of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or a specific authority granted by the Shareholders) shall not exceed:

(a) 20% of the aggregate number of Shares in issue immediately following the completion of the Capitalisation Issue and the Share Offer (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options under the Share Option Scheme); and

(b) the aggregate number of Shares repurchased by the Company (if any) pursuant to the general mandate to repurchase Shares referred to in the paragraph headed "General Mandate to Repurchase Shares" below.

This general mandate to issue Shares will remain in effect until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or the Companies Ordinance to be held; or

(c) the time when such mandate is varied or revoked or renewed by an ordinary resolution of the Shareholders at a general meeting.

Please refer to the section headed "Statutory and General Information — A. Further Information about the Company — 4. Resolutions in writing of the sole Shareholder" in Appendix V to this prospectus for further details.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Share Offer becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with an aggregate number of Shares of not more than 10% of the aggregate number of Shares in issue following the completion of the Capitalisation Issue and Share Offer.

This mandate only relates to repurchases made on the Stock Exchange, or any other stock exchange which is recognised by the SFC and the Stock Exchange for this purpose, and such repurchases are made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the subsection headed "Statutory and General Information — A. Further Information about the Company — 6. Repurchase of the Shares" in Appendix V to this prospectus.

The general mandate to repurchase Shares will remain in effect until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws of the Cayman Islands or the Articles of Association to be held; or

(c) the time when such mandate is varied, revoked or renewed by an ordinary resolution of the Shareholders in general meeting.

For further details of this general mandate, please refer to the section headed "Statutory and General Information — A. Further Information about the Company — 6. Repurchase of the Shares" in Appendix V to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

The Company has only one class of shares, namely ordinary shares, each of which carries the same rights as the other shares.

Please see "Summary of the constitution of the Company and Cayman Islands Company Law" in Appendix IV to this prospectus for details of the circumstances under which general meetings and class meetings of the Company are required.

So far as the Directors are aware, each of the following persons will, immediately following the completion of the Capitalisation Issue and the Share Offer (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme), have an interest or short position in the Shares or underlying Shares which would be required to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Interest in Shares of the Company

Name of Shareholders	Capacity/Nature of Interest	Number of Shares held in the Company immediately following the completion of the Capitalisation Issue and the Share Offer *(Note 1)*	Approximate percentage of shareholding immediately following the completion of the Capitalisation Issue and the Share Offer *(Note 2)*
Shell Holdings *(Note 3)*	Beneficial owner	1,125,000,000	75%
Red Dynasty *(Note 3)*	Interest in a controlled corporation	1,125,000,000	75%
Mr. Yung *(Note 3)*	Interest in a controlled corporation	1,125,000,000	75%
Mrs. Yung *(Note 4)*	Interest of spouse	1,125,000,000	75%

Notes:

(1) All interests stated are long positions.

(2) The calculation is based on the total number of 1,500,000,000 Shares in issue immediately following the completion of the Capitalisation Issue and the Share Offer (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme).

(3) Mr. Yung holds the entire issued share capital of Red Dynasty, which, in turn, holds 80.4% interest in Shell Holdings. Accordingly, Mr. Yung is deemed to be interested in the Shares held by Shell Holdings by virtue of the SFO.

(4) Ms. Vivian Hsu ("**Mrs. Yung**") is the spouse of Mr. Yung. By virtue of the SFO, Ms. Yung is deemed to be interested in all the Shares in which Mr. Yung is deemed to be interested.

Save as disclosed above and under the section headed "Statutory and General Information — C. Disclosure of Interests — (a) Disclosure of interests of Directors" in Appendix V to this prospectus, the Directors are not aware of any person who will, immediately following the completion of the Capitalisation Issue and the Share Offer (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

THE CONTROLLING SHAREHOLDERS

Immediately following completion of the Capitalisation Issue and the Share Offer (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme), each of Shell Holdings, Red Dynasty and Mr. Yung will be regarded as a Controlling Shareholder.

Shell Holdings is a company incorporated in Bermuda and is the holding company of Shell Group. Shell Holdings is held as to 80.4% by Red Dynasty. Mr. Yung is interested in 100% of the issued share capital of Red Dynasty. Red Dynasty is an investment holding company which is wholly-owned by Mr. Yung. As disclosed in Shell Holdings' 2018 annual report, the principal activities of Shell Holdings are investment holding and property leasing. The principal activities carried out by the subsidiaries in Shell Group mainly comprise investment holding, manufacturing and marketing of electric fans, power discrete semiconductors as well as contract manufacturing of laser printer components (i.e. fusers, laser scanners, paper handling options) and other electrical appliances and electronic components, property leasing, property investment and development, taxi and car rental and securities trading. The revenue generated by Shell Holdings and its subsidiaries for the year ended 31 December 2018 was HK$1,162,531,000. Prior to completion of the Reorganisation, the Group's Electrical Appliances Business was conducted and operated by the subsidiaries of Shell Group.

Shell Electric Mfg. was previously an investment holding company of the operating subsidiaries of Shell Holdings. The Group's Electrical Appliances Business was conducted by the subsidiaries of Shell Electric Mfg. prior to the group restructuring of Shell Electric Mfg. which was completed in 2010. Since then, the Group's Electrical Appliances Business was operated under Shell Group.

Following the completion of the Reorganisation, the Group's Electrical Appliances Business will not have any interaction with the other business of Shell Group, save for certain continuing connected transactions. Please refer to the section headed "Continuing Connected Transactions" for further details.

Save as mentioned above, there is no other person who will, immediately following completion of the Capitalisation Issue and the Share Offer (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme), be directly or indirectly interested in more than 30% or more of the Shares in issue.

Undertakings

The Controlling Shareholders have given certain undertakings in respect of the Shares (including those as required by Rules 10.07(1) and Note (3) to Rule 10.07(2) of the Listing Rules) to, among others, the Company, the Stock Exchange, the Sponsor, the Joint Bookrunners and the Underwriters. Please refer to the section headed "Underwriting" in this prospectus for further details.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Save as otherwise disclosed in the section headed "Continuing Connected Transactions" in this prospectus, the Directors do not expect that there will be any other significant transactions between the Group and its Controlling Shareholders and their respective close associates upon or shortly after Listing.

The Directors believe that the Group is capable of carrying on its business independent of the Controlling Shareholders and their respective close associates following the Listing.

Management independence

The Board comprises two executive Directors, one non-executive Director and three independent non-executive Directors. Save as disclosed in the section headed "Directors and Senior Management" in this prospectus, there is no other relationship among the Directors. The Directors are of the view that the Company is capable of maintaining management independence as:

- the Group's strategies, management, operations and affairs are formulated, led, managed and/or supervised by the Board and not by any individual Director nor the Controlling Shareholders. All major and important corporate actions of the Company are and will be fully deliberated and determined by the Board collectively and objectively as a collective body;

- pursuant to the terms of the service contracts entered into between the Company and the executive Directors, every executive Director is required to devote substantially the whole of his time, attention and abilities during normal business hours and such additional hours as may reasonably be requisite to the Group;

- in the event that there is a potential conflict of interest in or arising out of any transaction to be considered and approved by the Board, the interested Director(s) shall abstain from voting at the relevant meeting of the Board considering and approving such transaction and shall not be counted towards the quorum of such Board meeting unless this is otherwise permitted under the Articles and/or the Listing Rules;

- the Company has three independent non-executive Directors, who are not associated with the Controlling Shareholders or their respective close associates. Resolutions of the Board approving any matters in which any of the executive Directors or non-executive Director has a potential conflict of interest and/or material interest will only be considered and approved by the independent non-executive Directors (as under the provisions of the Listing Rules, the Directors who have potential conflict of interest will then be prohibited from voting on the resolution(s) and will not be counted towards the quorum of the relevant Board meetings at which the relevant resolution(s) is/are approved). The independence of the Board's decisions in respect of any matters in which any of the Group's Directors has a potential conflict of interest and/or material interest is and can be ensured;

- the Company has established corporate governance procedures in safeguarding the interests of the shareholders and enhancing shareholders' value. Each Director is fully aware of his/her fiduciary duty to the Group, and will abstain from voting on any matter where there is or may be a conflict of interest as required under the provisions of the Listing Rules; and

- the Board from time to time delegates certain functions to, and is assisted by its senior management in the implementation of the business plan and strategy as laid down by the Board. The day-to-day management and operations of the Group is operated independently from the influence of the Controlling Shareholders and their respective close associates.

Mr Yung is a non-executive Director and a director of all the subsidiaries of the Group (except SMC Electric China). He is also a director of Shell Holdings and Red Dynasty. Mr Tang is an executive Director and the general manager and chairman of SMC Electric China. He is also a non-executive director of PFC Device Inc. Mr Leung Man Chiu Lawrence and Ms Lee Ka Man is, respectively, an independent non-executive Director and company secretary of both PFC Device Inc. and the Company. The following table shows the positions and responsibilities of Mr Yung, Mr Tang, Mr Leung Man Chiu Lawrence and Ms Lee Ka Man between the Group and the Controlling Shareholders:

Name of Director/ Senior management	**Roles and responsibilities in the Group**	**Roles and responsibilities in Shell Holdings and/or subsidiaries of Shell Holdings**
Mr Yung	Primarily responsible for the strategic direction and overall management of the strategic planning of the Group	Primarily responsible for the strategic direction and overall management of the strategic planning of Shell Group
Mr Tang	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	Responsible for assisting the chairman in the overall management of the strategic planning of PFC Device Inc., and for overseeing the human resource and operation of its PRC manufacturing operation
Mr Leung Man Chiu Lawrence	Providing independent judgment on the Group's strategy, performance, resources and standard of conduct	Providing independent advice to the board of directors of PFC Device Inc.

Name of Director/ Senior management	Roles and responsibilities in the Group	Roles and responsibilities in Shell Holdings and/or subsidiaries of Shell Holdings
Ms Lee Ka Man	Providing company secretarial services	Providing company secretarial services to PFC Device Inc.

The two executive Directors, Mr Leung and Mr Tang, are not directors of Shell Holdings and Red Dynasty. In the event there is a potential conflict of interest in or arising which requires Mr Yung to abstain from voting and not be counted towards the quorum at the relevant Board meeting, Mr Leung, Mr Tang together with the three independent non-executive Directors, comprising the majority of the Board members, can approve such matters in the relevant Board meeting.

Even though there are overlapping Directors and senior management in the Group and Shell Holdings and/or its subsidiaries, as disclosed above, their roles and responsibilities in the Group and Shell Holdings and/or its subsidiaries are clearly delineated and the overlapping Directors and senior management can manage and perform their roles and responsibilities independently from Shell Holdings and/or its subsidiaries.

Operational independence

The Group has its own organisational structure made up of divisions including management and administration, finance and accounting, sales and marketing, production, design and development, quality control and other divisions. Each division has a clear delineation of duties and functions as determined by the Board to promote efficiency, effectiveness and quality in the development of the Group's business.

The Group has independent access to sources of suppliers or materials necessary for the operation of its business as well as customers which are mainly Independent Third Parties and does not rely on the Controlling Shareholders or their respective close associates.

The Group will continue to have certain transactions with the Controlling Shareholders or their respective close associates after Listing. Please refer to the transactions disclosed in the section headed "Continuing Connected Transactions" in this prospectus for further details. These continuing connected transactions were related to leasing of premises, dormitory, trademarks and patents and procurement of materials.

Save as otherwise disclosed, the Directors consider that the Group's operations do not depend on the Controlling Shareholders because (i) there is no competing business between the Group and any of the Controlling Shareholders; (ii) the continuing connected transactions between the Group and the Controlling Shareholders or their respective close associates are primarily administrative in nature; (iii) the materials procured by the Group from its connected persons are not major materials or components for production and the purchase amount are not significant; and (iv) the Group will not be relying on any guarantee provided by any of the Controlling Shareholders in respect of bank borrowings nor has the Group given any guarantee for the benefit of any of the Controlling Shareholders after Listing.

Financial independence

The Company has established a financial system (including bank accounts) that operate independently. During the Track Record Period, certain of the banking facilities granted to the Group were secured by guarantees and collateral security provided by the Controlling Shareholders, certain Directors and their respective close associates. The above guarantees and collateral security will either be released upon Listing or will be replaced by corporate guarantees executed by the Company upon Listing. The Group also provided corporate guarantee in connection with the banking facilities granted to Shell Holdings, which will also be released upon Listing. As such, upon Listing, the Group will have independent access to third party financing without relying on any guarantee from its Controlling Shareholders, the Directors and their respective close associates. All loans and advances due from/to the Controlling Shareholders, Directors, related parties and their respective close associates will be fully settled before Listing. Further, the Group will not rely on the corporate guarantees executed by Shell Holdings upon Listing. The Directors are of the view that the Group is able to obtain external financing on market terms and conditions for its business operations as and when required and does not rely on the corporate guarantee provided by the Controlling Shareholders and is not financially dependent on the Controlling Shareholders, the Directors, related parties or any of their respective close associates in the operation of its business.

COMPETITION

Save and except for their respective interest in the Company, none of the Controlling Shareholders nor any of their respective close associates had interests in any other companies that compete or are likely to compete, either directly or indirectly, with the business of the Company during Track Record Period and as at the Latest Practicable Date.

Other investments held by the Controlling Shareholders

The principal business of Shell Holdings are investment holding and property leasing. Apart from the business of the Group, Shell Holdings and its subsidiaries are also engaged in the following Excluded Business including:

	Name of company	Relationship with the Controlling Shareholder	Principal business
(i)	China Dynasty Development Ltd	An indirect wholly-owned subsidiary of Shell Holdings	Property investment
(ii)	Extra-Fund Investment Limited	A direct wholly-owned subsidiary of Shell Holdings	Securities trading
(iii)	Fast-Gain Overseas Limited	An indirect wholly-owned subsidiary of Shell Holdings	Property investment
(iv)	Fortress Link Investment Limited	An indirect wholly-owned subsidiary of Shell Holdings	Property development
(v)	Guangdong PFC Device Limited	An indirect non-wholly owned subsidiary of Shell Holdings	Manufacturing and sales of power discrete semiconductors
(vi)	佛山市宇發物業管理有限公司 (Foshan Yufa Property Management Company Limited*)	An indirect wholly-owned subsidiary of Shell Holdings	Property management and property leasing
(vii)	廣州華皇房地產開發有限公司 (Guangzhou Hua Huang Property Development Limited*)	An indirect wholly-owned subsidiary of Shell Holdings	Property development
(viii)	廣州匯朗物業管理有限公司 (Guangzhou Hui Liang Property Management Limited*)	An indirect wholly-owned subsidiary of Shell Holdings	Property investment and development

Name of company		Relationship with the Controlling Shareholder	Principal business
(ix)	廣州百聯汽車租賃有限公司 (Guangzhou Parklane Car Leasing Limited*)	An indirect wholly-owned subsidiary of Shell Holdings	Vehicle rental
(x)	廣州蜆富出租汽車有限公司 (Guangzhou SMC Car Rental Company Limited*)	An indirect wholly-owned subsidiary of Shell Holdings	Taxi operations
(xi)	廣州蜆富汽車租賃有限公司 (Guangzhou Sien Fu Car Leasing Limited*)	An indirect wholly-owned subsidiary of Shell Holdings	Vehicle rental and trading
(xii)	Guangzhou Xian Di Property Management Limited	An indirect wholly-owned subsidiary of Shell Holdings	Rental management agency
(xiii)	Land Vision Investment Limited	An indirect wholly-owned subsidiary of Shell Holdings	Investment holding
(xiv)	New Style Development Limited	An indirect wholly-owned subsidiary of Shell Holdings	Property development
(xv)	PFC Device Corporation	An indirect non-wholly owned subsidiary of Shell Holdings	Research and development and sales of power discrete semiconductors
(xvi)	PFC Device Holdings Limited	An indirect non-wholly owned subsidiary of Shell Holdings	Investment holding
(xvii)	PFC Device (HK) Limited	An indirect non-wholly owned subsidiary of Shell Holdings	Sales of power discrete semiconductors
(xviii)	PFC Device Inc.	An indirect non-wholly owned subsidiary of Shell Holdings	Investment holding

Name of company		Relationship with the Controlling Shareholder	Principal business
(xix)	SMC Investments Limited	An indirect wholly-owned subsidiary of Shell Holdings	Property investment
(xx)	Silvergate Global Limited	An indirect wholly-owned subsidiary of Shell Holdings	Property holding
(xxi)	SMC Property Investment Limited	A direct wholly-owned subsidiary of Shell Holdings	Investment holding
(xxii)	Sybond Venture Limited	A direct wholly-owned subsidiary of Shell Holdings	Investment holding
(xxiii)	Hong Kong Construction SMC Development Limited	Shell Holdings holds 20% interest indirectly	Investment holding
(xxiv)	熊谷蜆殼發展(廣州)有限公司 (Kumagai SMC Development (Guangzhou) Limited*)	Shell Holdings holds 20% interest indirectly	Property investment
(xxv)	SMC Micro-Tech (BVI) Limited	Shell Holdings holds 51% interest and PFC Device Holdings Limited holds 49% interest	Investment holding
(xxvi)	SMC Micro-Tech (HK) Limited 蜆殼微電子(香港)有限公司	Shell Holdings holds 51% interest and PFC Device Holdings Limited holds 49% interest	Manufacture, research and development of industrial use semi-conductor products

* *for identification purpose only*

The Directors believe that the Excluded Businesses held by the Controlling Shareholders referred above are in completely different sectors from that of the Group, i.e. manufacture and trading of electric fans and electric tools, and therefore do not and will not compete with the business of the Group.

Excluded Group

Upon completion of the Reorganisation, the following companies shall conduct the following principal business:

Name of company	Relationship with the Controlling Shareholder	Principal business before completion of the Reorganisation	Principal business after completion of the Reorganisation
Shell Electric Mfg. (H.K.) Company Limited	A direct wholly-owned subsidiary of Shell Holdings	Dormant	Dormant
SMC Multi-Media Products Company Limited	A direct wholly-owned subsidiary of Shell Holdings	Investment holding	Investment holding
Sunny Resource	A direct wholly-owned subsidiary of Shell Holdings	Holding of trademarks and patents	Holding of trademarks and patents
MMHK	An indirect wholly-owned subsidiary of Shell Holdings	Contract manufacturing services and trading of electronic component and electrical appliance products	Investment holding
MM Trading	An indirect wholly-owned subsidiary of Shell Holdings	Contract manufacturing services and trading of electronic component and electrical appliance products	Contract manufacturing services and trading of laser printer components

Name of company	Relationship with the Controlling Shareholder	Principal business before completion of the Reorganisation	Principal business after completion of the Reorganisation
MMSD	An indirect wholly-owned subsidiary of Shell Holdings	Manufacturing and trading of electronic components and electrical appliance products	Manufacturing and trading of laser printer components

As disclosed above, upon completion of the Reorganisation, the principal business of the Excluded Group will mainly comprise contract manufacturing services and trading of laser printer components (i.e. fusers, laser scanners, paper handling options), which is completely different from the business of the Group. The materials, expertise and appliances used for the production of laser printer components is different from that used by the Group's Electrical Appliances Business. Moreover, the customers and marketing chains of the Group's Electrical Appliances Business is distinct from that of laser printer components. As the materials used in laser printer components are different from the materials used in the Group's Electrical Appliances Business, the Group's suppliers are also distinct from that of laser printer components. The machineries used for the production of laser printer components cannot be used for production of the Group's products. In addition, the management team responsible for production of laser printer components is different and distinct from the management team of the Group's Electrical Appliances Business. The business of the Group is delineated from the operations of the Excluded Group.

During the Track Record Period, members of the Excluded Group had the following regulatory non-compliances:

(a) MM Trading failed to comply with section 51(1) of the Inland Revenue Ordinance ("**IRO**") in filing of the profit tax returns for 2016/17. The profits tax return was subsequently received by the Inland Revenue Department. Penal action was taken for the non-compliance and a notice of assessment for demand for additional tax under section 82A of the IRO for the year of assessment 2016/17 was issued on 22 August 2018. MM Trading settled the additional tax by way of penalty in the amount of HK$100,000 in September 2018;

(b) in April 2016, MMSD imported certain spread light lens for manufacturing use. The transportation mode of imported spread light lens did not match what was reported in the application form. MMSD was in breach of 中華人民共和國海關行政處罰實施條例 (PRC Customs Administrative Penalty Rules Customs) ("**PRC Customs Regulations**") and was fined RMB1,000 in total. The fine was settled in July 2016;

(c) in February 2017, MMSD imported certain motors for its printer manufacturing use. The imported motors were not reported to the PRC Customs at the time when they were imported. MMSD was in breach of PRC Customs Regulations and was fined RMB26,500. The fine was settled in March 2017; and

(d) in December 2017, MMSD imported certain spread light lens for manufacturing use. The vehicle used for importing the spread light lens did not match the vehicle as reported in the application form. MMSD was in breach of PRC Customs Regulations. The PRC Customs Department issued a written warning to MMSD only and there was no penalty for this regulatory non-compliance.

Save as disclosed above, there are no material non-compliances of the Excluded Group during Track Record Period.

During the Track Record Period and prior to the Latest Practicable Date, the Group entered into the following connected transactions.

1. Tenancy Agreement and Management Fee Agreement between MMSD and SMC Electric China

MMSD as landlord entered into a tenancy agreement with SMC Electric China on 30 November 2018 pursuant to which MMSD leased the factory spaces situated at 3rd Floor, Block A, No. 18, San Le Dong Road, Bei Jiao Residents' Committee Industrial Park, Bei Jiao County, Shunde District, Foshan City, the PRC to SMC Electric China for use as production workshop with office facilities (the "**Tenancy Agreement**"). The area of the production workshop with office facilities is 3,666 sq.m. The term of the tenancy is for a term of 25 months commencing on 1 December 2018 and expiring on 31 December 2020. The monthly rental for the month of December 2018 was waived by MMSD. SMC Electric China shall have priority to renew the tenancy on the same terms provided that it serves two months' notice to MMSD. The monthly rental payable under the Tenancy Agreement is RMB47,658. The monthly rental is determined after arm's length negotiations and is with reference to the market value for the subject property as appraised by an independent property valuer engaged by the Group, who considers that the terms of the Tenancy Agreement are on normal commercial terms under prevailing market conditions and are fair and reasonable.

MMSD also entered into a management fee agreement (the "**Management Fee Agreement**") with SMC Electric China on 30 November 2018 pursuant to which SMC Electric China agreed to pay management fee in the amount of RMB9,165 per calendar month for a period of 25 months commencing from 1 December 2018 and expiring on 31 December 2020 which is the same as the Tenancy Agreement. The management fee for the month of December 2018 was waived by MMSD. The management services provided by MMSD to SMC Electric China covers common area maintenance, cleaning and general security. The management fee represents property management fee charged by MMSD and is calculated at the rate of RMB2.50 per sq. m. The management fee is determined after arm's length negotiations and is with reference to the management fee of similar properties in the surrounding neighborhood and the services provided by MMSD.

The Tenancy Agreement will continue after Listing. The rents paid to MMSD under the Tenancy Agreement for the year ended 31 December 2019 was RMB571,896 and the rent payable for the year ending 31 December 2020 will be RMB571,896. The Management Fee Agreement will also continue after Listing. The management fee paid to MMSD under the Management Fee Agreement for the year ended 31 December 2019 was RMB109,980 and the management fee payable for the year ending 31 December 2020 will be RMB109,980.

As at the Latest Practicable Date, MMSD is an indirect wholly-owned subsidiary of Shell Holdings, one of the Controlling Shareholders, accordingly it is the Company's connected person pursuant to Rules 1.01 and 14A.06(2) of the Listing Rules. MMSD's principal business is manufacturing and trading of laser printer components.

2. Tenancy Agreement between Shell Holdings and SMC Electric HK in respect of portion of 1/F and the 4/F of Shell Industrial Building

SMC Electric HK as tenant entered into a tenancy agreement (the "**Shell Tenancy Agreement**") with Shell Holdings as landlord on 11 January 2019 pursuant to which SMC Electric HK rented 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 for a term of two years commencing from 1 January 2019 and expiring on 31 December 2020 (both days inclusive). The monthly rental payable under the Shell Tenancy Agreement is HK$138,280 per calendar month, comprising (i) HK$135,480 being rent for the portion of 1st Floor and 4th Floor and (ii) HK$2,800 being rent for the car parking space. The management fee payable under the Shell Tenancy Agreement is HK$20,322 per calendar month. The monthly rental and management fee is determined after arm's length negotiations and with reference to the market rent for the subject property as appraised by an independent property valuer engaged by the Group, who considers that the terms of the Shell Tenancy Agreement is on normal commercial terms under the prevailing market conditions and are fair and reasonable.

The Shell Tenancy Agreement will continue after Listing. The rents and management fee payable to Shell Holdings under the Shell Tenancy Agreement for the year ended 31 December 2019 was HK$1,903,224 and the rents and management fee payable for the year ending 31 December 2020 will be HK$1,903,224. In determining the rental payable, the market rental prices of similar buildings in the surrounding neighborhood, the age and state of renovation of the buildings are taken into account.

As at the Latest Practicable Date, Shell Holdings is one of the Controlling Shareholders of the Company. Accordingly, Shell Holdings and its associates are the Company's connected persons pursuant to Rule 14A.07(4) of the Listing Rules.

3. Tenancy Agreement between Shell Holdings and SMC Electric HK in respect of the 4/F of Kantone Centre

SMC Electric HK as tenant entered into a tenancy agreement (the "**Kantone Tenancy Agreement**") with Shell Holdings as landlord on 11 January 2019 pursuant to which SMC Electric HK rented 4th Floor of Kantone Centre, 1 Ning Foo Street, Chai Wan, Hong Kong for a term of two years commencing from 1 January 2019 and expiring on 31 December 2020 (both days inclusive) for warehouse purpose for a monthly rental of HK$72,600.

SMC Electric HK shall pay management fee in the amount of HK$10,890, which is calculated based on HK$1.80 per sq. feet, to Shell Holdings and Shell Holdings shall be responsible to settle the management fee to the management company of Kantone Centre. The rental is determined after arm's length negotiations and with reference to the market rent for the subject property as appraised by an independent property valuer engaged by the Group, who considers that the terms of the Kantone Tenancy Agreement is on normal commercial terms under the prevailing market conditions and are fair and reasonable. The management fee is determined with reference to the management fee charged by properties nearby.

The Kantone Tenancy Agreement will continue after Listing. The rents and the management fee payable to Shell Holdings under the Kantone Tenancy Agreement for the year ended 31 December 2019 was HK$1,001,880 and the rents and the management fee payable for the year ending 31 December 2020 will be HK$1,001,880.

Listing Rules implications

Although the transactions contemplated under the Tenancy Agreement, the Management Fee Agreement, the Shell Tenancy Agreement and the Kantone Tenancy Agreement were on-going as at the Latest Practicable Date and will continue on and after the Listing, these transactions were accounted as one-off in nature under HKFRS16.

The Tenancy Agreement, the Management Fee Agreement, the Shell Tenancy Agreement and the Kantone Tenancy Agreement are required to be aggregated 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 which are controlled by Mr. Yung.

Based on the applicable percentage ratios, the total amounts payable to Shell Holdings and MMSD under the Tenancy Agreement, the Management Fee Agreement, the Shell Tenancy Agreement and the Kantone Tenancy Agreement will not be classified as notifiable transactions under Chapter 14 of the Listing Rules or connected transaction under Chapter 14A of the Listing Rules subject to reporting, announcement and independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

In the event that there are any material changes to the terms and conditions of any of the Tenancy Agreement, the Management Fee Agreement, the Shell Tenancy Agreement and the Kantone Tenancy Agreement (including any increase in the total rents payable by the Group), the Group shall comply with Chapter 14 and 14A of the Listing Rules (as the case may be) in respect of such agreements (as amended) as and when appropriate, including, when required, seeking independent Shareholders' approval prior to effecting such changes.

The table below sets forth the continuing connected persons of the Company who will conduct continuing connected transactions with the Group and the nature of their connection with the Group:

Connected Person	**Connected relationship**
PFC Device (HK)	PFC Device (HK) is an indirectly wholly-owned subsidiary of PFC Device Inc. As at the Latest Practicable Date, PFC Device Inc. is owned as to 58.65% by Shell Holdings. Accordingly, PFC Device (HK) is the Company's connected person pursuant to Rules 1.01 and 14A.06(2) of the Listing Rules. PFC Device (HK)'s principal business is investment holding and sales of power discrete semiconductors.
Sunny Resource	Sunny Resource is a wholly-owned subsidiary of Shell Holdings, one of the Controlling Shareholders of the Company, accordingly it is the Company's connected person pursuant to Rules 1.01 and 14A.06(2) of the Listing Rules. Sunny Resource's principal business is holding of trademarks and patents.
MMSD	MMSD is an indirect wholly-owned subsidiary of the Shell Holdings, one of the Controlling Shareholders of the Company. Accordingly, it is the Company's connected person pursuant to Rules 1.01 and 14A.06(2) of the Listing Rules. MMSD's principal business is manufacturing of domestic and agricultural electrical appliances.

Following the Listing Date, the Group will enter into the following fully-exempted continuing connected transactions:

1. Dormitory Rental Agreement between MMSD and SMC Electric China

SMC Electric China as tenant entered into a dormitory rental agreement (the "**Dormitory Rental Agreement**") on 30 November 2018 with MMSD as landlord to rent certain dormitory rooms in their production plant located in Shunde, the PRC (the "**Dormitory Premises**") for use as staff dormitory for the employees.

The term of the Dormitory Rental Agreement is for a term of 25 months commencing on 1 December 2018 and expiring on 31 December 2020. The rental for the month of December 2018 was waived by MMSD. SMC Electric China shall have priority to renew the tenancy on the same terms provided that SMC Electric China serves two months' notice to MMSD.

The monthly charging rate for a single room and an en-suite at Block A of the Dormitory Premises is RMB1,000 and RMB3,000 per month, respectively. The monthly charging rate for an en-suite at Block B and a single room at Block C is RMB1,000 and RMB600 respectively. SMC Electric China will be charged based on the actual number of use of the dormitory rooms. The charging rates are determined after arm's length negotiations and are comparable to other rental properties for similar purposes in the neighborhood at the time of signing. In particular, the Group has compared the rental prices of similar rental apartments in the surrounding neighborhood, the age and state of renovation of the buildings, and their respective facilities.

Annual Caps

The Dormitory Rental Agreement will continue after Listing. The annual cap for the year ended 31 December 2019 was RMB100,000 and the annual cap for the year ending 31 December 2020 will be RMB150,000. The annual caps are determined taking into account the anticipated number of use of dormitory rooms by SMC Electric China after considering the expected manpower for production.

Listing Rules' Implications

As the applicable percentage ratios (other than profits ratio) for the Dormitory Rental Agreement are less than 5.0% and the annual consideration is less than HK$3,000,000, the Dormitory Rental Agreement is exempted from the reporting, annual review, announcement, circular and independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The transactions under the Dormitory Rental Agreement are continuing connected transactions and the transactions do not involve the acquisition or disposal of assets or securities or interest in a group or group of companies under Rule 14A.82. As such, they are not subject to aggregation under Rule 14A.81 of the Listing Rules.

2. Catering Service Agreement between MMSD and SMC Electric China

MMSD entered into a catering service agreement (the "**Catering Service Agreement**") with SMC Electric China on 30 November 2018 for the provision of catering services to the staff of SMC Electric China by MMSD for a term of 25 months commencing from 1 December 2018 and expiring on 31 December 2020 (both days inclusive). The Catering Service Agreement can be renewed subject to mutual negotiation between MMSD and SMC Electric China.

Pursuant to the Catering Service Agreement, MMSD provides catering services to the staff of SMC Electric China at a monthly fee of RMB500 per staff. The monthly fee per staff is determined after arm's length negotiation between the parties and is comparable to similar catering services provided in the neighborhood at the time of signing.

For the period from 1 December 2018 to 31 December 2018 and the nine months ended 30 September 2019, the amount paid by SMC Electric China to MMSD for catering service amounted to RMB1,500 and RMB13,500, respectively.

Annual Caps

The Catering Service Agreement will continue after Listing. The annual cap for the year ended 31 December 2019 was RMB25,000 and the annual cap for the year ending 31 December 2020 will be RMB30,000. The annual caps are determined taking into account the anticipated number of staff using the catering services after considering the expected manpower for production.

Listing Rules' Implications

As the applicable percentage ratios (other than profits ratio) for the Catering Service Agreement are less than 5.0% and the annual consideration is less than HK$3,000,000, the Catering Service Agreement is exempted from the reporting, annual review, announcement, circular and independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

3. Framework Supply Agreement between PFC Device (HK) and SMC Electric HK

As disclosed in the prospectus of PFC Device Inc. dated 30 September 2016, PFC Device (HK) and PFC Device Corporation (Taiwan Branch), a branch office of PFC Device Corporation (a wholly-owned subsidiary of PFC Device Inc.) sold power discrete semiconductors to MM Trading, where such amount was recorded as purchases and was included in the financial records of the Group as part of the Reorganisation, and its fellow subsidiaries (including but not limited to SMC Multi-Media (HK) and MMSD). The framework supply agreement dated 24 March 2016 entered into between MM Trading and PFC Device (HK) was expired on 31 December 2018. As a result of Reorganisation, PFC Device (HK) will sell power discrete semiconductors to SMC Electric HK and its subsidiaries instead of MM Trading and its fellow subsidiaries.

On 7 January 2019, PFC Device (HK) entered into the framework supply agreement (the "**Supply Agreement**") with SMC Electric HK pursuant to which PFC Device (HK) or its fellow subsidiaries agreed to sell power discrete semiconductors to SMC Electric HK and its fellow subsidiaries. The Supply Agreement is for a term of three years commencing from 1 January 2019 and expiring on 31 December 2021. The Supply Agreement can be renewed for another term of three years subject to mutual negotiations between PFC Device (HK) and SMC Electric HK. The selling price of the power discrete semiconductors will be determined with reference to terms offered to the Independent Third Parties, and in any event shall be no less favourable than that offered to Independent Third Parties.

For the three years ended 31 December 2016, 2017 and 2018, the amount purchased from PFC Device (HK) and PFC Device (TW) by MM Trading amounted to US$13,000, US$22,000 and US$23,000, respectively. For the nine months ended 30 September 2019, the amount purchased from PFC Device (HK) by SMC Electric HK amounted to US$15,000.

Annual Caps

The Supply Agreement will continue after Listing. The annual cap for the year ended 31 December 2019 was US$30,000. The annual caps for the years ending 31 December 2020 and 2021 will be US$30,000 and US$30,000, respectively. The annual caps are determined taking into account the anticipated amount of supply of power discrete semiconductors to SMC Electric HK and its subsidiaries and the increasing demand for power discrete semiconductors from SMC Electric HK and its subsidiaries.

Listing Rules' Implications

As the applicable percentage ratios (other than profits ratio) for the Supply Agreement are less than 5.0% and the annual consideration is less than HK$3,000,000, the Supply Agreement is exempted from the reporting, annual review, announcement, circular and independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

4. Trademarks Licence Agreement between Sunny Resource and SMC Electric Holdings

Sunny Resource entered into a trademarks licence agreement (the "**Trademarks Licence Agreement**") with SMC Electric Holdings on 3 January 2019 pursuant to which Sunny Resource granted a licence to the Group to use and exploit the trade marks in accordance with the instructions and directions provided from time to time by Sunny Resource to the Group for a consideration of HK$1.00. SMC Electric Holdings shall be responsible to pay the annual maintenance (if any) and renewal costs of the trademarks for Sunny Resource. The term of the Trademarks Licence Agreement is for a term of three years commencing from 1 January 2019 and expiring on 31 December 2021 (both days inclusive). The Trademarks Licence Agreement can be renewed for another term of three years subject to mutual negotiations between Sunny Resource and SMC Electric Holdings.

Set out below is the list of trademarks to be used by the Group pursuant to the Trademarks Licence Agreement:

No.	Country	Trademark	Class	Date of Registration	Registration No.	Expiry Date of Registration
1.	Australia	S.M.C.	11	18 November 1966	206275	18 November 2021
2.	Bahrain	S.M.C.	11	8 March 1978	4135	8 March 2023
3.	Bahrain	ADA by SMC	9	3 November 1999	26459	3 November 2029
4.	Bahrain	ADA by SMC	11	3 November 1999	26460	3 November 2029
5.	Cambodia	ADA by SMC	9	7 June 2000	13706/00	7 June 2020
6.	Cambodia	ADA by SMC	11	7 June 2000	13707/00	7 June 2020
7.	Cambodia	SMC	9	7 June 2000	13704/00	7 June 2020
8.	Cambodia	SMC	11	7 June 2000	13705/00	7 June 2020
9.	China	ADA by SMC	11	14 March 2003	2010606	13 March 2023
10.	China	AFA	11	21 October 2001	1654079	20 October 2021
11.	China	AFA	9	7 April 2002	1742759	6 April 2022
12.	China	SMC	11	21 September 1999	1316771	20 September 2029
13.	China	SMC	11	14 August 1994	701641	13 August 2024
14.	China	SMC	9	7 January 2008	3278062	6 January 2028
15.	China	SMC	11	14 May 2009	5128688	13 May 2029
16.	Ghana	ADA by SMC	11	27 October 1999	31594	27 October 2023
17.	Ghana	SMC	11	28 August 1997	28,219	3 September 2028
18.	Hong Kong	S.M.C.	11	11 April 1962	1962B1132	11 April 2021
19.	Hong Kong	S.M.C.	11	6 May 1966	19670968	6 May 2025
20.	Hong Kong	SMC	11	11 November 1983	19860827	11 November 2024
21.	Hong Kong	SMC	11	16 March 1993	199507566	16 March 2024
22.	Hong Kong	SMC	9	2 May 2001	2004B05605	2 May 2028
23.	Hong Kong	ADA	9	30 November 1999	200011935	30 November 2026
24.	Hong Kong	ADA	11	1 April 1997	199802893	1 April 2024

No.	Country	Trademark	Class	Date of Registration	Registration No.	Expiry Date of Registration
25.	India	SMC	9	10 December 2001	1065825	10 December 2021
26.	India	SMC	11	10 December 2001	1065824	10 December 2021
27.	Kuwait	S.M.C.	11	29 September 1969	3828	28 September 2029
28.	Macau	S.M.C.	11	25 January 1988	3942	25 January 2026
29.	Nigeria	S.M.C.	11	23 August 1972	24789	23 August 2021
30.	Papua New Guinea	S.M.C.	11	16 September 1975	B215R	15 September 2025
31.	Puerto Rico	S.M.C.	11	24 September 1975	19610	24 September 2025
32.	Puerto Rico	S.M.C.	9	24 September 1975	19611	24 September 2025
33.	Saudi Arabia	ADA by SMC	9	18 July 2001	142004784 (577/30)	8 December 2028
34.	Saudi Arabia	ADA by SMC	11	18 July 2001	142004526 (577/31)	8 December 2028
35.	Saudi Arabia	AFA	9	6 March 2002	142105643 (617/81)	01 April 2020
36.	Saudi Arabia	AFA	11	6 March 2002	142105645 (617/82)	01 April 2020
37.	Saudi Arabia	SMC	9	18 July 2001	142004782 (577/32)	8 December 2028
38.	Saudi Arabia	SMC	11	18 July 2001	142004527 (577/33)	8 December 2028
39.	Saudi Arabia	S.M.C.	11	4 November 1974	139200297 (51/39)	18 March 2021
40.	Singapore	S.M.C.	11	8 January 1965	T65/36292J	8 January 2030
41.	United Arab Emirates (“**UAE**”)	ADA by SMC	9	31 October 2000	26373	9 October 2029
42.	UAE	ADA by SMC	11	2 July 2000	25048	9 October 2029
43.	UAE	AFA	9	22 November 2000	30879	22 November 2020
44.	UAE	AFA	11	22 November 2000	30878	22 November 2020

No.	Country	Trademark	Class	Date of Registration	Registration No.	Expiry Date of Registration
45.	UAE	S.M.C. SMC	9	9 February 2002	36625	9 February 2022
46.	UAE	S.M.C. SMC	11	9 February 2002	36626	9 February 2022
47.	Vietnam	SMC	9, 11	20 July 1996	25537	20 July 2026

For the three years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, the amounts paid to Sunny Resource for licensing of trademarks amounted to HK$211,810, HK$86,335, HK$68,002 and nil, respectively.

Annual Caps

The Trademarks Licence Agreement will continue after Listing. The annual cap for the year ended 31 December 2019 was HK$80,000. The annual caps for the years ending 31 December 2020 and 2021 will be HK$80,000 and HK$80,000, respectively. The annual caps are determined taking into account the annual maintenance (if any) and renewal fees of the trademarks payable by SMC Electric Holdings.

Listing Rules' Implications

As the applicable percentage ratios (other than profits ratio) for the Trademarks Licence Agreement are less than 5.0% and the annual consideration is less than HK$3,000,000, the Trademarks Licence Agreement is exempted from the reporting, annual review, announcement, circular and independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

5. Patents Licence Agreement between Sunny Resource and SMC Electric Holdings

Sunny Resource entered into a patents licence agreement (the "**Patents Licence Agreement**") with SMC Electric Holdings on 3 January 2019 pursuant to which Sunny Resource granted a licence to the Group to use and exploit the patents in accordance with the instructions and directions provided from time to time by Sunny Resource to the Group for a consideration of HK$1.00. SMC Electric Holdings shall be responsible to pay the annual maintenance (if any) and renewal costs of the patents for Sunny Resource. The term of the Patents Licence Agreement is for a term of three years commencing from 1 January 2019 and expiring on 31 December 2021 (both days inclusive). The Patents Licence Agreement can be renewed for another term of three years subject to mutual negotiations between Sunny Resource and SMC Electric Holdings.

Set out below is the list of patents to be used by the Group pursuant to the Patents Licence Agreement:

No.	Country of Patent Registration	Title of Invention	Certificate Number	Term	Patent Number
1.	China	包括扇葉固定機構的風扇 (Utility Model Patent)	2196666	10 years from 19 August 2011 and expiring on 19 August 2021	ZL 2011 2 0303011.9
2.	China	燈具及包含所述燈具的吊扇燈 (Utility Model Patent)	2273737	10 years from 6 September 2011 and expiring on 6 September 2021	ZL 2011 2 03332047.x
3.	China	具有快速安裝結構的吊扇 (Utility Model Patent)	2424060	10 years from 24 August 2011 and expiring on 24 August 2021	ZL 2011 2 0314123.4
4.	China	一種快速組裝的風扇 (Utility Model Patent)	4007367	10 years from 21 November 2013 and expiring on 21 November 2023	ZL 2013 2 0744038.0
5.	Australia	Quickly Assembled Fan (Innovation Patent)	Nil	8 years from 23 January 2014 and expiring on 23 January 2022	2014100054
6.	China	不需要扇葉支座的風扇 (Utility Model Patent)	6562069	10 years from 26 December 2016 and expiring on 26 December 2026	ZL 2016 2 1443372.2

For the three years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, the amounts paid to Sunny Resource for licensing of patents amounted to HK$44,660, HK$18,355, HK$17,918 and nil, respectively.

Annual Caps

The Patents Licence Agreement will continue after Listing. The annual cap for the year ended 31 December 2019 was HK$20,000. The annual caps for the years ending 31 December 2020 and 2021 will be HK$20,000 and HK$20,000, respectively. The annual caps are determined taking into account the annual maintenance (if any) and renewal fees of the patents payable by SMC Electric Holdings.

Listing Rules' Implications

As the applicable percentage ratios (other than profits ratio) for the Patents Licence Agreement are less than 5.0% and the annual consideration is less than HK$3,000,000, the Patents Licence Agreement is exempted from the reporting, annual review, announcement, circular and independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Confirmation by the Directors

The Directors (including the independent non-executive Directors) are of the view that the continuing connected transactions disclosed above have been entered into in the ordinary and usual course of business of the Company, are on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors (including the independent non-executive Directors) are of the view that the proposed annual caps of the continuing connected transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Confirmation from the Sole Sponsor

The Sole Sponsor, having reviewed the relevant information and historical figures relating to the continuing connected transactions, and having conducted due diligence of such transactions with the Company, is of the view that (i) the continuing connected transactions disclosed above have been entered into in the ordinary and usual course of the Group's business on normal commercial terms or better; and (ii) the transactions and the terms therein including the respective proposed annual caps under the continuing connected transactions are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

*You should read this section in conjunction with the Group's combined financial statements, including the notes thereto, as set out in the Accountants' Report in Appendix I to this prospectus. The Group's combined financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). You should read the entire Accountants' Report and not merely rely on the information contained in this section.*

The following discussion and analysis contain certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by the Group in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Group believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet the Group's expectations and projections depends on a number of risks and uncertainties over which the Group does not have control. Factors that could cause or contribute to such differences include those discussed in the sections headed "Forward-looking Statements", "Risk Factors" and "Business" in this prospectus.

OVERVIEW

The Group engages in the (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.

The products sold by the Group can generally be classified into the (i) selling of electric tools and electric fans to overseas customers under their respective brands and (ii) selling of electric fans under the Group's own brand "SMC" to the domestic and overseas markets. For the sales to the respective brand owners, the Group mainly manufactures cordless fans, work lights and vacuum cleaners under two brands for the U.S. Customer, a Fortune 500 company, in the U.S.. The Group also sources and sells different types of electric fans including ceiling fans, wall-mounted fans, stand up fans and orbital fans under the Group's "SMC" brand, and to distributors and retailers mainly based in Asia, Africa and Oceania. The Group also sells electric fans under Customer A's brand to Customer A, a Fortune Global 500 company.

For further information about the Group's business and operations, please refer to the section headed "Business" in this prospectus.

The total revenue of the Group was approximately HK$217.1 million, HK$251.0 million, HK$266.1 million and HK$228.7 million for FY2016, FY2017, FY2018 and 9M2019, respectively. The net profit of the Group was approximately HK$23.9 million, HK$31.2 million, HK$34.6 million and HK$42.1 million for FY2016, FY2017, FY2018 and 9M2019, respectively.

RECENT DEVELOPMENT AFTER THE TRACK RECORD PERIOD

Upon completion of the Reorganisation, and the Group is able to conduct business activities independently by itself. Hence, no further recharges are applicable thereafter in respect of the provision of head office and administrative support to the Group by Shell Holdings and Multi-Media Group. The Directors expected that the administrative and other operating expense of the Group will be decreased for the financial year ended 31 December 2019.

The Group continued to focus on its principal business of (i) manufacturing and selling of electric tools; and (ii) sourcing and selling electric fans. Based on the Group's unaudited financial information, the Group's revenue for year ended 31 December 2019 as compared to the corresponding period in prior year followed the similar upward trend as recorded in 9M2018 and 9M2019. Subsequent to the Track Record Period and up to the Latest Practicable Date, the Group's business and revenue model remained unchanged, and there was no material change in the Group's cost structure as compared to the Group's cost structure in 9M2019. Please refer to paragraph headed "Administrative and other operating expenses" in this section for further details.

BASIS OF PRESENTATION

Prior to the Share Offer, the Group had undergone the Reorganisation after which the Company has become the holding company of the companies now comprising the Group. Please refer to the section headed "History, Reorganisation and Corporate Structure" in this prospectus for further details.

The financial information sets out in the Accountants' Report in Appendix I to this prospectus has been prepared based on the applicable accounting policies which conform with HKFRSs and the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA (the "**AG 5**").

The Company has not carried out any business other than taking part in the Reorganisation. The Group resulting from the Share Swap is merely insertion of new holding company at the top of SMC Electric Holdings which has not resulted in any change in economic substance. Accordingly, the Share Swap is accounted for as a continuation of SMC Electric Holdings and its subsidiaries and the financial information of the Company has been combined with that of SMC Electric Holdings and its subsidiaries using the predecessor carrying amounts as if the group structure under the Reorganisation had been in existence throughout the Track Record Period by adopting merger basis of accounting. The combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the Track

Record Period 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 those years/periods. The combined statements of financial position of the Group as of 31 December 2016, 2017 and 2018 and 30 September 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 manufacturing and selling of electric tools (the "**Other Electrical Appliances Business**") has 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 electric appliances division (the "**Electrical Appliances Division**") of the group comprising SMC Multi-Media Products Company Limited, MM Trading, MMSD and MMHK (the "**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 AG 5.

The combined statements of comprehensive income and the combined statements of cash flows of the Group for the Track Record Period include the results and cash flows of the Electrical Appliances Division and the results and cash flows of SMC Electric HK and its wholly-owned subsidiary, SMC Electric China for the Track Record Period. The combined statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 September 2019 have included the assets and liabilities of the Electrical Appliances Division and the assets and liabilities of SMC Electric HK and its wholly-owned subsidiary, 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.

In other words, the liabilities of the Electrical Appliances Division are accounted for directly in the books and records of Electrical Appliances Division and included in the combined statements of financial position of the Group. The net balance arising from (i) settlement of the liabilities of the Other Electrical Appliance Business by Multi-Media Group; and (ii) receipt of the income of the Other Electrical Appliance Business by Multi-Media Group was recorded as the amount due from a fellow subsidiary in the combined statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 September 2019.

For the purpose of presenting the historical financial information of the Other Electrical Appliances Business, the financial information of the Electrical Appliances Division (including their liabilities) are carved out from that of the Multi Media Group and combined with the financial information of SMC Electric HK and its wholly owned subsidiary, SMC Electric China.

Accordingly, the liabilities directly incurred by the Other Electrical Appliance Business, being recorded by Electrical Appliances Division or SMC Electric HK and its wholly owned subsidiary, SMC Electric China, have been included in the historical financial information of the Group.

The financial information of the Electrical Appliances Division is extracted from the consolidated financial statements of Shell Holdings Group. For the purposes of presenting the Other Electrical Appliances Business, certain expenses incurred by MMSD and the rest of the Multi-Media Group during the years ended 31 December 2016, 2017 and 2018 which were relevant to the economic activities of the Other Electrical Appliances Business have been allocated and accounted for in the historical financial information of the Other Electrical Appliances Business as follows:

(i) During the three years ended 31 December 2018, the Electrical Appliances Division occupied certain areas of the factory and staff quarter in Shunde, the PRC which are owned by MMSD and utilised certain of MMSD's office equipment. Factory related expenses comprising depreciation and amortisation charges of the factory, staff quarter and the office equipment, and the insurance and property tax incurred for the factory had been allocated to the divisions of MMSD including the Electrical Appliances Division with reference to the floor area of those premises occupied by these divisions. Such factory related expenses allocated to the Electrical Appliances Division for the years ended 31 December 2016, 2017 and 2018 amounted to HK$1,149,000, HK$927,000 and HK$1,064,000 respectively.

(ii) During the three years ended 31 December 2018, MMSD incurred administrative staff costs and other operating expenses in Shunde, the PRC which were necessary in procuring for the production activities of its divisions including the Electrical Appliances Division. MMSD allocated these administrative staff costs and other operating expenses to its divisions including Electrical Appliances Division with reference to floor area of the factory occupied by these divisions. Such administrative staff costs and other operating expenses allocated to the Electrical Appliances Division for the years ended 31 December 2016, 2017 and 2018 amounted to approximately HK$2,676,000, HK$2,245,000 and HK$2,148,000, respectively.

(iii) During the three years ended 31 December 2018, Multi-Media Group excluding MMSD incurred administrative staff costs and certain other operating expenses in Hong Kong which were relevant for the economic activities of different business segments of Shell Holdings Group including the Other Electrical Appliances Business. Administrative staff costs had been allocated to the business segments with reference to time spent by the administrative staff. Administrative staff costs reflect the cost of management at corporate level and the Directors consider that their time spent on the affairs of each of the business segments is representative basis for allocation. Other operating expenses, mainly included office and utility expenses, had been allocated to the business segments with reference to floor area occupied by these business segments. The amount of these administrative staff costs and other operating expenses allocated to the Electrical Appliances Division for the years ended 31 December 2016, 2017 and 2018 amounted to approximately HK$1,977,000, HK$2,694,000 and HK$1,675,000, respectively.

Income tax expense in the statements of comprehensive income of the Electrical Appliances Division represented income tax incurred for the Other Electrical Appliances Business, which included income tax incurred by individual group companies as well as tax recharge to the Electrical Appliances Division. Tax recharge to the Electrical Appliances Division represented the amount of tax recharged by Multi-Media Group for the estimated tax exposure of the Electrical Appliances Division which is determined on the basis as if the division is a separate reporting entity by using applicable tax rates of 25% for assessable income arising from the PRC and 16.5% for assessable profit derived in Hong Kong. The income tax recharged by Multi-Media Group to the Electrical Appliances Division amounted to HK$4,187,000, HK$6,797,000 and HK$7,698,000 for the years ended 31 December 2016, 2017 and 2018, respectively.

The Directors are of the view that the above methods of allocation and presentation are reasonable and the fairest approximation of the costs and expenses attributable to the economic activities of the Other Electrical Appliances Business for the Track Record Period having regard to the nature of those costs and expenses.

KEY FACTORS AFFECTING THE GROUP'S RESULTS OF OPERATION AND FINANCIAL CONDITION

The results of operations and financial condition during the Track Record Period have been and will continue to be affected by a number of factors, including but not limited to those set forth in the section headed "Risk Factors" in this prospectus and as set out below.

Fluctuations in the Group's material costs

The results of operations and financial positions of the Group could be significantly affected by the fluctuations in the material costs, which primarily include the raw materials and finished goods.

Material costs

Material costs mainly include the purchases of materials for the manufacturing and selling of electric tools and sourcing and selling of electric fans of the Group. The material costs accounted for approximately 68.1%, 67.7%, 64.9% and 63.7% of the revenue of the Group for FY2016, FY2017, FY2018 and 9M2019, respectively. The material costs also accounted for approximately 94.4%, 94.4%, 93.2% and 92.9% of the cost of revenue of the

Group for FY2016, FY2017, FY2018 and 9M2019, respectively. The fluctuation in material costs may adversely affect the results of operations of the Group. For further discussion of the material costs of the Group, please refer to the paragraph headed "Summary of Results of Operation" in this section. The following sensitivity analysis illustrates the impacts of hypothetical fluctuations in the Group's material costs on the Group's profit before tax and profit after tax during the Track Record Period. The hypothetical fluctuation rates are set at 2% and 5% which the Directors considered reasonable for the purpose of this sensitivity analysis with reference to the CAGR of copper, ABS copolymers and tin of approximately (1.1)%, 2.8% and (0.3)% from 2013 to 2018 as set out in the section headed "Industry Overview" in this prospectus:

Hypothetical fluctuations in material costs	**+2%**	**+5%**	**–2%**	**–5%**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Change in profit before tax				
For FY2016	(2,957)	(7,394)	2,957	7,394
For FY2017	(3,398)	(8,496)	3,398	8,496
For FY2018	(3,454)	(8,634)	3,454	8,634
For 9M2019	(2,915)	(7,287)	2,915	7,287
Change in profit after tax				
For FY2016	(2,469)	(6,174)	2,469	6,174
For FY2017	(2,837)	(7,094)	2,837	7,094
For FY2018	(2,884)	(7,209)	2,884	7,209
For 9M2019	(2,434)	(6,085)	2,434	6,085

The economy and consumer demand for the products of the Group in foreign markets

The Group's results of operations have been and will continue to be influenced by consumer demand for various products of the Group, in particular, from the U.S. and Oceania. During the Track Record Period, the sales to Americas amounted to approximately 37.9%, 49.8%, 54.6% and 58.3% of the Group's revenue for FY2016, FY2017, FY2018 and 9M2019, respectively. The sales to Oceania amounted to approximately 30.2%, 23.8%, 23.9% and 17.6% of the Group's revenue for FY2016, FY2017, FY2018 and 9M2019, respectively. The Group's financial performance mainly relies on general economic conditions in the U.S. and Oceania and their impacts on consumer confidence and spending.

Economic factors in the U.S. and Oceania, such as the unemployment level, interest rates, financial market volatility, recession, and other factors affecting consumer spending behaviour such as acts of terrorism or major epidemics could reduce demand for the Group's products.

Production capacity and efficiency of the Group

To meet the demand of the Group's customers, the Group needs to ensure that the Group has sufficient production capacity, which would in turn affect the Group's revenue, production efficiency and profitability.

The Group's manufacturing facilities are located in Shunde, Foshan, Guangdong Province, the PRC. As at 30 September 2019, the Group operated 1 production line for cordless fans, 2 production lines for work lights, 1 production line for vacuum cleaners and 1 production line for other electric tools. The production facilities in PRC occupied a combined area of approximately 3,666 sq. m..

As at 30 September 2019, the Group had an annual designed production capacity of approximately 163,000 pieces of cordless fans, 1,053,000 pieces of work lights, 249,000 pieces of vacuum cleaners and 249,000 pieces of other electric tools, respectively.

The management of the Group believes that the scale of the Group's operations can maintain a competitive cost structure since the Group is able to benefit from economies of scale, cost effectiveness and efficiencies of operations. The Group also has detailed quality control system to control the production process and ensure product quality.

If the Group's actual production almost reaches the annual designed production capacity, the Directors believes the Group may not benefit from the competitive cost structure or economies of scale, which may lead to the decrease in the Group's profit margin.

The fluctuation in foreign exchange rate may affect the Group's costs

For PRC operations, the Group incurs and settles part of the costs of raw materials procured within the PRC, staff salaries, transportation and delivery expenses, local tax payments and marketing cost in RMB. The Group has not entered into any agreements/purchase any bank products to hedge the Group's exchange rate exposure relating to any of Renminbi and the appreciation of RMB may significantly affect the Group's cost.

IMPACT OF ADOPTION OF CERTAIN NEW ACCOUNTING STANDARDS AND AMENDMENTS

The HKICPA has issued a number of new or revised HKFRSs which are relevant to the Group and became effective during the Track Record Period. In preparing the Historical Financial Information, the Group has adopted all relevant new or revised HKFRSs effective for annual period beginning on 1 January 2019 consistently throughout the Track Record Period.

HKFRS 9 "Financial Instruments" ("**HKFRS 9**") replaces the provisions of HKAS 39 "Financial Instruments" ("**HKAS 39**") that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. HKFRS 15, "Revenue from Contracts with Customers" ("**HKFRS 15**") replaces the previous revenue standards of HKFRS 18 "Revenue" and HKAS 11 "Construction Contracts" and related interpretations.

HKFRS 16 "Leases" ("**HKFRS 16**") replaces the previous HKAS 17 "Leases" ("**HKAS 17**") and related interpretations.

HKFRS 15 and HKFRS 9 are mandatorily effective for financial year beginning on or after 1 January 2018 and HKFRS 16 is mandatorily effective for financial year beginning on or after 1 January 2019. In preparation of the Historical Financial Information, they are applied consistently throughout the Track Record Period.

Adoption of HKFRS 9 Financial Instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement ("**HKAS 39**") for annual periods beginning on or after 1 January 2018, bringing together all three aspect of the accounting for financial instruments: (i) classification and measurement; (ii) impairment and (iii) hedge accounting. The Group has elected to apply HKFRS 9 in the preparation of its financial results throughout the Track Record Period.

The recognition, classification and measurement for financial liabilities remain largely the same as it was under HKAS 39. However, HKFRS 9 brought about changes to the classification and measurement of financial assets. The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "**solely payments of principal and interest**" criterion, also known as "**SPPI criterion**"). Majority of the Group's financial assets compose were previously classified as loans and receivables and measured at amortised cost under HKAS 39. These financial assets meet the SPPI criterion and it is the Group's business model to hold these financial assets to collect their contractual cash flows. Accordingly, they are classified as financial assets at amortised cost and will continue to be subsequently measured at amortised cost upon the adoption of HKFRS 9.

Other than the above, the adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("**ECL**") model. HKFRS 9 requires the Group to recognise loss allowance for ECL for trade receivables and other financial assets at amortised cost earlier than HKAS 39. The Group has assessed that the ECL rate was immaterial as at 31 December 2016 and 2017. Accordingly, no additional loss allowance for trade and bills receivables was recognised for the years ended 31 December 2016 and 2017, while the allowance for ECLs recognised under HKFRS 9 as of 31 December 2018 and 30 September 2019 was HK$444,000 and HK$327,000 respectively.

Based on the above, the Directors are of the view that the adoption of HKFRS 9 had no significant impact on the financial position and financial performance of the Group.

Adoption of HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 has established a five-step model to account for revenue arising from contracts with customers, unless those contracts fall within the scope of other standards. The adoption of HKFRS 15 has no significant impact on the amount and timing of revenue recognition.

Other than the above, under HKFRS 15, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. Accordingly, sales deposits and advance billing as of 31 December 2016, 2017 and 2018, and 30 September 2019 was HK$3,742,000, HK$7,118,000, HK$1,562,000 and HK$1,593,000 respectively which would otherwise be included in trade and other payables and accruals are separately disclosed as contract liabilities upon adoption of HKFRS 15. The new classification has no impact on the combined statements of financial position of the Group.

Based on the above, the Directors are of the view that the adoption of HKFRS 15 had no significant impact on the financial position and financial performance of the Group.

Adoption of HKFRS 16 Leases

HKFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classify cash repayments of the lease liability into a principal portion and an interest portion and present them in the statement of cash flows.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group has applied HKFRS 16 using the full retrospective method of adoption. The accounting policy for the Group's leases is presented in note 3(f) to the Accountants' Report in Appendix I to this prospectus. Disclosures on the Group's leases have been made in notes 17 and 25 to the Accountants' Report in Appendix I to this prospectus.

As a result of the adoption of HKFRS 16, the Group recognised right-of-use assets and corresponding lease liabilities in respect of all leases unless they qualify for low value or short-term leases. Lease liabilities represent payments for the right to use the underlying assets. The Group's lease liabilities amounted to HK$1,150,000 and HK$3,813,000 as of 31 December 2018 and 30 September 2019, respectively. The Group's right-of-use assets amounted to HK$1,104,000 and HK$3,751,000 as of 31 December 2018 and 30 September 2019, respectively.

Following the adoption of HKFRS 16, leases are recognised in the form of an asset (being the right-of-use assets) together with financial liabilities (being lease liabilities) and in respect of which depreciation expenses and finance costs are charged instead of lease expenses. However, that has no material impact to the net assets or net profit of the Group. Due to the classification of certain portion of the lease liabilities under current liabilities, certain financial ratios are affected. The table set forth below summarised the impacts of the adoption of HKFRS 16 on the Group's current ratio, quick ratio and gearing ratio:

	Current ratio *(times)*			
	As of 31 December			**As of 30 September**
	2016	**2017**	**2018**	**2019**
As if reported under HKAS 17	2.0	2.4	2.9	2.8
Currently reported under HKFRS 16	2.0	2.4	2.9	2.7
Difference	—	—	—	0.1

Current ratio equals to current assets divided by current liabilities as of the end of the year/period.

	Quick ratio *(times)*			
	As of 31 December			**As of 30 September**
	2016	**2017**	**2018**	**2019**
As if reported under HKAS 17	1.7	2.2	2.7	2.7
Currently reported under HKFRS 16	1.7	2.2	2.7	2.6
Difference	—	—	—	0.1

Quick ratio equals to current assets excluding inventories divided by current liabilities as of the end of the year/period.

	Gearing ratio *(%)*			
	As of 31 December			**As of 30 September**
	2016	**2017**	**2018**	**2019**
As if reported under HKAS 17	35.6	25.9	8.5	10.5
Currently reported under HKFRS 16	35.6	25.9	9.4	12.7
Difference	—	—	(0.9)	(2.2)

Gearing ratio equals to interest-bearing liabilities divided by total equity as at the end of the year/period.

Based on the above assessment, the Directors consider that the net impact on the Group's financial performance and its net assets as a result of the adoption of HKFRS 16 is not significant as compared to that of HKAS 17.

SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The discussion and analysis of the Group's financial position and results of operations as included in this prospectus are based on the combined financial statements prepared using the significant accounting policies set forth in note 3 of the Accountants' Report set out in Appendix I to this prospectus, which conform with HKFRS issued by the HKICPA.

In the application of the Group's accounting policies, the management of the Group is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Below are accounting policies and estimates that the Directors consider to be the most significant, the details of which are set forth in note 3 of the Accountants' Report set out in Appendix I to this prospectus.

Recognition of revenue and other income

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

Revenue from contracts with customers is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding amounts collected on behalf of third parties and is after deduction of any trade discounts.

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

(i) Sales of electrical appliances

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

(ii) Rendering of handling services

Revenue is recognised when the tooling and moulding services are provided.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost (including trade and bills receivables, other receivables, amounts due from fellow subsidiaries and cash and bank balances) and debt instruments measured at fair value through other comprehensive income.

For trade and bills receivables, the Group applies a simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses. Expected credit losses on trade and bills receivables are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. For other debt financial assets, the Group measures the loss allowance either based on 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of these financial assets has occurred since initial recognition, loss allowance is measured based on lifetime expected credit losses.

Expected credit losses are measured at the end of each reporting period to reflect changes in the debt instrument's credit risk since initial recognition. Loss allowances for debt instruments measured at amortised cost are recognised in profit or loss by adjusting the gross carrying amount of the assets. The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Leases

The Group assesses whether a contract is or contains a lease, at inception of a contract.

The Group as lessee

The Group recognises a right-of-use asset and a corresponding lease liability at the lease commencement date, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Leases payments included in the measurement of the lease liability comprise fixed lease payments (including in-substance fixed payments), less any lease incentives. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The lease liability is presented as a separate line in the consolidated statements of financial position.

The right-of-use asset is initially measured at cost. It is subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use asset is depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

The right-of-use asset is presented as a separate line in the consolidated statement of financial position.

The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

SUMMARY OF RESULTS OF OPERATIONS

The Group's combined statements of comprehensive income during the Track Record Period are summarised below, which have been extracted from the Accountants' Report set out in Appendix I to this prospectus. As such, the following sections should be read in conjunction with the Accountants' Report set out in Appendix I to this prospectus.

	FY2016	FY2017	FY2018	9M2018	9M2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Revenue	217,110	250,982	266,056	201,261	228,708
Cost of revenue	(156,613)	(179,927)	(185,317)	(141,912)	(156,882)
Gross profit	60,497	71,055	80,739	59,349	71,826
Other income	2,939	3,040	4,848	3,243	4,901
Other gains or losses	457	(1,250)	1,404	1,530	1,949
Selling and distribution expenses	(3,823)	(4,078)	(3,005)	(2,199)	(2,665)
Administrative and other operating expenses	(29,903)	(29,491)	(33,155)	(22,376)	(17,822)
Listing expenses	—	—	(5,340)	(1,069)	(5,502)
Finance costs	(540)	(400)	(713)	(489)	(477)
Profit before income tax	29,627	38,876	44,778	37,989	52,210
Income tax expense	(5,710)	(7,670)	(10,150)	(6,962)	(10,144)
Profit for the year/period	23,917	31,206	34,628	31,027	42,066
Other comprehensive income for the year/ period					
Items that may be reclassified subsequently to profit or loss					
Exchange difference arising from translation of overseas operations	(726)	1,094	(1,008)	(1,219)	(605)
Total comprehensive income for the year/period	23,191	32,300	33,620	29,808	41,461

PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

Revenue

The following table sets forth the breakdown of the revenue and percentage of the Group by product types of the Group during the Track Record Period.

	FY2016			FY2017			FY2018			9M2018			9M2019		
	HK$'000	*HK$'000*	*%*	*HK$'000*	*HK$'000*	*%*	*HK$'000*	*HK$'000*	*%*	*HK$'000* (unaudited)	*HK$'000*	*%*	*HK$'000*	*HK$'000*	*%*
Product type															
Cordless fans	—		—	7,819		3.1	27,439		10.3	14,242		7.1	40,070		17.5
Electric fans	119,293		55.0	110,641		44.1	100,609		37.8	78,744		39.1	77,872		34.1
Fans *(Note 1)*		119,293	55.0		118,460	47.2		128,048	48.1		92,986	46.2		117,942	51.6
Vacuum cleaners		49,294	22.7		64,102	25.5		75,411	28.4		59,510	29.6		63,503	27.8
Work lights		43,859	20.2		59,718	23.8		54,333	20.4		42,809	21.3		43,189	18.9
Others *(Note 2)*		4,664	2.1		8,702	3.5		8,264	3.1		5,956	2.9		4,074	1.7
Total		217,110	100.0		250,982	100.0		266,056	100.0		201,261	100.0		228,708	100.0

Notes:

1. Fans comprise electric fans and cordless fans.

2. Others include hearing aid devices.

The following table sets forth the breakdown of the revenue and percentage of the Group by business segments during the Track Record Period.

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Brand										
Non-SMC	158,195	72.9	193,424	77.1	220,292	82.8	163,893	81.4	183,688	80.3
SMC	58,915	27.1	57,558	22.9	45,764	17.2	37,368	18.6	45,020	19.7
	217,110	100.0	250,982	100.0	266,056	100.0	201,261	100.0	228,708	100.0

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 at the end of the reporting period.

The following table sets forth the breakdown of the revenue and percentage of the Group by business model during the Track Record Period.

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Business model										
Manufacturing operations	97,817	45.1	140,341	55.9	165,447	62.2	122,517	60.9	150,836	66.0
Sourcing and selling of electric fans	119,293	54.9	110,641	44.1	100,609	37.8	78,744	39.1	77,872	34.0
Total	217,110	100.0	250,982	100.0	266,056	100.0	201,261	100.0	228,708	100.0

The following table sets forth the breakdown of the revenue and percentage of the Group by geographical segments during the Track Record Period.

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Geographical Location										
Americas	82,227	37.9	124,954	49.8	145,286	54.6	105,224	52.3	133,415	58.3
Oceania	65,669	30.2	59,907	23.8	63,771	23.9	47,525	23.6	40,227	17.6
Asia	41,567	19.2	45,671	18.2	33,740	12.7	30,004	14.9	32,820	14.4
Europe	13,089	6.0	9,789	3.9	12,204	4.6	10,417	5.2	8,279	3.6
Africa	14,558	6.7	10,661	4.3	11,055	4.2	8,091	4.0	13,967	6.1
Total	217,110	100.0	250,982	100.0	266,056	100.0	201,261	100.0	228,708	100.0

Cost of revenue

The following table sets forth the breakdown of the cost of revenue and percentage of the Group during the Track Record Period.

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Raw materials	75,150	48.0	96,011	53.4	108,560	58.6	82,276	58.0	95,916	61.1
Finished goods	72,723	46.4	73,899	41.1	64,120	34.6	50,326	35.5	49,830	31.8
Other direct costs	8,740	5.6	10,017	5.5	12,637	6.8	9,310	6.5	11,136	7.1
	156,613	100.0	179,927	100.0	185,317	100.0	141,912	100.0	156,882	100.0

Cost of revenue primarily comprise:

(i) raw materials, which mainly represent plastics, electric components, metal, packaging materials, switch, motor, copper wire, and other materials;

(ii) finished goods, which are mainly electric fans; and

(iii) other direct costs, which represent labour costs, depreciation expenses, water and electricity and miscellaneous direct costs.

Gross profit

The following table sets forth the breakdown of the gross profit and gross profit margin of the Group by business segments during the Track Record Period.

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Brand										
Non-SMC	41,994	26.5	54,657	28.3	66,909	30.4	48,086	29.3	57,990	31.6
SMC	18,503	31.4	16,398	28.5	13,830	30.2	11,263	30.1	13,836	30.7
	60,497	27.9	71,055	28.3	80,739	30.3	59,349	29.5	71,826	31.4

Other income

The following table sets forth the breakdown of the other income and percentage of the Group during the Track Record Period:

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Handling fee income	992	33.8	1,288	42.4	3,019	62.3	1,524	47.0	974	19.9
Sales of spare parts and sample products	1,242	42.3	1,047	34.4	705	14.5	1,314	40.5	2,622	53.5
Interest income	351	11.9	200	6.6	216	4.5	205	6.3	124	2.5
Sundry income	354	12.0	505	16.6	908	18.7	200	6.2	1,181	24.1
	2,939	100.0	3,040	100.0	4,848	100.0	3,243	100.0	4,901	100.0

Other income principally comprises:

(i) handling fee income, which mainly represented the provision of moulding and tooling ordering services for electric tools;

(ii) sales of spare parts and sample products; and

(iii) interest income, which was mainly arising from bank deposits, bills receivables and amount due from the ultimate holding company.

Other gains and losses

The following table sets forth the breakdown of other gains and losses and percentage of the Group during the Track Record Period.

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Exchange gain/(loss), net	460	100.7	(1,225)	98.0	1,517	108.0	1,530	100.0	1,949	100.0
Write-off/loss on disposal of property, plant and equipment	(3)	(0.7)	(25)	2.0	(113)	(8.0)	—	—	—	—
	457	100.0	(1,250)	100.0	1,404	100.0	1,530	100.0	1,949	100.0

Other gains and losses of the Group principally comprises the net exchange gain and loss, which was mainly arrived from the transactions of the Group denominated in foreign currencies.

Selling and distribution expenses

The following table sets forth the breakdown of the selling and distribution expenses and percentage of the Group during the Track Record Period.

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Delivery and declaration charges	2,575	67.4	3,237	79.4	2,358	78.5	1,664	75.7	2,225	83.5
Staff expenses	468	12.2	339	8.3	377	12.5	295	13.4	117	4.4
Commission	380	9.9	365	8.9	118	3.9	100	4.5	173	6.5
Others	400	10.5	137	3.4	152	5.1	140	6.4	150	5.6
	3,823	100.0	4,078	100.0	3,005	100.0	2,199	100.0	2,665	100.0

The selling and distribution expenses principally comprise (i) delivery and declaration charges, which represented delivery and declaration charges for delivery of products in the PRC or overseas; (ii) staff expenses for sales and marketing team; and (iii) commission paid to agents.

Administrative and other operating expenses

The following table sets forth the breakdown of the administrative and other operating expenses and percentage of the Group during the Track Record Period.

	FY2016		FY2017		FY2018		9M2018		9M2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Staff expenses	23,226	77.7	23,657	80.2	26,268	79.3	17,444	78.0	12,967	72.8
Rent and rates	1,354	4.5	1,538	5.2	2,034	6.1	1,526	6.8	506	2.8
Depreciation on property, plant and equipment	1,117	3.7	776	2.6	925	2.8	863	3.9	125	0.7
Others	4,206	14.1	3,520	12.0	3,882	11.7	2,543	11.3	2,380	13.4
Depreciation of right-of-use assets	—	—	—	—	46	0.1	—	—	1,844	10.3
	29,903	100.0	29,491	100.0	33,155	100.0	22,376	100.0	17,822	100.0

The administrative and other operating expenses primarily comprise of staff expenses for administrative staff and other supporting staff, rent and rates, and depreciation on fixed assets. Included in staff expenses in FY2016, FY2017 and FY2018 are expenses charged by Shell Group for the usage of staff and related costs. The expenses charged by Shell Group reflected the fact that the Group consumed resources of Shell Group during FY2016, FY2017 and FY2018. The Directors were of the view that the allocation of such expenses from Shell Group to the Group were reasonable taking into consideration that (i) such expenses reflected the resources consumed by the Group during FY2016, FY2017 and FY2018; and (ii) other business segment of Shell Group also shared expenses of Shell Group during FY2016, FY2017 and FY2018 with reference to, among others, the floor area of the factory occupied by different business segment of Shell Group and the time spent by the administrative staff, depending the nature of the expenses. Please refer to paragraph headed "Basis of Presentation" in this section for further details. Such corporate recharge of expenses was terminated on 1 January 2019 as the Group will incur its own staff expenses and as a result the Group would cease to consume resources of Shell Group since 1 January 2019 as the Group will have its own dedicated administrative staff and clearly segregated factory and work space. Also, the Group will not incur/share costs arising from Shell Group, for example, the directors' remuneration and the administrative support from Shell Group. Therefore, the Director expected that the administrative and other operating expenses since FY2019 would decrease.

Income tax expenses

The Group recorded income tax expenses of approximately HK$5.7 million for FY2016, HK$7.7 million for FY2017, HK$10.2 million for FY2018 and HK$10.1 million for 9M2019.

The following table sets forth the breakdown of the Group's income tax expenses during the Track Record Period:

	FY2016	FY2017	FY2018	9M2018	9M2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Current tax					
— Hong Kong profits tax					
— tax for the year	3,145	4,061	7,415	5,479	7,580
— over provision in respect of prior years	—	—	(30)	—	(165)
— Other regions of the PRC					
— Enterprise Income Tax	2,565	3,609	2,767	1,483	2,729
	5,710	7,670	10,152	6,962	10,144
Deferred tax	—	—	(2)	—	—
Income tax expense	5,710	7,670	10,150	6,962	10,144
Effective tax rate	19.3%	19.7%	22.6%	18.3%	19.4%

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits of the Group derived from Hong Kong during the Track Record Period. The tax rate for the income from the PRC subsidiaries of the Group is 25% during the Track Record Period under the Enterprise Income Tax Law and the Implementation Rules to the Enterprise Income Tax Law.

Furthermore, the amount of income tax recharged to the Electrical Appliances Business by the Multi-Media Group and currently reflected in the combined financial statements of the Group is determined based on the estimated tax exposure of Electrical Appliances Business as if the division is a separate reporting entity using applicable tax rates. For further information of the basis of tax expenses, please refer to the subsection headed "Financial Information — Basis of Presentation".

Given that (i) the control over the Group's products are transferred to the Group's customer immediately before the departure of the goods from the departure port; (ii) the Group's operating subsidiaries are all established either in Hong Kong or the PRC; and (iii) the Group's business are all conducted either in Hong Kong or the PRC, the Directors consider that the Group should not have overseas tax exposure during the Track Record Period.

COMPARISON OF RESULTS OF OPERATIONS

FY2017 compared with FY2016

Revenue

The overall revenue of the Group increased by approximately HK$33.9 million or 15.6% from approximately HK$217.1 million for FY2016 to approximately HK$251.0 million for FY2017.

In terms of product types of the Group, the increase in revenue was mainly driven by the increase in sales of work lights of approximately HK$15.9 million, the increase in sales of vacuum cleaners of approximately HK$14.8 million and the increase in sales of other products of approximately HK$4.0 million. The increase in sales of work light and vacuum cleaners were mainly a result of the increase in purchase orders from the U.S. Customer. The increase in sales of other products was mainly due to the commencement of sales of some hearing aid devices for sales orders to Customer B in FY2017.

Furthermore, the revenue from the sales of cordless fans increased from nil in FY2016 to approximately HK$7.8 million in FY2017 which was mainly due to the commencement of manufacturing and selling of cordless fans in May 2017, and revenue from the sales of electric fans decreased from approximately HK$119.3 million in FY2016 to approximately HK$110.6 million in FY2017 which was mainly a result of the decrease in purchase order from Customer A.

In terms of business segments, the increase in revenue was mainly driven by the increase in revenue from non-"SMC" brands of approximately HK$35.2 million. Such increase was mainly a result of the increase in production and sales volume due to the increase in sales of work lights, vacuum cleaners and other products as mentioned above. The increase in revenue of the Group was partially offset by the decrease in revenue from "SMC" brands of approximately HK$1.3 million.

In terms of business model, the increase in revenue was mainly driven by the increase in sales in relation to the manufacturing operations of approximately HK$42.5 million. Such increase was generally in line with the increase in the sales of non-"SMC" brand.

In terms of geographic segments, the increase in revenue was mainly driven by the increase in sales to Americas of approximately HK$42.7 million, and partly offset by the decrease in sales to Europe of approximately HK$3.3 million, the decrease in sales to Oceania of approximately HK$5.8 million, and the decrease in sales to Africa of approximately HK$3.9 million.

Cost of revenue

The cost of revenue of the Group increased by approximately HK$23.3 million or 14.9% from approximately HK$156.6 million for FY2016 to approximately HK$179.9 million for FY2017.

The cost of raw materials increased by approximately HK$20.8 million or 27.7% from approximately HK$75.2 million in FY2016 to approximately HK$96.0 million in FY2017. The raw materials were mainly used for production of cordless fans, work lights, vacuum cleaners, and hearing aid devices. The increase in raw materials was generally in line with the change in sales of work lights, vacuum cleaners, and others, which is explained above.

The cost of finished goods increased by approximately HK$1.2 million or approximately 1.7% for from approximately HK$72.7 million in FY2016 to approximately HK$73.9 million in FY2017. The cost of finished goods represented mainly the cost of electric fans and the increase in the cost of finished goods mainly represented the increase in quoted price from suppliers as a result of increasing raw materials and labour costs in the PRC.

Gross profit and gross profit margin

The gross profit of the Group increased by approximately HK$10.6 million or 17.5% from approximately HK$60.5 million for FY2016 to approximately HK$71.1 million for FY2017. The gross profit margin of the Group increased slightly from approximately 27.9% in FY2016 to approximately 28.3% in FY2017.

In terms of business segments, the increase in gross profit was mainly driven by the increase in gross profit from non-“SMC” brand of approximately HK$12.7 million. Such increase was in line with the increase in sales from non-“SMC” segment. The gross profit margin of non-“SMC” brands increased from approximately 26.5% in FY2016 to approximately 28.3% in FY2017. Such increase was mainly due to (i) economies of scale as reflected by the fact that the Group started to produce cordless fans in FY2017, and the utilisation rate of work lights, vacuum cleaners and other electric tools increased and (ii) as the Group began production of cordless fans, the Group was able to make larger purchases of its raw materials, thereby receiving further bulk purchase discounts. For further details of production facilities of the Group, please refer to the section headed “Business — Production facilities and process”.

For “SMC” brand, the gross profit and gross profit margin decreased by approximately HK$2.1 million and 2.9%, respectively. Such decrease in both gross profit and gross profit margin was mainly due to the increase in quoted price from suppliers as a result of increasing raw materials and labour costs in the PRC.

Other income

The other income of the Group remained stable in FY2016 and FY2017 at approximately HK$2.9 million and HK$3.0 million, respectively.

Other gains and losses

The Group recorded other gains of approximately HK$0.5 million in FY2016 and other losses of approximately HK$1.3 million in FY2017. The Group settled part of outstanding manufacturing costs, cost of raw materials and operating costs in RMB. During FY2017, HK$ and US$ were depreciating against RMB, which was the main reason for an increase in exchange losses in FY2017.

Selling and distribution expenses

The selling and distribution expenses of the Group slightly increased by approximately HK$0.3 million or 7.9% from approximately HK$3.8 million for FY2016 to approximately HK$4.1 million for FY2017. Such increase was mainly the result of the increase in delivery and declaration charges of approximately HK$0.7 million, and partially offset by the decrease in other distribution and selling expenses (except distribution and selling staff expenses and commission) of approximately HK$0.3 million.

Administrative and other operating expenses

The administrative and other operating expenses of the Group remained at approximately HK$29.9 million and HK$29.5 million in FY2016 and FY2017, respectively. The Group did not experience material fluctuations in administrative and other operating expenses during the same period.

Income tax expenses

The income tax expenses of the Group increased by approximately HK$2.0 million or 35.1% from approximately HK$5.7 million in FY2016 to approximately HK$7.7 million in FY2017 with an effective tax rate of approximately 19.3% and 19.7%, respectively. The effective tax rate of the Group remained stable and the increase in the income tax expenses was mainly a result of the increase in revenue and gross profit.

Net profit and net profit margin

The net profit for the year increased by approximately HK$7.3 million or 30.5% from approximately HK$23.9 million in FY2016 to approximately HK$31.2 million in FY2017. The net profit margin increased from approximately 11.0% in FY2016 to approximately 12.4% in FY2017. Such increase was mainly due to (i) the increase in revenue of approximately HK$33.9 million or 15.6% due to the reasons explained above; (ii) the increase in gross profit of approximately HK$10.6 million or 17.5% due to the reasons explained above; and (iii) the increase in gross profit margin of approximately 0.4% due to the reasons explained above, and partly offset by the other losses recognised in FY2017 due to the appreciation of Renminbi as compared to the other gain recognised in FY2016.

FY2018 compared with FY2017

Revenue

The overall revenue of the Group increased by approximately HK$15.1 million or 6.0% from approximately HK$251.0 million for FY2017 to approximately HK$266.1 million for FY2018.

In terms of product types, the increase in revenue was mainly driven by the increase in sales of fans and vacuum cleaners of approximately HK$9.6 million, HK$11.3 million, respectively, and partially offset by the decrease in sales of work lights of approximately HK$5.4 million. The increase in sales of fans was mainly due to the increase in sales of cordless fans to the U.S. Customer and the increase in sales of electric fans to Customer A and partially offset by the decrease in sales of electric fans under the "SMC" brand. The increase in sales of vacuum cleaners was mainly a result of the increase in purchase orders from the U.S. Customer. The decrease in sales of work lights was a result of the decrease in purchase orders from the U.S. Customer.

Furthermore, the revenue from the sales of cordless fans increased from approximately HK$7.8 million in FY2017 to approximately HK$27.4 million in FY2018 which was mainly due to the sales of cordless fan was commenced in May 2017 while the sales of cordless fan was conducted for the whole year of 2018. The revenue from the sales of electric fans decreased from approximately HK$110.6 million in FY2017 to approximately HK$100.6 million in FY2018 which was mainly a result of the decrease in purchase order from Asia.

In terms of business segments, the increase in revenue was mainly driven by the increase in revenue from non-"SMC" brand segment of approximately HK$26.9 million. Such increase was mainly a result of the increase in production and sales volume due to the increase in sales of vacuum cleaners and the decrease in sales of work lights as mentioned above. The revenue from "SMC" brand was decreased by approximately HK$11.8 million, which was a result of decrease in sales order of electric fans from customers.

In terms of geographic segments, the increase in revenue was mainly driven by the increase in sales to Americas of approximately HK$20.3 million and the increase in sales to Oceania of approximately HK$3.9 million, and partly offset by the decrease in sales to Asia of approximately HK$11.9 million.

Cost of revenue

The cost of revenue of the Group increased by approximately HK$5.4 million or 3.0% from approximately HK$179.9 million for FY2017 to approximately HK$185.3 million for FY2018.

The cost of raw materials increased by approximately HK$12.6 million or 13.1% from approximately HK$96.0 million in FY2017 to approximately HK$108.6 million in FY2018. The raw materials were mainly used for production of cordless fans, work lights, vacuum cleaners, and hearing aid devices. The increase in raw materials was generally in line with the change in sales of work lights, vacuum cleaners, and others, which is explained above.

The cost of finished goods decreased by approximately HK$9.8 million or approximately 13.3% for from approximately HK$73.9 million in FY2017 to approximately HK$64.1 million in FY2018. The cost of finished goods represented mainly the cost of electric fans and the decrease in the cost of finished goods was mainly influenced by the decrease in sales of "SMC" branded products during the same period.

Gross profit and gross profit margin

The gross profit of the Group increased by approximately HK$9.6 million or 13.5% from approximately HK$71.1 million for FY2017 to approximately HK$80.7 million for FY2018. The gross profit margin of the Group increased from approximately 28.3% in FY2017 to approximately 30.3% in FY2018.

In terms of business segments, the increase in gross profit was mainly driven by the increase in gross profit from non-"SMC" brand of approximately HK$12.2 million. Such increase was in line with the increase in sales from non-"SMC" segment. The gross profit margin of non-"SMC" brand increased from approximately 28.3% in FY2017 to approximately 30.4% in FY2018. The increase in gross profit margin was mainly due to (i) better control of cost and (ii) the decrease in the exchange rate of RMB against the HKD, reducing the Group's cost of sales, during the year.

For "SMC" brand, the gross profit decreased by approximately HK$2.6 million or 15.9%, while the gross profit margin increased by approximately 1.7%. Such decrease in gross profit was mainly due to the decrease in sale of electric fans and the increase in gross profit margin was mainly due to the increase in average selling price of "SMC" branded products.

Other income

The other income of the Group increased by approximately HK$1.8 million or 60.0% from approximately HK$3.0 million for FY2017 to approximately HK$4.8 million for FY2018. Such increase was mainly due to the increase in handling fee income of approximately HK$1.7 million. The increase in handling fee income was mainly due to more moulding and tooling ordering services was provided to a customer.

Other gains and losses

The Group recorded other losses of approximately HK$1.3 million in FY2017 and other gains of approximately HK$1.4 million in FY2018. The Group settled part of outstanding manufacturing costs, cost of raw materials and operating costs in RMB. During FY2018, HK$ and US$ were appreciating against RMB, which was the main reason for the increase in exchange gain in FY2018.

Selling and distribution expenses

The selling and distribution expenses of the Group decreased by approximately HK$1.1 million or 26.8% from approximately HK$4.1 million for FY2017 to approximately HK$3.0 million for FY2018 despite the increase in sales. Such decrease was mainly the result of (i) the decrease in delivery and declaration charges of approximately HK$0.9 million due to the decrease in amount of sales secured through the two UAE agents, for which the relevant delivery and declaration charges the Group is responsible, while the delivery and declaration charges are borne by the respective customers for sales to other customers of the Group; and (ii) the decrease in commission paid to agents of the Group of approximately HK$0.2 million since the amount of sales secured through the two UAE agents decreased from approximately HK$22.9 million for FY2017 to approximately HK$8.6 million for FY2018, details of which are set out in "Business — Sales Procedures" in this prospectus.

Administrative and other operating expenses

The administrative and other operating expenses of the Group increased by approximately HK$3.7 million or 12.5% from approximately HK$29.5 million in FY2017 to approximately HK$33.2 million in FY2018. Such increase was mainly due to the increase in staff expenses of approximately HK$2.6 million and the increase in rent and rates of approximately HK$0.5 million.

Income tax expenses

The income tax expenses of the Group increased by approximately HK$2.5 million or 32.5% from approximately HK$7.7 million in FY2017 to approximately HK$10.2 million in FY2018 with an effective tax rate of approximately 19.7% and 22.6%, respectively. The increase in the effective tax rate of the Group was principally the result of the incurrence of listing expenses of approximately HK$5.3 million in FY2018, which was non-deductible for tax purposes.

Net profit and net profit margin

The net profit for the year increased by approximately HK$3.4 million or 10.9% from approximately HK$31.2 million in FY2017 to approximately HK$34.6 million in FY2018. The net profit margin increased from approximately 12.4% in FY2017 to approximately 13.0% in FY2018. Such increase was mainly due to (i) the increase in revenue of approximately HK$15.1 million or 6.0% due to the reasons explained above; (ii) the increase in gross profit of approximately HK$9.6 million or 13.5% due to the reasons explained above; and (iii) the increase in gross profit margin of approximately 2.0% due to the reasons explained above, and partly offset by the incurrence of listing expense and the tax expenses.

9M2018 vs 9M2019

Revenue

The overall revenue of the Group increased by approximately HK$27.4 million or 13.6% from approximately HK$201.3 million for 9M2018 to approximately HK$228.7 million for 9M2019.

In terms of product types, the increase in revenue was mainly driven by the increase in sales of fans, vacuum cleaners and work lights of approximately HK$25.0 million, HK$4.0 million and HK$0.4 million, respectively. The increase in fans was mainly due to the increase in sales of cordless fans to the U.S. Customer and partially offset by the decrease of sales of electric fans to Customer A. The increase in sales of vacuum cleaners and work lights was mainly a result of the increase in purchase orders from the U.S. Customer.

In terms of business segment, the increase in revenue was mainly driven by the increase in revenue from non-"SMC" brand segment of approximately HK$163.9 million for 9M2018 to approximately HK$183.7 million for 9M2019. Such increase was mainly due to increase in production and sales volume due to the increase in sales of cordless fans, vacuum cleaners and work lights. The revenue from "SMC" brand was also increased from approximately HK$37.4 million for 9M2018 to approximately HK$45.0 million for 9M2019. Such increase was mainly due to the increase in sales to distributors.

In terms of geographic segments, the increase in revenue was mainly driven by the increase in sales to Americas of approximately HK$28.2 million and partially offset by the decrease in sales to Oceania of approximately HK$7.3 million.

Cost of revenue

The cost of revenue of the Group increased by approximately HK$14.9 million or 10.5% from approximately HK$142.0 million for 9M2018 to approximately HK$156.9 million for 9M2019. The cost of raw materials increased by approximately HK$13.6 million or 16.5% from approximately HK$82.3 million for 9M2018 to approximately HK$95.9 million for 9M2019. The raw materials were mainly used for production of cordless fans, work lights, vacuum cleaners, and hearing aid devices. The increase in raw materials was generally in line with the change in sales of work lights, vacuum cleaners, and others, which is explained above.

The cost of finished goods remained stable at approximately HK$50.3 million and HK$49.8 million for 9M2018 and 9M2019, respectively.

Gross profit and gross profit margin

The gross profit of the Group increased by approximately HK$12.5 million or 21.1% from approximately HK$59.3 million for 9M2018 to approximately HK$71.8 million for 9M2019. The gross profit margin of the Group increased from approximately 29.5% in 9M2018 to approximately 31.4% in 9M2019.

In terms of business segments, the increase in gross profit was mainly driven by the increase in gross profit from non-"SMC" brand of approximately HK$9.9 million. Such increase was in line with the increase in sales from non-"SMC" segment. The gross profit margin of non-"SMC" brand increased from approximately 29.3% for 9M2018 to approximately 31.6% for 9M2019 which was mainly due to (i) the increase in sales of non-"SMC" branded products that yielded a higher gross profit margin and (ii) the decrease in the exchange rate of RMB against the HKD, reducing the Group's cost of sales, during the period.

For "SMC" brand, the gross profit remained stable at approximately HK$13.8 million for 9M2019 as compared to that for 9M2018 of approximately HK$11.2 million.

Other income

The other income of the Group increased by approximately HK$1.7 million or 53.1% from approximately HK$3.2 million for 9M2018 to approximately HK$4.9 million for 9M2019. Such increase was mainly due to the increase in sales of spare parts and sample products and sundry income, and partially offset by the decrease in handling fee income.

Other gains and losses

The Group recorded other gains of approximately HK$1.5 million for 9M2018 and increased to approximately HK$1.9 million for 9M2019. Such increase was mainly due to HK$ and US$ were appreciating against RMB, resulting an increase in exchange gain.

Selling and distribution expenses

The selling and distribution expenses of the Group increased by approximately HK$0.5 million or 22.7% from approximately HK$2.2 million for 9M2018 to approximately HK$2.7 million for 9M2019. Such increase was mainly due to (i) the increase in delivery and declaration charges; and (ii) increase in commission paid to the UAE agents, as a result of increase in sales secured through the UAE agents.

Administrative and other operating expenses

The administrative and other operating expenses of the Group decreased by approximately HK$4.6 million or 20.5% from approximately HK$22.4 million for 9M2018 to approximately HK$17.8 million for 9M2019. Such decrease was mainly due to the decrease in staff expenses of approximately HK$4.5 million.

Income tax expenses

The income tax expenses of the Group increased by approximately HK$3.1 million or 44.3% from approximately HK$7.0 million for 9M2018 to approximately HK$10.1 million for 9M2019 with an effective tax rate of approximately 18.3% and 19.4%, respectively. The increase in effective tax rate of the Group was principally the result of the incurrence of listing expenses of approximately HK$5.5 million in 9M2019, which was non-deductible for tax purpose.

Net profit and net profit margin

The net profit for the year increased by approximately HK$11.1 million or 35.8% from approximately HK$31.0 million for 9M2018 to approximately HK$42.1 million for 9M2019. The net profit margin increased from approximately 15.4% in 9M2018 to approximately 18.4% in 9M2019. Such increase was mainly due to (i) the increase in revenue of approximately HK$27.4 million or 13.6% due to the reasons explained above; (ii) the increase in gross profit of approximately HK$12.5 million or 21.1% due to the reasons explained above; (iii) the increase in gross profit margin of approximately 1.9% due to the reasons explained above; and (iv) the decrease in administrative and other operating expenses due to the decrease in staff expenses, and partly offset by the incurrence of listing expense and the tax expense.

LIQUIDITY AND CAPITAL RESOURCES

The following table sets forth the selected cash flow data from the combined statements of cash flows for the years as indicated:

	FY2016	FY2017	FY2018	9M2018	9M2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Operating cash flows before movements in working capital	30,436	39,668	46,534	38,643	53,949
Net cash generated from/(used in) operating activities	12,110	(3,195)	6,090	6,605	(170)
Net cash flow used in investing activities	(1,265)	(266)	(469)	(221)	(927)
Net cash flow(used in)/ generated from financing activities	(8,242)	1,893	(1,856)	(1,004)	23,137
Net increase/(decrease) in cash and cash equivalents	2,603	(1,568)	3,765	5,380	22,040
Cash and cash equivalents at beginning of year/period	2,069	4,672	3,122	3,122	6,889
Effect of foreign exchange rate change on cash and cash equivalents	—	18	2	(301)	(24)
Cash and cash equivalents at end of year/period	4,672	3,122	6,889	8,201	28,905

Net cash (used in)/generated from operating activities

For 9M2019, the Group's net cash used in operating activities amounted to approximately HK$0.2 million, which primarily reflected its profit before tax of approximately HK$52.2 million, as adjusted primarily by (i) an increase in amount due from a fellow subsidiary of approximately HK$48.6 million which mainly arose from profits generated from the operations of Electrical Appliances Division; and (ii) the increase in trade and bills receivables, other receivables, deposits and prepayments of approximately HK$4.1 million due to longer credit period of 120 days granted to the U.S. Customer compared to other customers of the Group and the increasing sales to it.

For FY2018, the Group's net cash generated from operating activities amounted to approximately HK$6.1 million, which primarily reflected its profit before tax of approximately HK$44.8 million, as adjusted primarily by (i) an increase in amount due from a fellow subsidiary of approximately HK$25.2 million which mainly arose from profits generated from the operations of Electrical Appliances Division; (ii) an increase in trade and other payable and accruals of approximately HK$14.0 million which was in line with the increase in purchase of raw materials and finished goods following the increase in revenue of the Group during the same period; and (iii) increase in trade and bills receivables, other receivables, deposits and prepayment of approximately HK$27.7 million due to the longer credit period of 120 days granted to the U.S. Customer compared to other customers of the Group and the increasing sales to it.

For FY2017, the Group's net cash used in operating activities amounted to approximately HK$3.2 million, which primarily reflected its profit before tax of approximately HK$38.9 million, as adjusted primarily by (i) an increase in amount due from a fellow subsidiary of approximately HK$19.2 million which mainly arose from profits generated from the operations of Electrical Appliances Division; and (ii) an increase in trade and bills receivables, deposits and prepayments of approximately HK$23.6 million which was in line with the increase in revenue.

For FY2016, the Group's net cash generated from operating activities amounted to approximately HK$12.1 million, which primarily reflected its profit before tax of approximately HK$29.6 million, as adjusted primarily by an increase in amount due from a fellow subsidiary of approximately HK$22.0 million which mainly arose from profits generated from the operations of Electrical Appliances Division.

Net cash used in investing activities

For 9M2019, the Group's net cash used in investing activities amounted to approximately HK$0.9 million and was mainly due from (i) purchase of property, plant and equipment of approximately HK$1.1 million; and (ii) interest received of approximately HK$0.1 million.

For FY2018, the Group's net cash used in investing activities amounted to approximately HK$0.5 million and was mainly due from (i) purchase of property, plant and equipment of approximately HK$0.7 million; and (ii) interest received of approximately HK$0.2 million.

For FY2017, the Group's net cash used in investing activities amounted to approximately HK$0.3 million and was mainly due from (i) purchase of property, plant and equipment of approximately HK$0.5 million; and (ii) interest received of approximately HK$0.2 million.

For FY2016, the Group's net cash used in investing activities amounted to approximately HK$1.3 million and was mainly due from (i) purchase of property, plant and equipment of approximately HK$1.6 million; and (ii) interest received of approximately HK$351,000.

Net cash (used in)/generated from financing activities

For 9M2019, the Group's net cash generated from financing activities amounted to approximately HK$23.1 million, which were mainly attributable to (i) proceeds from bank borrowings of approximately HK$50.3 million; and (ii) increase in amount due to ultimate holding company of approximately HK$17.4 million and offset by the repayment of bank borrowings of approximately HK$41.8 million.

For FY2018, the Group's net cash flows used in financing activities amounted to approximately HK$1.9 million, which were mainly attributable to a decrease in amount due to ultimate holding company of approximately HK$10.2 million, and offset by an increase in bank borrowings of approximately HK$9.1 million.

For FY2017, the Group's net cash flow generated from financing activities amounted to approximately HK$1.9 million, which were mainly attributable to an increase in amount due to ultimate holding company of approximately HK$5.6 million, and partially offset by a decrease in bank borrowings of approximately HK$3.3 million.

For FY2016, the Group's net cash flow used in financing activities amounted to approximately HK$8.2 million, which were mainly attributable to a decrease in amount due to ultimate holding company of approximately HK$12.0 million, and partially offset by an increase in bank borrowings of approximately HK$4.3 million.

NET CURRENT ASSETS

The following table sets forth the details of current assets and current liabilities of the Group as at the respective dates indicated.

	As at 31 December			As at 30 September	As at 31 December
	2016	2017	2018	2019	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Current assets					
Inventories	14,481	15,363	13,871	9,190	15,385
Trade and bills receivables, other receivables, deposits and prepayments	41,985	65,633	92,836	97,001	91,260
Amounts due from a fellow subsidiary	59,468	72,829	87,485	135,156	135,458
Cash and bank balances	4,672	3,122	6,889	28,905	19,291
	120,606	156,947	201,081	270,252	261,394
Current liabilities					
Trade and other payables and accruals	37,644	39,292	52,422	45,949	52,764
Lease liabilities	—	—	566	3,039	3,066
Amount due to ultimate holding company	17,871	23,431	4,933	22,318	6,499
Amounts due to fellow subsidiaries	273	29	99	718	326
Tax payable	1,442	1,944	1,749	9,906	11,017
Bank borrowings	4,275	1,008	10,098	18,580	14,572
	61,505	65,704	69,867	100,510	88,244
Net current assets	59,101	91,243	131,214	169,742	173,150

Net current assets subsequent to the Track Record Period

The inventory of the Group increased from approximately HK$9.2 million as at 30 September 2019 to approximately HK$15.4 million as at 31 December 2019, which was mainly the result of the increase in raw materials and work in progress for preparing production for electric tools.

The trade and bills receivables, other receivables, deposits, and prepayments decreased from approximately HK$97.0 million as at 30 September 2019 to approximately HK$91.3 million as at 31 December 2019.

The amounts due from a fellow subsidiary remained largely stable at approximately HK$135.5 million as at 31 December 2019.

The cash and bank balance decreased from approximately HK$28.9 million as at 30 September 2019 to approximately HK$19.3 million as at 31 December 2019, which was mainly due to partly settlement of the amount due to ultimate holding company.

As a result, the current assets of the Group decreased from approximately HK$270.3 million as at 30 September 2019 to approximately HK$261.4 million as at 31 December 2019.

The trade and other payables and accruals increased from approximately HK$45.9 million as at 30 September 2019 to approximately HK$52.8 million as at 31 December 2019.

The lease liabilities remained largely stable at approximately HK$3.0 million and HK$3.1 million as at 30 September 2019 and 31 December 2019, respectively.

The amount due to ultimate holding company decreased from approximately HK$22.3 million as at 30 September 2019 to approximately HK$6.5 million as at 31 December 2019 which was mainly the result of the repayment of the amount due to ultimate holding company.

The amount due to fellow subsidiaries decreased from approximately HK$0.7 million as at 30 September 2019 to approximately HK$0.3 million as at 31 December 2019.

The tax payable increased from approximately HK$9.9 million as at 30 September 2019 to approximately HK$11.0 million as at 31 December 2019.

The bank borrowings decreased from approximately HK$18.6 million as at 30 September 2019 to approximately HK$14.6 million as at 31 December 2019 as a result of repayment of bank borrowings.

As a result, the current liabilities of the Group decreased from approximately HK$100.5 million as at 30 September 2019 to approximately HK$88.2 million as at 31 December 2019, and the net current assets of the Group increased from approximately HK$169.7 million as at 30 September 2019 to approximately HK$173.2 million as at 31 December 2019.

The following sections set forth detailed discussion of the fluctuations in the key components of the current assets and current liabilities as at the end of respective financial years during the Track Record Period.

INVENTORIES

The following table sets forth the amount of inventories of the Group as at the end of each reporting period.

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	8,622	9,100	11,000	5,284
Work-in-progress	1,454	3,104	140	907
Finished goods	4,405	3,159	2,731	2,999
	14,481	15,363	13,871	9,190

The inventory balance increased from approximately HK$14.5 million as at 31 December 2016 to approximately HK$15.4 million as at 31 December 2017, decreased slight to approximately HK$13.9 million as at 31 December 2018 and further decreased to approximately HK$9.2 million as at 30 September 2019.

As at the Latest Practicable Date, among the inventories of the Group as at 30 September 2019, more than approximately 90.6% or HK$4.8 million of raw materials and all of work-in-progress, were utilised and more than approximately 73.3% or HK$2.2 million of finished goods were sold. In other words, approximately 87.0% or HK$8.0 million of the inventories as at 30 September 2019 had been subsequently utilised/sold.

The following table sets forth the inventory turnover days during the Track Record Period for the years/period indicated:

	FY2016	FY2017	FY2018	9M2019
Inventory turnover days *(Note)*	31.6	30.3	28.8	20.1

Note: Inventory turnover days are calculated based on the average inventory divided by the cost of sales for the relevant year/period multiplied by number of days in the relevant year/period (i.e. 366 days for FY2016, 365 days for FY2017 and FY2018 and 273 days for 9M2019). Average inventory is calculated as the sum of the beginning balance and ending balance for the relevant year/period, divided by two.

The inventory turnover days were approximately 31.6 days, 30.3 days, 28.8 days and 20.1 days for FY2016, FY2017, FY2018 and 9M2019, respectively. The Group did not experience material fluctuation in inventory turnover days.

The Group makes provisions in accordance with its accounting policy. For FY2016, FY2017, FY2018 and 9M2019, the Group made provision for slow-moving inventories (before reversal of such provision made in prior years, if any) of approximately HK$260,000, HK$188,000, HK$8,000 and nil, respectively. The Group did not encounter any stock obsolescence during the Track Record Period as the products of the Group are in general made to order.

TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The following table sets forth the amounts of trade and bills receivables, other receivables, deposits and prepayments of the Group as at the dates indicated.

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade and bills receivables	41,185	62,468	83,650	89,662
Other receivables	261	184	1,952	615
Prepaid listing expenses	—	—	2,020	3,595
Other prepayments and deposits	539	2,981	5,214	3,129
	41,985	65,633	92,836	97,001

Trade and bills receivables

The Group's trade and bills receivables increased to approximately HK$62.5 million as at 31 December 2017 from approximately HK$41.2 million as at 31 December 2016. Such increase was in line with the increase in revenue.

The Group's trade and bills receivables increased to approximately HK$83.7 million as at 31 December 2018 from approximately HK$62.5 million as at 31 December 2017 due to the increase in proportion of sales to the U.S. Customer, who has longer credit period compared to other customers in general. The Group's trade and bills receivables further increase to approximately HK$89.7 million as at 30 September 2019 from approximately HK$83.7 million as at 31 December 2018 due to increase in sales to the U.S. Customer who has a longer credit period of 120 days compared to other customers.

The following table sets out the turnover days of trade and bills receivables for the years/period indicated:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
Trade and bills receivables turnover days	71.5 days	75.4 days	100.2 days	103.4 days

Note:

Trade and bills receivables turnover days are calculated based on the average trade and bills receivables divided by the revenue for the relevant year/period multiplied by number of days in the relevant year/period (i.e. 366 days for FY2016, 365 days for FY2017 and FY2018 and 273 days for 9M2019). Average trade and bills receivables are calculated as the sum of the beginning balance and ending balance for the relevant year/period, divided by two.

The Group require most of its customers for electric fans to settle payment in full before delivery, apart from the Customer A which has a credit term of 45 days and another customer with long business relationship with the Group with credit term of 180 days. For its manufacturing operations, the Group offers the U.S. Customer credit term of 120 days. The trade and bills receivables turnover days were approximately 71.5 days for FY2016, 75.4 days for FY2017, 100.2 days for FY2018 and 103.4 days for 9M2019. The increase in trade and bills receivables turnover days was as a result of increase in trade and bills receivables as explained above.

As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 September 2019, the ageing analysis of the trade and bills receivables (gross) based on the invoice dates is as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 30 days	10,363	16,730	18,876	18,425
31 days to 60 days	10,538	13,930	19,084	21,404
61 days to 90 days	8,849	12,871	18,513	20,127
Over 90 days	11,693	18,937	27,621	30,033
	41,443	62,468	84,094	89,989

As at the Latest Practicable Date, approximately HK$89.5 million or more than 99.4% of trade and bills receivables (gross) as at 30 September 2019 was settled.

At each reporting date, the Group reviewed trade and bills receivables for evidence of impairment on both an individual and collective basis. As there has not been a significant change in credit worthiness of the Group's customers, the outstanding amounts from which were still considered recoverable as at the Latest Practicable Date. Based on this assessment, the allowance for impairment of the Group's trade and bills receivables amounted to approximately HK$0.3 million, nil, HK$0.4 million and HK$0.3 million as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 September 2019, respectively.

The ageing analysis of trade and bills receivables (net), based on due dates is as follows:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Neither past due nor impaired	32,566	50,803	65,480	81,845
Past due less than 30 days	7,887	11,197	17,315	7,405
Past due for 30 or more but less than 60 days	407	14	1	411
Past due for 60 or more but less than 90 days	6	—	854	1
Past due for 90 days or more	319	454	—	—
	41,185	62,468	83,650	89,662

Trade and bills receivables that were past due but not impaired related to customers for whom there was no recent history of default.

As at the Latest Practicable Date, approximately HK$89.5 million or more than 99.8% of trade and bills receivables (net) as at 30 September 2019 was settled.

Other receivables and deposits and temporary payment and prepayments

The other receivables of the Group was mainly in relation to the sales of spare parts and sample products to its customers. The other receivables of the Group amounted to approximately HK$261,000, HK$184,000, HK$2.0 million and HK$615,000 for FY2016, FY2017, FY2018 and 9M2019, respectively.

The temporary payment, deposit and prepayments of the Group was mainly in relation to the deposits paid to suppliers and prepayments for operating expenses. The deposits and prepayments of the Group amounted to approximately HK$0.5 million, HK$3.0 million, HK$5.2 million and HK$3.1 million for FY2016, FY2017, FY2018 and 9M2019, respectively.

The Group recorded prepaid Listing expenses of approximately HK$3.6 million as at 30 September 2019.

AMOUNT DUE FROM A FELLOW SUBSIDIARY

The following table sets forth the amount of amount due from a fellow subsidiary of the Group as at the end of each reporting period.

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
SMC Multi-Media Products Company Limited	59,468	72,829	87,485	135,156

The amounts due arose from trading activities which mainly represents profits generated from the operations of the Electrical Appliances Division, which are unsecured, interest-free and repayable on demand. For further details of the amount due from a fellow subsidiary, please refer to note 22 of the Accountants' Report set out in Appendix I. The amount due from a fellow subsidiary of the Group will be settled before listing. The Group proposed to settle the amount due from a fellow subsidiary by deemed distribution of approximately HK$135,500,000 to the then Shareholders of the Group in February 2020. Please refer to paragraph headed "Deemed distribution" in this section for further details.

TRADE AND OTHER PAYABLES AND ACCRUALS

Trade payables

The Group is granted by the suppliers a credit terms up to 120 days.

As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 September 2019, the ageing analysis of the Group's trade payables based on the invoice dates is as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0–30 days	12,409	14,617	17,326	10,635
31–60 days	3,161	1,372	3,969	7,549
61–90 days	2,494	1,629	6,026	5,551
Over 90 days	3,253	1,140	1,790	1,540
	21,317	18,758	29,111	25,275

The following table sets out the trade payables turnover days for the years indicated:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
Trade payables turnover days	45.3 days	40.6 days	47.1 days	47.3 days

Note:

Trade payables turnover days are calculated based on the average trade payables divided by the direct costs for the relevant year/period multiplied by number of days in the relevant year/period (i.e. 366 days for FY2016, 365 days for FY2017, FY2018 and 273 days for 9M2019). Average trade payables are calculated as the sum of the beginning balance and ending balance for the relevant year/period, divided by two.

Trade payables turnover days were approximately 45.3 days, 40.6 days, 47.1 days and 47.3 days for the years ended 31 December 2016, 2017 and 2018 and 30 September 2019, respectively, and the trade payables turnover days was generally in line with the credit terms by suppliers.

Trade payables turnover days was approximately 47.3 days as at 30 September 2019 which is consistent with prior years and consistent with the Group's credit policy.

As at the Latest Practicable Date, approximately HK$23.2 million or 91.7% of the Group's trade payables as at 30 September 2019 has been settled.

AMOUNT DUE TO ULTIMATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

The amount due to ultimate holding company, Shell Holdings, is non trade in nature, unsecured and repayable on demand. Among the balances as at 31 December 2016, 2017 and 2018, HK$17,871,000, HK$23,431,000 and HK$1,428,000, respectively, were interest-bearing at fixed rate of 1.5% per annum, whereas the remaining balances of nil, nil and HK$3,505,000, respectively are interest-free. The balances as at 30 September 2019 and 30 November 2019 were interest-free. The Directors considered that the amount due to ultimate holding company will be settled before listing.

The amounts due to fellow subsidiaries are trading in nature, unsecured, interest-free and repayable on demand. The Directors considered that the amount due to fellow subsidiaries will be settled before listing.

The Group is expected to settle the amount due to ultimate holding company and fellow subsidiaries by cash.

TAX PAYABLE

The following table sets forth the amount of tax payable of the Group as at the end of each reporting period.

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong profits tax	1,442	1,944	1,749	9,102
PRC Enterprise Income tax	—	—	—	804

As at the end of each reporting period, the tax payables were mainly in relation to the Hong Kong profits tax. The tax payable of the Group increased from approximately HK$1.4 million as at 31 December 2016 to approximately HK$1.9 million as at 31 December 2017, decreased to approximately HK$1.7 million as at 31 December 2018 and increased to approximately HK$9.9 million as at 30 September 2019.

INVESTMENT IN AN ASSOCIATE

Set out below are the details of the associate of the Group during the Track Record Period.

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted shares, at cost less impairment losses	—	—	—	—

Details of the associate held by the Group as at 31 December 2016, 2017 and 2018 and 30 September 2019 are as follows:

Name of associate	Place of establishment/ operation	Paid up registered capital	Percentage of ownership interests	Principal activity
Sien Hua	The PRC	US$3,250,000	28.92%	Manufacturing of electrical appliances

The associate is established in the PRC as a sino-foreign co-operation joint venture.

INVESTMENT IN HUAXIA

Set out below are the details of investment of the Group in Huaxia.

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted equity securities	—	—	—	—

The Group holds 19% in Huaxia, a company established in the PRC on 11 October 2001, at investment cost of HK$3,627,000. The Directors considered that the financial performance of Huaxia was not satisfactory and its future prospect was uncertain. As assessed by the Directors, the fair value was zero at the beginning and the end of each of the reporting periods.

Furthermore, the Group entered into a sale and purchase agreement on 28 October 2018 to dispose of Huaxia at a consideration of US$1.00. The transaction was completed on 20 November 2018.

BANK BORROWINGS

The bank borrowings of the Group decreased from approximately HK$4.3 million as at 31 December 2016 to approximately HK$1.0 million as at 31 December 2017, increased to approximately HK$10.1 million as at 31 December 2018 and HK$18.6 million as at 30 September 2019. The bank borrowings as at 31 December 2016, 2017 and 2018 and 30 September 2019 are secured by corporate guarantee executed by Shell Holdings, ultimate holding company of the Company. The annual interest rates of the Group's bank borrowings ranged from 1.82% to 1.96% for bank borrowings as at 31 December 2016, was 2.63% for bank borrowings as at 31 December 2017, ranged from 2.76% to 3.81% for bank borrowings as at 31 December 2018 and ranged from 3.28% to 3.56% for bank borrowings as at 30 September 2019. For further details of bank borrowings, please refer to note 27 of the Accountants' Report as set out in Appendix I to this prospectus.

INDEBTEDNESS

The following table sets out the Group's indebtedness excluding contingent liabilities as at the respective dates:

	As at 31 December			As at 30 September	As at 31 December
	2016	2017	2018	2019	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Current					
Amount due to ultimate holding company	17,871	23,431	4,933	22,318	6,499
Bank borrowings	4,275	1,008	10,098	18,580	14,572
Lease liabilities	—	—	566	3,039	3,066
Non-current					
Lease liabilities	—	—	584	774	—
Total	22,146	24,439	16,181	44,711	24,137

As at 31 December 2016, 31 December 2017, 31 December 2018, 30 September 2019 and 31 December 2019, the Group had the above indebtedness of approximately HK$22.1 million, HK$24.4 million, HK$16.2 million, HK$44.7 million and HK$24.1 million respectively. These outstanding indebtedness as at 31 December 2019 were primarily denominated in HK$.

Bank borrowings

The bank loans were secured by corporate guarantee executed by Shell Holdings, personal guarantee executed by Mr. Yung, and a charge over the investment securities of a fellow subsidiary. During the nine months ended 30 September 2019, the Group signed new banking facilities. The Group's bank borrowings as at 30 September 2019 and 31 December 2019 which were drawn down under the new banking facilities were secured by corporate guarantee executed by Shell Holdings and personal guarantee executed by Mr. Yung.

The Directors confirm that there was no material delay or default in the repayment of bank borrowings and the Group did not have any difficulties in obtaining bank borrowings during the Track Record period and up to the Latest Practicable Date.

The Directors confirm that as at the Latest Practicable Date, except as otherwise disclosed in this prospectus, there was no material covenant on any of the outstanding debt and there was no breach of any covenants during the Track Record Period and up to the Latest Practicable Date. The Directors further confirm that the Group did not have any material default in payment of trade and other payables and accruals, bank loans and other borrowings or breach of covenants during the Track Record period and up to the Latest Practicable Date.

As at the Latest Practicable Date, the Group had unutilised banking facilities amounted to approximately HK$6.4 million. The Group obtained two banking facilities under the name of its subsidiaries from two banks with facility amount of approximately HK$10.0 million each. The Directors confirm that, the Group will not share the banking facilities of Shell Holdings or rely on the personal guarantee executed by Mr. Yung or the corporate guarantee executed by Shell Holdings, and will be financially independent from Shell Holdings upon listing.

Amount due to ultimate holding company

The amount due to ultimate holding company is unsecured and repayable on demand. Among the balances as at 31 December 2016, 2017 and 2018, 30 September 2019 and 31 December 2019, HK$17,871,000, HK$23,431,000, HK$1,428,000, nil and nil, respectively, is interest-bearing at fixed rate of 1.5% per annum, whereas the remaining balances of nil, nil, HK$3,505,000, HK$22,318,000 and HK$6,499,000, respectively, are interest-free.

Lease liabilities

The Group entered into lease agreements with MMSD on 30 November 2018 for leasing of factory and staff quarters located in the PRC and with Shell Holdings on 11 January 2019 for leasing of office, carpark space and warehouse located in Hong Kong. As a result of adopting HKFRS 16 Leases which is effective for annual periods beginning on or after 1 January 2019, the Group recognised right-of-use assets and lease liabilities for the above-mentioned leases for factory, office, carpark space and warehouse. Such lease liabilities amounted to HK$3.1 million as at 31 December 2019, which were classified as current liabilities.

Contingent liabilities

The Group provided corporate guarantee in connection with the banking facilities granted to Shell Holdings and the loan drawn down by Shell Holdings under such facilities as at 31 December 2016, 2017 and 2018, 30 September 2019 and 31 December 2019 amounted to HK$145,000,000, HK$145,000,000, HK$116,000,000, HK$101,500,000 and HK$87,000,000, respectively. The Directors confirm that, the Group will no longer provide corporate guarantee in relation to any banking facilities granted to Shell Holdings with all existing guarantees provided by the Group to be released upon listing and will be financially independent from Shell Holdings upon listing.

CAPITAL MANAGEMENT

The capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to the equity holders by pricing services commensurately with the level of risk.

The Group actively and regularly reviews the capital structure and makes adjustments in light of changes in economic conditions. The Group monitors the capital structure on the basis of the net debt to equity ratio. For this purpose, net debt is defined as borrowings and obligations under finance leases less cash and cash equivalents. In order to maintain or adjust the ratio, we may adjust the number of dividends paid to the Shareholders, issue new Shares and raise new debt financing.

CAPITAL EXPENDITURES

The capital expenditure of the Group primarily of purchase of (i) furniture, fixtures and fittings; (ii) office equipment; (iii) moulds, tools and equipment and (iv) motor vehicles. The capital expenditure was funded mainly by internal resources. The capital expenditures of the Group amounted to approximately HK$1,616,000, HK$471,000, HK$685,000 and HK$1,051,000 for FY2016, FY2017, FY2018 and 9M2019, respectively.

LEASE LIABILITIES

As at 31 December 2018 and 30 September 2019, the Group entered into leases arrangements for leasing of factory, office premises, warehouse and carpark space with leases negotiated for initial periods of 24 to 25 months. The total future minimum lease payments under these leases are due as follows:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	—	—	593	3,112
Within a period of more than one year but not exceeding two years	—	—	593	778
	—	—	1,186	3,890
Less: Future finance charges	—	—	(36)	(77)
	—	—	1,150	3,813

PROPERTY INTERESTS AND PROPERTY VALUATION

The Directors confirm that, as at 30 September 2019, there were no circumstances that would give rise to a disclosure requirement under Rules 5.01 to 5.10 of the Listing Rules. As at 30 September 2019, the Group's property interests do not form part of its property activities and no single property interest of the Group that forms part of its non-property activities has a carrying amount of 15% or more of the Group's total assets.

CONTINGENT LIABILITIES

Save as disclosed in the subsection headed "Indebtedness — Contingent liabilities" under this section, the Directors confirm that there were no material contingent liabilities since 31 December 2019. The Group is currently not involved in any other material legal proceedings, nor are the Directors aware of any pending or potential material legal proceedings involving the Group.

Disclaimer

The Directors confirm that

(i) there has not been any material change in the Group's indebtedness and contingent liabilities subsequent to the Track Record Period and up to the Latest Practicable Date;

(ii) the Directors are not aware of any material defaults in payment of the Group's trade and non-trade payables and bank borrowings during the Track Record Period and up to the Latest Practicable Date;

(iii) the bank loans, finance lease and bank facility are subject to standard banking conditions;

(iv) the Group has not received any notice from banks indicating that they might withdraw or downsize the bank loans or bank facilities and none of the Group's bank borrowings and facilities are subject to the fulfilment of covenants relating to financial ratio requirements or any other material covenants which would adversely affect the Group's ability to undertake additional debt or equity financings.

Save as disclosed in paragraph headed "Indebtedness" in this section, the Group did not have, at the close of business on 31 December 2019, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS OR COMMITMENTS

Subsequent to the Track Record Period and up to the Latest Practicable Date, the Group did not have any off-balance sheet arrangements or commitments.

WORKING CAPITAL

The Directors are of the opinion that, taking into consideration the Group's internal resources, the banking facilities presently available to the Group, and the estimated net proceeds from the Share Offer, the Group has sufficient working capital for the Group's present requirements for at least the next 12 months commencing from the date of this prospectus.

KEY FINANCIAL RATIOS

	For the year/period ended/as at			
	31 December			30 September
	2016	2017	2018	2019
Gross profit margin(1)	27.9%	28.3%	30.3%	31.4%
Net profit margin(2)	11.0%	12.4%	13.0%	18.4%
Return on equity(3)	38.4%	33.0%	25.7%	N/A
Return on total assets(4)	19.3%	19.5%	16.9%	N/A
Current ratio(5)	2.0 times	2.4 times	2.9 times	2.7 times
Quick ratio(6)	1.7 times	2.2 times	2.7 times	2.6 times
Gearing ratio(7)	35.6%	25.9%	9.4%	12.7%
Net debt to equity ratio(8)	28.1%	22.6%	6.0%	6.8%
Interest coverage(9)	55.9 times	98.2 times	63.8 times	110.5 times

Notes:

(1) Gross profit margin is calculated by gross profit divided by revenue for the respective year/period and multiplied by 100%.

(2) Net profit margin is calculated by profit for the year divided by revenue for the respective year/period and multiplied by 100%.

(3) Return on equity equals the net profit attributable to Shareholders divided by the total equity as at the end of the respective year/period multiplied by 100%.

(4) Return on total assets is calculated by the net profit for attributable to Shareholders divided by the total assets as at the end of the respective year/period multiplied by 100%.

(5) The current ratio is calculated by dividing current assets with current liabilities as at the end of the respective year/period.

(6) Quick ratio is calculated by dividing total current assets net of inventory with current liabilities as the end of the respective year/period.

(7) The gearing ratio is calculated by dividing interest-bearing liabilities with total equity as at the end of respective year/period multiplied by 100%.

(8) Net debt to equity ratio is calculated by dividing bank borrowings and amount due to ultimate holding company net of cash and cash equivalents at the end of the year/period by total equity at the end of the respective year/period and expressed as a percentage.

(9) Interest coverage is calculated by dividing profit before interest and tax with interest expenses for the respective year/period.

Gross profit and net profit margins

Gross profit margin and net profit margin for FY2016, FY2017, FY2018 and 9M2019 are described in the paragraph headed "Gross profit" and "Net profit" in this section respectively.

Return on equity

The Group's return on equity was approximately 38.4%, 33.0% and 25.7% for FY2016, FY2017 and FY2018, respectively. The return on equity decreased during the Track Record Period mainly due to the increase in total equity during the three years ended 31 December 2018 as a result of accumulation of retained earnings.

Return on total assets

The Group's return on total assets was approximately 19.3%, 19.5% and 16.9% for FY2016, FY2017 and FY2018, respectively. The return on total assets increased by approximately 0.2% from 31 December 2016 to 31 December 2017, which was largely stable. The return on total assets reduced to approximately 16.9% as at 31 December 2018, which mainly the result of increase in total assets due to the increase in trade receivables since the longer credit period of 120 days granted to the U.S. Customer.

Current ratio

The Group's current ratio increased from approximately 2.0 times as at 31 December 2016 to approximately 2.4 times as at 31 December 2017, further increased to approximately 2.9 times as at 31 December 2018. The increase in current ratio was mainly the result of the increase in trade receivables, which was mainly driven by the increase in sales, during the three years ended 31 December 2018. After that, the Group's current ratio decreased to approximately 2.7 times as at 30 September 2019 which was mainly due to (i) the additional bank borrowings; and (ii) the increase in amount due to ultimate holding company.

Quick ratio

The Group's quick ratio increased from approximately 1.7 times as at 31 December 2016 to approximately 2.2 times as at 31 December 2017, further increased to approximately 2.7 times as at 31 December 2018. The increase in current ratio was mainly the result of the increase in trade receivables, which was mainly driven by the increase in sales, during the three years ended 31 December 2018. After that, the Group's quick ratio decreased to approximately 2.6 times as at 30 September 2019 which was mainly due to (i) the additional bank borrowings; and (ii) the increase in amount due to ultimate holding company.

Gearing ratio

Gearing ratio decreased from approximately 35.6% to 25.9% as at 31 December 2016 and 2017, respectively, further decreased to approximately 9.4% as at 31 December 2018. Such decrease was mainly due to the increase in total equity as a result of accumulation of retained earnings. The gearing ratio increased to approximately 12.7% as at 30 September 2019 which is mainly due to the additional bank borrowings.

Net debt to equity ratio

The net debt to equity ratio at each date is as follows:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)
Bank borrowings	4,275	1,008	10,098	18,580
Amount due to ultimate holding company	17,871	23,431	4,933	22,318
Less: cash and cash equivalents	(4,672)	(3,122)	(6,889)	(28,905)
Net debt	17,474	21,317	8,142	11,993
Total equity	62,227	94,527	134,953	176,414
Net debt to equity ratio	28.1%	22.6%	6.0%	6.8%

The net debt to equity ratio decreased from approximately 28.1% as at 31 December 2016 to approximately 22.6% as at 31 December 2017, and further decreased to approximately 6.0% as at 31 December 2018. It was mainly due to the increase in total equity during the three years ended 31 December 2018 as a result of accumulation of retained earnings at the same time the amount due to ultimate holding company was reduced.

As at 30 September 2019, the net debt to equity ratio increased to approximately 6.8%, such increase was mainly due to the increase in amount due to ultimate holding company.

Interest coverage

Interest coverage increased from approximately 55.9 times for FY2016 to approximately 98.2 times for FY2017, respectively, which was mainly due to the increase in profit before income tax as explained above. After that, it decreased to approximately 63.8 times for FY2018. Such decrease was mainly due to the percentage increase in profit before income tax was less than the percentage increase in finance cost. After that, it increased to approximately 110.5 times for 9M2019 which is mainly due to the increase in profit before tax as explained above.

RELATED PARTY TRANSACTIONS

The Directors confirm that all transactions with related parties described in note 32 of the Accountants' Report set out in Appendix I to this prospectus were conducted on normal commercial terms and/or terms not less favourable than terms available from Independent Third Parties, which are considered fair, reasonable and in the interest of the Shareholders of the Company as a whole.

FINANCIAL AND CAPITAL RISK MANAGEMENT

The major financial risks arising from the Group's normal course of business include foreign currency risk, interest rate risk, credit risk and liquidity risk.

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.

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.

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 mainly operates in Hong Kong and the PRC. The functional currencies of the Company and the Group's operating entities or division 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 or division. 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.

The overall exposure in respect of the carrying amounts of the Group's foreign currency denominated monetary assets and liabilities in net position as at 31 December 2016, 2017, 2018 and 30 September 2019 are as follows:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net monetary assets/(liabilities) denominated in foreign currencies				
US$ (functional currency being HK$)	26,681	53,715	68,319	75,039
US$ (functional currency being RMB)	27,025	35,003	45,921	4,734
RMB (functional currency being HK$)	(1,613)	(1,607)	(1,870)	(1,257)

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 denominate 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$ respectively on the net monetary assets/liabilities denominated in US$ and RMB respectively as at the end of each of the reporting periods (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/period and retained earnings			
	Year ended 31 December			Nine months ended 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
US$ appreciated by 5%	1,013	1,313	1,722	178
RMB appreciated by 5%	(67)	(67)	(78)	(52)

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$ respectively would have the same magnitude on the result of the Group but of opposite effect.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The unaudited pro forma adjusted combined net tangible assets were prepared for illustrative purposes only and may not give a true picture of the financial position of the Group due to its hypothetical nature. For further details, please refer to the section headed "Unaudited Pro Forma Financial Information" in Appendix II to this prospectus.

	Combined net tangible assets of the Group as at 30 September 2019	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted combined net tangible assets of the Group	Unaudited pro forma adjusted combined net tangible assets per Share
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*
Based on Offer Price of HK$0.335 per Offer Share	176,414	52,031	228,445	0.1523
Based on Offer Price of HK$0.38 per Offer Share	176,414	59,119	235,533	0.1570

Notes:

1. The combined net tangible assets of the Group as at 30 September 2019 are based on the combined net assets of the Group as at 30 September 2019 of HK$176,414,000 as shown in the Accountants' Report set out in Appendix I to this prospectus.

2. The estimated net proceeds to be received by the Group from the Share Offer are based on 187,500,000 New Shares and the Offer Price of HK$0.335 per Offer Share (being the low-end of the indicative Offer Price range between HK$0.335 to HK$0.38 per Offer Share) and HK$0.38 per Offer Share (being the high-end of the indicative Offer Price range between HK$0.335 to HK$0.38 per Offer Share), respectively after deduction of the underwriting fees and related expenses payable by the Group which has not been reflected in combined net tangible assets of the Group as at 30 September 2019, taking into account the portion of listing fees to be shared by the Selling Shareholder. No account has been taken of any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme.

3. The unaudited pro forma adjusted combined net tangible assets of the Group per Share is calculated based on 1,500,000,000 Shares, being the Shares in issue immediately following the completion of the Capitalisation Issue and the Share Offer but takes no account of any Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix V to this prospectus.

4. The unaudited pro forma adjusted combined net tangible assets of the Group and the unaudited pro forma adjusted combined net tangible assets of the Group per Share have not taken into account the deemed distribution of approximately HK$135,500,000 to the then shareholders of the Group proposed in February 2020 (the "**Distribution**"), which is to be settled by offsetting the equivalent amounts in the relevant current accounts of a fellow subsidiary. The unaudited pro forma adjusted combined net tangible assets of the Group would have been decreased to HK$92,945,000 and HK$100,033,000 respectively based on the Offer Price of HK$0.335 per Offer Share and HK$0.38 per Offer Share, after taking into account the Distribution and as if the Distribution had taken place on 30 September 2019.

5. No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets of the Group to reflect any trading results or other transactions of the Group entered into subsequent to 30 September 2019.

LISTING EXPENSES

The Directors estimate that the total amount of listing cost, including underwriting fees, in relation to the Listing is approximately HK$44.6 million (based on the Offer Price of HK$0.3575 per Offer Share, being the mid-point of the indicative Offer Price range) with (i) an amount of approximately HK$27.0 million being directly attributable to the issue of the Share Offer; and (ii) an amount of approximately HK$17.6 million being charged to profit or loss of the Group, and both said amounts will be borne by the Group and the Selling Shareholder in equal shares. With respect to the said HK$27.0 million directly attributable to the issue of the Share Offer, approximately half of which is expected to be accounted for as a deduction from equity by the Group upon Listing and the remaining half is to be borne by the Selling Shareholder. With respect to the said HK$17.6 million being charged to profit or loss, an amount of approximately HK$8.8 million borne by the Selling Shareholder is expected to be recognised as capital contribution from the Selling Shareholder. Approximately HK$10.8 million has been charged to profit and loss during the Track Record Period. The remaining amount of approximately HK$6.8 million is expected to be incurred and charged to the income statement for the three months ended 31 December 2019 and year ending 31 December 2020. Expenses in relation to the Listing are one-off and non-recurring in nature. The Board wishes to inform the Shareholders and potential investors that the Group's financial performance and results of operations for the year ended 31 December 2019 and the year ending 31 December 2020 will be affected by the estimated expenses in relation to the Listing.

DISTRIBUTABLE RESERVES

The Company was incorporated on 5 December 2018 and is an investment holding company. There were no reserves available for distribution to the Shareholders as at the Latest Practicable Date.

DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation and no dividend has been paid or declared or proposed to declare by other companies comprising the Group during the Track Record Period and up to the Latest Practicable Date.

Save as mentioned above, no dividend has been paid or declared by companies comprising the Group during the Track Record Period and up to the Latest Practicable Date. Subject to the Companies Law and the Memorandum and Articles of the Company, through a general meeting, the Company may declare dividends in any currency but no dividend may be declared in excess of the amount recommended by the Directors. The Group's Articles provide that dividend may be declared and paid out of profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Directors determined no longer needed. With the sanction of an ordinary resolution, dividend may also be declared and paid out of the share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

The Group currently intend to adopt, after its listing, a general annual dividend policy of declaring and paying dividends on an annual basis of a range between 20–40% of its distributable profit for any particular financial year. The Board has the absolute discretion to decide whether to recommend payment of dividends in any year. Such discretion is subject to the applicable laws and regulations including the Companies Law and the Group's Articles which also require the approval of the Shareholders. There is no assurance that dividends of such amount or any amount will be declared or distributed each year or in any year.

DEEMED DISTRIBUTION

In addition, the Group proposed to deemed distribution of approximately HK$135,500,000 to the then Shareholders of the Group in February 2020. This deemed distribution will be fully settled prior to the Listing Date by offsetting the equivalent amounts in the relevant current accounts of amount due from a fellow subsidiary. Taking into account of the Group's available financial resources and the net proceeds from the Share Offer, the Directors consider that there is no material adverse impact on the Group's financial and liquidity position arising out of the deemed distribution.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that, up to the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects of the Group since 30 September 2019 (being the date to which the latest unaudited combined financial statements of the Group were prepared), and there is no event since 30 September 2019 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

PROFIT ESTIMATE FOR FY2019

The Directors have prepared the following profit estimate for FY2019.

Estimated combined profit attributable to owners of the Company	Not less than HK$44.5 million
Unaudited pro forma estimated earnings per Share	Not less than HK$0.029

The profit estimate, for which the Directors are solely responsible, has been prepared by them based on the audited combined results for 9M2019 in the Accountant's Report as set out in Appendix I to this prospectus and the unaudited combined results based on the management accounts of the Group for the three months ended 31 December 2019.

The calculation of the unaudited pro forma estimated earnings per Share for FY2019 is based on the estimated unaudited combined profit attributable to the owners of the Company for FY2019 and on the assumptions that a total number of 1,500,000,000 Shares had been in issue throughout FY2019.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Directors have confirmed that as of the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

BUSINESS OBJECTIVES AND STRATEGIES

The Group's objective is to capture the continuing growth opportunities for the Group to expand its market share in the electric tools and electric fans supply industry and to enhance its profitability as well as maximize shareholder value. The Directors intend to achieve the Group's objectives by pursuing the following strategies:

- Improve the Group's efficiencies in its daily operations

- Strategically expand the Group's manufacturing capabilities through vertical integration, including investing in the manufacturing process for DC motors, battery packs and LED lights packaging production

- Devote resources on new products and applications

- Set up an e-commerce sales function to improve the reach of the Group's sales network

For further details of the Group's strategies, see "Business — Business Strategies" in this prospectus.

REASONS FOR THE LISTING

The Directors are of the view that the net proceeds to be received from the Share Offer will enable the Group for further growth and expansion due to the below reasons:

- as Shell Holdings, the Controlling Shareholder, would like to focus its resources into its property development business, Shell Holdings will no longer allocate its resources to the Group. Without the support from Shell Holdings and the Listing, the Group will not have the sufficient resources to carry out its business strategies as stated in this section. As such, the Directors believe that the Listing is meaningful for the Group to obtain the necessary funding for the implementation of its business strategies;

- given Shell Holdings will no longer allocate its resources or share its financing capabilities, such as the share usage of banking facilities and providing corporate guarantees for such banking facilities, with the Group, the Directors believe that the Listing will provide a separate fund-raising platform for the Group's future development;

- the Group will be able to invest further into its production facilities in order to serve its existing or any new customers. The Directors are of the view that, given the increasing demand for its products from the U.S. Customer and the growth of the electric tools market during the Track Record Period, the Listing will allow the Group to utilize the proceeds and expand its manufacturing capabilities further to cater for the needs of the U.S. Customer whilst improving the Group's profitability;

- the Listing will provide the Group with proceeds to acquire production machineries that will improve the Group's production efficiencies and capabilities. The Group will utilise the proceeds to purchase automation robots which will become part of the production processes that will enhance the speed of which the Group can produce its products. Furthermore, the production machineries will enable the Group to have the capability to produce DC motors, battery packs and LED lights packaging, which are critical parts of the Group's products, so that the Group will be able to better control the supply of major components of its products and generate additional profit via such vertical integration;

- the Group's existing production facilities, apart from the production line for its own "SMC" cordless fans and other electric tools, have been set up solely for the Group's largest customer, the U.S. Customer. As the production lines have been set up uniquely for the production of the U.S. Customer's products, with certain machines tailored for their products' shapes and sizes, the Directors believe it is time consuming and economically inefficient to adjust its current production lines to produce for other new products other than the U.S. Customer;

- currently, as most of the Group's manufacturing process involves assembly of parts into a finished product and the packaging of said finished products into the packages as required by the Group's customers, the Group relies on its production workers in these two processes. In order to expand the Group's manufacturing capabilities, including investing in the manufacturing process for DC motors, battery packs and LED lights packaging production, which require the precision and efficiency of work provided by machines instead of labour, the Group requires additional funding for the purchase of the required machineries. Due to this reason, the Group requires external funding for its capital investment into new production lines in order to be able to have the capacity to produce for new potential customers or its own products;

- the Group experiences a timing mismatch the payment it makes to its suppliers and receipts from its customers. For the Group's two largest customers, they are granted a credit term of 120 and 45 days from invoice date respectively, whilst the credit terms granted to the Group by its suppliers are up to 120 days from invoice date. As there is a timing difference between the time it receives invoice from suppliers and the time it issues invoice to its customers due to production lead time and time required for transportation of finished goods, it causes a time lag between the moment the Group incurs cash outflow when it has to pay its suppliers and the moment the Group receives cash inflow when its customers make payments to the Group. It therefore limits the Group to take on more orders from current customers and/or new potential customers, which may hinder the continuous growth and expansion of business as the time mismatch limits the Group's ability to make long term investments, such as the purchasing of production and automation machineries, as the Directors are of the prudent view that since the Group experiences such timing mismatch, the Group is better placed if it maintains a certain level of working capital for contingencies;

- according to Ipsos Report, the market size by revenue of the electric fans, vacuum cleaners and portable lights manufacturing industry in the PRC is forecast to grow to approximately RMB62.3 billion, RMB82.3 billion and RMB39.0 billion in 2023 from approximately RMB47.7 billion, RMB53.0 billion and RMB29.7 billion in 2019 at a CAGR of approximately 6.9%, 11.6% and 7.1% respectively. The Directors believe that the implementation plan of the Group's business strategies, particularly for establishment of additional production capabilities and enhancement of quality control is a key driver for the Group's sustainable business growth which involves significant capital outlay and will require considerable additional financial resources. Having considered the Group's current bank borrowing level, the Directors believe that Listing is strategically significant to the long-term growth of the Group's business as it provides the financial resources for the Group's expansion to capture emerging potential for the PRC electric tools markets;

- as at 30 September 2019, all the Group's bank borrowings were on a short-term basis which were repayable within one year or contain a repayable on demand clause. Therefore, the Group is required to seek other sources of financing to reduce or delay capital expenditures or forego business opportunities. The Listing will provide a platform for the Group's fund raising in the future through equity financing and enhance the liquidity of the Shares which will be freely traded on the Stock Exchange when compared to the limited liquidity of the Shares when they are held before the Listing. The Directors believe that a listing status could help enhance the Group's creditworthiness to banks to facilitate its future financing needs at more competitive terms;

- the Listing will provide a separate fund-raising platform for the Company to gain direct access to both equity and/or debt capital markets and without reliance on Shell Holdings. The Listing will also facilitate the securing of bank credit facilities to fund the Group's existing operations and future expansion, thereby accelerating the Group's expansion and improving its operating and financial performance, which will in turn result in better financial returns to shareholders of the Group; and

- as any trade restrictions imposed by the U.S. on the Group's products could significantly increase the customers' purchase costs of the Group's products manufactured at the PRC production bases, the customers may use other manufacturers whose the production base is located in Vietnam or Cambodia instead of the Group for delivery to the U.S. in order to avoid cost increases in the long run. The Group is in consideration of any impact from the above and the Directors are of the view that the Listing will provide a fund raising channel which the Group may raise fund in future from the market in the event that the Group requires any additional funding to move any of its production lines out of the PRC to other places such as Vietnam or Cambodia in order to maintain its competitiveness.

The Listing is expected to enhance the value of the Group as the Listing is expected to:

(i) enhance the Group's profile as a separately listed group and the Group will be able to build on its reputation further amongst its customers, suppliers, and other business partners and be in a better position to negotiate and solicit more business, as well as its ability to recruit good talents available;

(ii) lead to a more direct alignment of management's responsibilities and accountability with the Group's operating and financial performance, as a result of heightened scrutiny of the investor community. This is anticipated to enhance management focus, lead to faster response-time to market changes as well as increase operational efficiency. It will be relatively easier to measure the management's performance against the stock market performance of the Company in comparison with industry peers listed on the Stock Exchange. It will also be possible to link management incentives to performance, thereby increasing management motivation and commitment;

(iii) provide clarity on the credit profile of the Company for financial institutions that wish to analyse and lend against the credit of a company engaged in similar business; and

(iv) enhance the Group's corporate profile, thereby increasing its ability to attract strategic investors which could provide synergy with the Group as well as investment in and forming strategic partnerships directly with the Group.

Furthermore, the Directors believe that the Listing enables the Group to enjoy various benefits as summarized below which not only enable the Group to achieve its business objectives, but also facilitate its future development:

(i) *Improve the efficiency of the Group's existing production process:* the utilisation rate of the Group's production facilities has reached approximately 141.3% and 138.6% for cordless fans and vacuum cleaners, respectively for the nine months ended 30 September 2019. By upgrading the Group's production facilities by bringing in automation robots into the Group's production process, the Directors believe that production efficiency will be greatly improved and at the same time lessen the chances of human error thereby reducing production wastage;

(ii) *Potential market growth and implementation of strategies:* the net proceeds from the Listing provide the Group with financial resources to implement its business plans which in turn drive the growth of its business. According to the Ipsos Report, the export value of the fans, vacuum cleaners and portable lights industry in the PRC will continue to be driven by the increase in export tax rebates to support foreign trades effective from 1 November 2018 as announced by the State Council of the PRC, with an estimated CAGR of approximately 5.1%, 3.6% and 0.9% respectively for the period from 2019 to 2023. The Directors believe that, through expanding the Group's production capacities by having the production capabilities of DC motors, battery packs and LED packaging, the Group will benefit from capturing such market growth and more business opportunities;

(iii) *Strengthen financial position for capturing potential business opportunities:* the Group normally requires one to two months' time to complete the production process and the capacity to capture more business opportunities may be limited to the available working capital and cash flow. The Directors believe that the Group's customers will prefer doing business with a listed company to a private company given the formers' greater transparency, stringent regulatory supervision and stronger financial stability generally. The Listing will therefore serve to promote the Group's corporate profile and brand awareness. It is expected that customers would tend to prefer their suppliers having a public listing status with good reputation, transparent financial disclosures and general regulatory supervision. Moreover, the Directors believe that the Listing will strengthen the Group's internal control and corporate governance practices, which in turn would increase the Group's customers' and suppliers' confidence in the Group and further attract potential customers. With such status, the Group can be differentiated from other competitors in the industry;

(iv) *Access to the capital markets:* as at 31 December 2019, the total current liabilities amounted to approximately HK$88.2 million and the Group's cash and bank balances of approximately HK$19.3 million. As at the Latest Practicable Date, the Group had unutilised banking facilities of approximately HK$6.4 million as the Group obtained two banking facilities under the name of the Group's subsidiaries from two banks with facility amount of approximately HK$10.0 million each. Financial institutions generally require borrowers to provide assets as securities for loans. However, the Group does not own any property. The Directors therefore consider that the Group may not be able to implement its expansion plans, which primarily includes long term capital expenditure investments, by solely relying on debt financing as the Group's available long term assets are unlikely to be sufficient or acceptable to provide the loan security required for financing its future plans. The Directors also considered that debt financing is not desirable having considered the Group's interest to be incurred would impair its financial position. In comparison, the Listing represents a good opportunity for the Group to tap into the capital market which provides a more cost effective fund-raising platform to assist the Group's actual and practical needs for its future business development plan and further strengthen its competitiveness; and

(v) *Other commercial benefits:* the Group will benefit from the Listing by (i) the enhanced corporate image, profile and credibility which in turn not only expands the Group's clientele, but also increases its bargaining power in negotiating terms with customers and suppliers; (ii) the enhanced internal control and corporate governance practices resulting in increase in customers' and suppliers' confidence in the Group; (iii) the ability to retain management and technical personnel and to hire suitable talents by offering more competitive salary packages; and (iv) maintaining banking facilities without reliance on personal guarantees and corporate guarantees from the Group's Directors and Controlling Shareholders, respectively.

USE OF PROCEEDS

The total amount of the listing expenses and the underwriting fees in connection with the Share Offer to be incurred by the Group and the Selling Shareholder will be in equal share. On the basis that the Offer Price is HK$0.3575 (being the mid-point of the indicative range of the Offer Price), the Directors estimate that the net proceeds to be received from the Share Offer (after deducting underwriting fees, brokerage, the Stock Exchange trading fee and SFC transaction levy) by the Group will be approximately HK$44.7 million. The Directors presently intend to apply such net proceeds as follows:

- approximately 14.1% of the net proceeds or approximately HK$6.3 million, will be used for the improvement of the Group's efficiencies in its daily operations, allocated as below:

  (i) approximately 4.7%, or HK$2.1 million, will be used for upgrading the current production lines of the Group by purchasing machines capable of automation in specific procedures within the Group's current production process, including automation robots for soldering and screwing processes, including approximately HK$0.4 million for hiring an assembly line specialist to maintain and operate the machines; and

  (ii) approximately 9.4%, or HK$4.2 million, will be used for acquiring machines capable of automating the logistics part of the production process, including machines for the transfer of finished goods to a designated area and automatic guided vehicle for transporting said finished goods for the forwarders for pick up.

- (i) approximately 62.9% of the net proceeds or approximately HK$28.1 million and (ii) approximately HK$1.9 million of the Group's internal resources, for strategically expanding the Group's manufacturing capabilities by setting up new assembly lines for the production of DC motors, battery packs and LED lights packaging production, including approximately HK$0.5 million for hiring an assembly line specialist and two engineers to maintain and operate the machines and two engineers to work on the inner schematics and improvements of the motors, battery packs and LED lights packaging. According to the Ipsos Report, DC motors have the advantages of (i) higher starting torque; (ii) quick starting and stopping, reversing, variable speeds with voltage input; and (iii) easier to control than AC motors. As the Group's products, including the cordless fans products under its own "SMC" brand and electric tools produced for the U.S. Customer and the vacuum cleaners produced for the U.S. Customer require the advantages provided by DC motors, the Group intends to invest in the production of DC motors. Currently, the Group purchases from its suppliers DC motors in the production of cordless fans under its own "SMC" brand and electric tools produced for the U.S. Customer and the vacuum cleaners produced for the U.S. Customer. The Directors believe that the upward integration of the production of

DC motors into the Group's production facilities is beneficial to the long term profitability of the Group as it provides the Group with a stable supply of a key component in the production of its products.

The Directors are of the view that LED lighting technology has an advantage over traditional lighting technology, with the most apparent being energy efficiency, and hence cost savings. The Group intends to apply a portion of the proceeds to invest into the production of LED lights. According to the Ipsos Report, LED lights are becoming more prevalent for multiple applications, such as monitors, backlights and general lightings. Work lights are one of the general lightings with a massive application of LED lights. The demand growth for LED lights is generally driven by (i) LED being no longer a niche market and is being promoted internationally; (ii) decreasing price of LED lighting products and (iii) product competitiveness including longer life span and energy efficiency. Currently, the Group purchases from its suppliers LED lights to be inputted into its work lights sold to its customer. In the long-term, the Group plans to produce LED lights for the work lights sold to its customer and introduce either its own LED work lights under its "SMC" brand or solicit to produce LED work lights for another electric tools brand owner.

Moreover, during FY2018, the Group began producing its own "SMC" brand cordless fans for sales in Hong Kong. The Directors intend to expand the production capacity for the Group's own cordless fans so that the Group can expand its sales to the overseas market.

- approximately 23.0% of the net proceeds or approximately HK$10.3 million, for devoting resources on new products, allocated as below:

  (i) approximately 13.9%, or HK$6.2 million, will be used for upgrading the testing and product development center to become a technology center for the design of new products and testing laboratory for electric tools;

  (ii) approximately 3.1%, or HK$1.4 million, will be used for hiring the relevant technicians with the required experience in designing, developing and testing of electric tools; and

  (iii) approximately 6.0%, or HK$2.7 million, will be used for investment into moulds and toolings for new products such as work lights under the Group's "SMC" brand and/or for another brand owner.

In addition, the Group intends to apply approximately HK$7.4 million of its internal resources, for using to set up an e-commerce sales function to improve the reach of the Group's sales network.

Based on the above, the total capital expenditure for the Group's future plans and use of proceeds amount to approximately HK$44.3 million.

It is the current intention of the Directors to use the net proceeds from the Listing for its future plans. In the event that the Group would require additional financing apart from the net proceeds from the issue of the Offer Shares for its future plans, the shortfall will be financed by the Group's internal resources and bank financing as appropriate.

To the extent that the net proceeds from the Share Offer are not immediately required for the above purposes and to the extent permitted by applicable laws and regulations, if the Group is unable to effect any part of its future plans as intended, it is the present intention of the Directors that such net proceeds be placed in short-term interest bearing deposit accounts held with banks in Hong Kong.

The Directors estimate that the Selling Shareholder will receive net proceeds of approximately HK$44.7 million at the Offer Price of HK$0.3575 per Share (being the mid-point of the indicative range of the Offer Price) after deducting related underwriting fees and estimated expenses in connection with the Share Offer. The Group will not receive any proceeds from the Sale Shares.

In the event that the Offer Price is fixed at HK$0.335 or HK$0.38 (being the respective low end and high end of the indicative range of the Offer Price as stated in this prospectus), the net proceeds of the Share Offer to be received by the Company are approximately HK$41.2 million and HK$48.3 million, respectively. The Group currently intends to apply the aforesaid net proceeds in the same manner and in the same proportion as shown above.

IMPLEMENTATION PLANS

In order to achieve the aforementioned business objectives, set forth below are the Group's implementation plans for each of the six-month periods from the Latest Practicable Date to 31 December 2021.

For the Latest Practicable Date to 30 June 2020

Business strategies	Implementation plans	Funded by the Share Offer	Funded by the Group's internal resources
Improvement of efficiencies in daily operations	• Purchase of automation robots and applying them to the Group's manufacturing process	• HK$2.9 million	• N/A
Expand manufacturing capabilities	• Invest in the production capabilities of DC motors, LED lights packaging and battery pack production by purchasing the necessary equipment and setting up the required production lines	• HK$6.0 million	• N/A
	• Salaries for assembly line specialist and engineers	• HK$0.2 million	• N/A
Devoting resources on new products	• Invest in moulds and toolings for new models/products such as work lights	• HK$0.5 million	• N/A

For the six months ending 31 December 2020

Business strategies	Implementation plans	Funded by the Share Offer	Funded by the Group's internal resources
Improvement of efficiencies in daily operations	• Purchase of automation robots and applying them to the Group's manufacturing process	• HK$3.0 million	• N/A
	• Salaries for assembly line specialist	• HK$0.2 million	• N/A
Expand manufacturing capabilities	• Invest in the production capabilities of DC motors, LED lights packaging and battery pack production by purchasing the necessary equipment and setting up the required production lines	• HK$10.9 million	• N/A
	• Salaries for assembly line specialist and engineers	• HK$0.3 million	• N/A
Devoting resources on new products	• Invest in moulds and toolings for new models/products such as work lights	• HK$1.2 million	• N/A
	• Use of technology center for design of electric tools	• HK$1.8 million	• N/A
	• Salaries for employees to be hired for technology center	• HK$0.7 million	• N/A

For the six months ending 30 June 2021

Business strategies	**Implementation plans**	**Funded by the Share Offer**	**Funded by the Group's internal resources**
Improvement of efficiencies in daily operations	• Salaries for assembly line specialist	• HK$0.2 million	• N/A
Expand manufacturing capabilities	• Invest in the production capabilities of DC motors, LED lights packaging and battery pack production by purchasing the necessary equipment and setting up the required production lines	• HK$7.8 million	• N/A
Devoting resources on new products	• Invest in moulds and toolings for new models/products such as work lights	• HK$1.0 million	• N/A
	• Use of technology center for design of electric tools	• HK$1.8 million	• N/A
	• Salaries for employees to be hired for technology center	• HK$0.7 million	• N/A

For the six months ending 31 December 2021

Business strategies	Implementation plans	Funded by the Share Offer	Funded by the Group's internal resources
Expand manufacturing capabilities	• Invest in the production capabilities of DC motors, LED lights packaging and battery pack production by purchasing the necessary equipment and setting up the required production lines	• HK$2.9 million	• HK$1.9 million
Devoting resources on new products	• Use of technology center for design of electric tools	• HK$2.6 million	• N/A
Set up of e-commerce sales function	• Set up of an e-commerce platform or leverage on the services provided by well-established e-commerce platforms	• N/A	• HK$7.4 million

	From the Latest Practicable Date to 30 June 2020		31 December 2020		For the six months ending 30 June 2021		31 December 2021		Total		Approximate % of the net proceeds from the Share Offer
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	
	Funded by the Share Offer	Funded by the Group's internal resources	Funded by the Share Offer	Funded by the Group's internal resources	Funded by the Share Offer	Funded by the Group's internal resources	Funded by the Share Offer	Funded by the Group's internal resources	Funded by the Share Offer	Funded by the Group's internal resources	
Improvement of efficiencies	2.9	—	3.2	—	0.2	—	—	—	6.3	—	14.1%
Expand manufacturing capabilities	6.2	—	11.2	—	7.8	—	2.9	1.9	28.1	1.9	62.9%
Devoting resources on new products	0.5	—	3.7	—	3.5	—	2.6	—	10.3	—	23.0%
Set up of e-commerce sales function	—	—	—	—	—	—	—	7.4	—	7.4	—
	9.6	—	18.1	—	11.5	—	5.5	9.3	44.7	9.3	100%

BASES AND KEY ASSUMPTIONS

The Directors have adopted the following principal assumptions in the preparation of the business objectives:

(a) there will be no material change in the existing political, legal, fiscal or economic conditions in the PRC, Hong Kong or in any other places in which any member of the Group carries on or will carry on business;

(b) there will be no outbreak of contagious diseases or occurrence of force majeure events or natural disasters in the PRC, Hong Kong or any other places in which any member of the Group operates or will operate or is incorporated, which would materially disrupt the Group's business operations or cause substantial loss, damage or destruction to the Group's properties or facilities;

(c) there will be no material change in the existing laws, regulations, policies or industry standards in the PRC, Hong Kong or any part of the world relating or applicable to the Group;

(d) there will be no material change in the bases or rates of taxation in the PRC, Hong Kong or in any other places in which any member of the Group operates or will operate or is incorporated;

(e) the Share Offer will be completed in accordance with and as described in "Structure of the Share Offer";

(f) the Group is able to retain the Group's key management personnel, employees, customers and suppliers;

(g) the Group will not be materially affected by any risk factors set out in the section headed "Risk Factors" in this prospectus;

(h) there will be no change in the effectiveness of any licences and permits obtained by the Group;

(i) the Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate; and

(j) the Group will be able to continue its operations in substantially the same manner as it had been operating during the Track Record Period and the Group will be able to carry out the development plans without disruptions adversely affecting its operations or business objectives in any way.

PUBLIC OFFER UNDERWRITERS

Joint Bookrunners

Futu Securities International (Hong Kong) Limited
CMBC Securities Company Limited
Essence International Securities (Hong Kong) Limited
First Shanghai Securities Limited
Guosen Securities (HK) Capital Company Limited
Guotai Junan Securities (Hong Kong) Limited
Red Sun Capital Limited
Shanxi Securities International Limited

Joint Lead Managers

Guotai Junan Securities (Hong Kong) Limited
Quasar Securities Co., Limited
Pacific Foundation Securities Limited
Essence International Securities (Hong Kong) Limited

UNDERWRITING ARRANGEMENTS, COMMISSIONS AND EXPENSES

Public Offer

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, the Company has agreed to initially offer 187,500,000 New Shares for subscription by members of the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to, among other conditions, the granting of the approval for the listing of, and permission to deal in, all the Shares in issue and any Shares to be issued as mentioned in this prospectus by the Stock Exchange and certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have severally, but not jointly nor jointly and severally, agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares which are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement. In addition, the Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been executed, becoming, and continuing to be, unconditional and not having been terminated.

Grounds for termination

The respective obligations of the Public Offer Underwriters to subscribe, or procure subscribers for, the Public Offer Shares under the Public Offer Underwriting Agreement are subject to termination. The Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) shall have the absolute right to, acting jointly, terminate the Public Offer Underwriting Agreement by notice in writing to the Company with immediate effect if, at any time prior to 8:00 a.m. on the Listing Date:

(a) there has come to the notice of the Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Public Offer Underwriters or any of them:

(i) any matter or event showing any of the representations, warranties and undertakings contained in the Public Offer Underwriting Agreement to be untrue, inaccurate or misleading in any material respect when given or repeated or there has been a material breach of any of the representations, warranties and undertakings contained in the Public Offer Underwriting Agreement or any other provisions of the Public Offer Underwriting Agreement by any party thereto (other than the Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters) which, in any such cases, is considered, in the absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters), to be material in the context of the Share Offer; or

(ii) any statement contained in this prospectus and the Application Forms, the application proof of this prospectus, the post hearing information pack, the Formal Notice and any announcements issued by the Company (including any supplement or amendment to each of the said documents) has become or been discovered to be untrue, incorrect or misleading in any material respect which is considered, in the absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters), to be material in the context of the Share Offer; or

(iii) any event, series of events, matter or circumstance occurs or arises on or after the date of the Public Offer Underwriting Agreement and before 8:00 a.m. on the Listing Date, being an event, matter or circumstance which, if it had occurred before the date of the Public Offer Underwriting Agreement, would have rendered any of the representations, warranties and undertakings contained in the Public Offer Underwriting Agreement untrue, incorrect or misleading in any material respect, and which is considered, in the absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters), to be material in the context of the Share Offer; or

(iv) any matter which, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted, in the absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters), a material omission in the context of the Share Offer; or

(v) any event, act or omission which gives or is likely to give rise to any liability of a material nature of the Company arising out of or in connection with the material breach of any of the representations, warranties and undertakings contained in the Public Offer Underwriting Agreement; or

(vi) any breach by any party to the Public Offer Underwriting Agreement (other than the Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters) of any provision of the Public Offer Underwriting Agreement which, in the absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters), is material in the context of the Share Offer; or

(vii) any event, act or omission which gives or is likely to give rise to any material liability of any of the Controlling Shareholders and the Company pursuant to the indemnification provisions under the Public Offer Underwriting Agreement; or

(viii) any material adverse change or development involving a material adverse change in the assets, liabilities, conditions, business affairs, profits, losses or financial or trading position or performance of any members of the Group; or

(ix) any event, series of events, matters or circumstances occurs or arises on or after the date of the Public Offer Underwriting Agreement and before 8:00 a.m. on the Listing Date, being events, matters or circumstances which, if it had occurred before the date of the Public Offer Underwriting Agreement would have rendered any of the warranties contained in the Public Offer Underwriting Agreement untrue, incorrect or misleading in any material respect, and comes to the knowledge of the Sponsor, the Joint Bookrunners, the Joint Lead Managers or any of the Underwriters and which is considered, in the absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters), to be material in the context of the Share Offer; or

(b) there shall have developed, occurred, existed, or come into effect any event or series of events, matter or circumstance whether occurring or continuing before, on and/or after the date of the Public Offer Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:

(i) any new law or regulation or any change in existing laws or regulations, or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC, the BVI, the Cayman Islands or any of the jurisdictions in which the Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or any other jurisdiction relevant to the business and/or operation of the Group (the "**Relevant Jurisdictions**") which in the absolute opinion of the Joint

Bookrunners (for themselves and on behalf of the Public Offer Underwriters) will have a material adverse impact on the business of the Group; or

(ii) any change in, or any event or series of events or development resulting in any change in local, regional or international financial, equity securities, currency, political, military, industrial, economic, stock market or other market conditions or prospects in or affecting the Relevant Jurisdictions which in the absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) will have a material adverse impact on the business of the Group; or

(iii) any change in the system under which the value of the Hong Kong dollars is linked to that of the U.S. dollars; or

(iv) the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or

(v) any change or development involving a change in taxation or exchange control (or the implementation of any exchange control) in the Relevant Jurisdictions which in the absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) will have a material adverse impact on the business of the Group; or

(vi) any change or prospective change in the business or in the financial or trading position or prospects of any member of the Group of material importance; or

(vii) the imposition of economic sanction or withdrawal of trading privileges, in whatever form, by any of the Relevant Jurisdictions or on any of the Relevant Jurisdictions by the United States of America, European Union or the United Nations which in the absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) will have a material adverse impact on the business of the Group; or

(viii) a general moratorium on commercial banking activities or disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance service in or affecting Hong Kong; or

(ix) any event of force majeure including, without limiting the generality thereof, any act of God, military action, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, terrorism (whether or not responsibility has been claimed), strike or lock-out which in the absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) will have a material adverse impact on the business of the Group; or

(x) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or crisis involving or affecting the Relevant Jurisdictions which in the absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) will have a material adverse impact on the business of the Group; or

(xi) a valid demand by any creditor for repayment or payment of any material indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity (save as to those disclosed in this prospectus); or

(xii) any material loss or damage sustained by any member of the Group (howsoever caused and whether or not the subject of any insurance or claim against any person) (save as to those disclosed in this prospectus); or

(xiii) a petition is presented for the winding-up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group (save as to those disclosed in this prospectus); or

(xiv) any litigation or claim of material importance of any third party being instigated or threatened against any member of the Group (save as to those disclosed in this prospectus),

(xv) (aa) any adverse change or development involving an adverse change or deterioration, or any event or series of events resulting in any adverse change or deterioration, or development involving an adverse change or deterioration, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange, or a material devaluation of the Hong Kong dollar or the Renminbi respectively against any other currencies, or any disruption in monetary or trading or securities settlement or clearance services, procedures or matters) in or affecting Hong Kong, the PRC or any other jurisdiction relevant to any member of the Group; or (bb) any deterioration of any pre-existing local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions in or affecting Hong Kong, the PRC or any other jurisdictions relevant to any member of the Group which in the absolute opinion of the

Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) will have a material adverse impact on the business of the Group; or

(xvi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, the United States of America or the European Union (or any member thereof) on the PRC or any Relevant Jurisdiction which in the absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) will have a material adverse impact on the business of the Group; or

(xvii) an adverse change or development involving an adverse change in taxation or exchange control, currency exchange rates or foreign investment regulations (or the implementation of any exchange control) in the Relevant Jurisdictions or any other jurisdiction relevant to any member of the Group adversely affecting an investment in the Shares (save as to those disclosed in this prospectus) which in the absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) will have a material adverse impact on the business of the Group; or

(xviii) the Directors being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

(xix) the chairman or the chief executive officer of the Company vacating his office; or

(xx) the commencement by any governmental, regulatory or political body or organisation of any action against the Directors which if determined adversely against such Director, would materially and adversely affect the ability of such Director to perform his duties and responsibilities for the Company or an announcement by any governmental, regulatory or political body or organisation that it intends to take any such action; or

(xxi) a contravention in any material respect by any member of the Group of the Listing Rules or applicable laws; or

(xxii) a prohibition on the Company for whatever reason from allotting the Shares pursuant to the terms of the Share Offer; or

(xxiii) material non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription of the Shares) with the Listing Rules or any other applicable law;

which, in the absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters):

(i) is or will be, or is likely to be, adverse, in any material respect, to the business, financial, trading condition of the Group taken as a whole; or

(ii) has or will have or is likely to have a material adverse effect on the success of the Share Offer as a whole or the level of the Offer Shares being demanded, applied for or accepted or the distribution of the Offer Shares; or

(iii) for any reason makes it impracticable, inadvisable or inexpedient for the Public Offer Underwriters to proceed with the Public Offer as a whole.

For the above purpose:

(i) a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the U.S. or any change of the value of Hong Kong currency under such system shall be taken as an event resulting in a change in currency conditions; and

(ii) any market fluctuations, whether or not within the normal range therefor, may be considered as a change of market conditions referred to above.

Undertakings pursuant to the Public Offer Underwriting Agreement

Undertakings by the Company

Pursuant to the Public Offer Underwriting Agreement, the Company has undertaken to and covenanted with each of the Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters that, and each of the Controlling Shareholders and the executive Directors has jointly and severally undertaken to and covenanted with the Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters to procure that, without the prior written consent of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) and unless in compliance with the requirements of the Listing Rules, except for the issue of Shares under the Share Offer, the issue of Shares pursuant to the Capitalisation Issue, the grant of any option under the Share Option Scheme, or the issue of Shares upon exercise of any option granted under the Share Option Scheme, neither the Company nor any of its subsidiaries from time to time shall:

(i) at any time during the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholders is made in this prospectus and ending on the date which is six months from the Listing Date (the "**First Six-month Period**"), offer, allot, issue, agree to allot or issue, sell, lend, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any options, rights or warrants to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, or repurchase any of the share capital or other securities of the Company or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein), or enter into any swap, derivative, repurchase, lending, pledge or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of share capital or such other securities, in cash or otherwise, or publicly disclose that the Company will or may enter into any of the foregoing transactions (whether or not such transaction will be completed in the aforesaid period); or

(ii) at any time during the period of six months immediately after the expiry of the First Six-month Period (the "**Second Six-month Period**"), issue or grant (conditionally or unconditionally) any options or right to subscribe for or otherwise convert into or exchange for Shares or securities of the Company so as to result in any of the Controlling Shareholders ceasing to be a controlling shareholder (as defined in the Listing Rules) of the Company,

and in the event the Company enters into any transaction specified in sub-paragraph (i) above during the Second Six-month Period (whether or not such transaction will be completed in the aforesaid period), it shall take all reasonable steps to ensure that any such transaction, agreement or, as the case may be, announcement will not create a disorderly or false market in the securities of the Company.

Undertakings by the Controlling Shareholders

Each of the Controlling Shareholders undertakes with the Company, the Sponsor, the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) that, without the prior written consent of the Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) and unless in compliance with the requirements of the Listing Rules, it/he shall not, and shall procure that none of its/his close associates or companies controlled by it/him or any nominees or trustees holding in trust for it/him shall:

(i) at any time during the First Six-month Period, sell, transfer or otherwise dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of the Company in respect of which it/he is shown by this prospectus to be the beneficial owner (whether direct or indirect); and

(ii) at any time during the Second Six-month Period, sell, transfer or otherwise dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the securities referred to in sub-paragraph (i) above if, immediately following such sale, transfer or disposal, any of the Controlling Shareholders alone or together would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company, and in the event that it/he enters into any transaction specified in sub-paragraph (i) above during the Second Six-month Period, it/he will take all reasonable steps to ensure that any such transaction will not create a disorderly or false market for the securities of the Company.

Undertakings pursuant to the Listing Rules

Undertakings by the Company

The Company has undertaken to the Stock Exchange that no further shares or securities convertible into equity securities of the Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of shares or securities will be completed within six months from the Listing Date), except for those permitted in accordance with Rule 10.08(1) to (5) of the Listing Rules.

Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of the Controlling Shareholders has undertaken to the Company and to the Stock Exchange that, except pursuant to the Share Offer, it/he shall not and shall procure that the relevant registered holder(s) of the Shares in which the respective Controlling Shareholders have a beneficial interest shall not:

(i) at any time during the First Six-month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those securities of the Company in respect of which it/he is shown by this prospectus to be the beneficial owner(s); and

(ii) at any time during the Second Six-month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities referred to in sub-paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company.

Pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has jointly and severally undertaken to and covenanted with each of the Company and the Stock Exchange that:

(i) in the event that it/he pledges or charges any of its/his direct or indirect interest in the Shares or other securities of the Company beneficially owned by it/him in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, at any time during the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholders in the Company is made in this prospectus and ending on the date on which the Second Six-month Period expires, it/he must immediately inform the Company of such pledge/charge together with the number of securities so pledged/charged; and

(ii) having pledged or charged any of its/his interests in the Shares or other securities of the Company under sub-paragraph (i) above, when it/he receives any indication, either verbal or written from the pledgee/chargee that any of the pledged/charged securities will be disposed of, it/he must immediately inform the Company of such indications.

The Company will also inform the Stock Exchange as soon as the Company has been informed of the above matters (if any) by any of the Controlling Shareholders and disclose such matters by way of an announcement which is in accordance with the Listing Rules as soon as possible after being so informed by any of the Controlling Shareholders.

Placing

In connection with the Placing, it is expected that the Company and the covenantors to be named therein (namely the Controlling Shareholders, the Selling Shareholder, and the executive Directors) will enter into the Placing Underwriting Agreement with the Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriters on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below.

Under the Placing Underwriting Agreement, subject to the conditions set forth therein, the Placing Underwriters are expected to severally, but not jointly and not jointly and severally, to purchase or to procure purchasers to purchase from the Selling Shareholder the Placing Shares initially being offered pursuant to the Placing. It is expected that the Placing Underwriting Agreement may be terminated on similar grounds as the Public Offer Underwriting Agreement. Potential investors shall be reminded that in the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed. The Placing Underwriting Agreement is conditional on and subject to the Public Offer Underwriting Agreement having been executed, becoming unconditional and not having been terminated. It is expected that pursuant to the Placing Underwriting Agreement, the Company, the Controlling Shareholders and the executive Directors will make similar undertakings as those given pursuant to the Public Offer Underwriting Agreement as described in the section headed "Underwriting — Underwriting arrangements, commissions and expenses — Public Offer — Undertakings pursuant to the Public Offer Underwriting Agreement" in this section.

Commission and expenses

The Underwriters will receive an underwriting commission of 12.0% of the aggregate Offer Price of all underwritten Offer Shares committed by them, which are to be borne by the Company and the Selling Shareholder equally, out of which they will pay any sub-underwriting commission and will be reimbursed for their expenses. The Underwriters may also receive a discretionary incentive bonus (if any) of up to 4.0% of the aggregate Offer Price of all underwritten Offer Shares committed by them, which are to be borne by the Company and the Selling Shareholder equally.

The total commission and expenses relating to the Share Offer and Listing (including the Listing fees, legal and other professional fees, and printing), are estimated to approximately HK$44.6 million, assuming an Offer Price of HK$0.3575, being the mid-point of the indicative Offer Price range, which will be payable by the Company.

JOINT BOOKRUNNERS', JOINT LEAD MANAGERS' AND UNDERWRITERS' INTERESTS IN THE COMPANY

Save as provided for under the Underwriting Agreements and save as disclosed in this prospectus, none of the Joint Bookrunners, the Joint Lead Managers and the Underwriters has any shareholding interests in any member of the Group nor has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any share in any member of the Group nor any interest in the Share Offer.

SPONSOR'S INTERESTS AND INDEPENDENCE

Save as provided for under the Underwriting Agreements and save as disclosed in this prospectus, neither the Sponsor nor any of its directors, employees and close associates is interested legally or beneficially in the shares of any member of the Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of the Group nor any interest in the Share Offer or has any other business relationship with the Group.

Neither the Sponsor nor any of its directors, employees and close associates has accrued any material benefit as a result of the successful outcome of the Share Offer, other than by way of documentation and financial advisory fee to be paid to the Sponsor for acting as the sponsor of the Share Offer.

None of the directors and employees of the Sponsor has any directorship in the Company or any other companies comprising the Group.

The Sponsor satisfies the independence criteria applicable to the Sponsor as set out in Rule 3A.07 of the Listing Rules.

MINIMUM PUBLIC FLOAT

The Directors, the Joint Bookrunners and the Joint Lead Managers will ensure that there will be a minimum of 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Share Offer.

THE STRUCTURE OF THE SHARE OFFER

Futu Securities International (Hong Kong) Limited, CMBC Securities Company Limited, Essence International Securities (Hong Kong) Limited, First Shanghai Securities Limited, Guosen Securities (HK) Capital Company Limited, Guotai Junan Securities (Hong Kong) Limited, Red Sun Capital Limited and Shanxi Securities International Limited are the Joint Bookrunners, and Guotai Junan Securities (Hong Kong) Limited, Quasar Securities Co., Limited, Pacific Foundation Securities Limited and Essence International Securities (Hong Kong) Limited are the Joint Lead Managers of the Share Offer.

An aggregate of 187,500,000 Shares have been initially allocated to the Public Offer for subscription in Hong Kong at the Offer Price under the Public Offer (subject to re-allocation on the basis described in the sub-section headed "Re-allocation between the Placing and the Public Offer" in this section) outside the United States (including to professional institutional investors within Hong Kong). An aggregate of 187,500,000 Shares are initially offered under the Placing for subscription, subject to re-allocation as mentioned below and under the Listing Rules.

Investors are free to select to apply for the Public Offer Shares or the Placing Shares, but not both. The Directors and the Joint Bookrunners will take all reasonable steps to identify any multiple applications under the Public Offer and the Placing which are not allowed and are bound to be rejected.

PRICING

The Offer Price will be not more than HK$0.38 per Offer Share and is expected to be not less than HK$0.335 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Public Offer, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Announcement of Final Offer Price

Announcement of the final Offer Price, the level of applications in the Public Offer, the indication of the level of interest in the Placing, the basis of allocation of Offer Shares available under the Public Offer and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer are expected to be made available in a variety of channels in the manner described in the section headed "How to Apply for Public Offer Shares — Despatch/Collection of share certificates and refund monies" in this prospectus.

Price payable upon application for the Public Offer Shares

Investors of the Public Offer Shares will be required to pay the maximum indicative Offer Price of HK$0.38 plus brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, amounting to a total of HK$2,302.97 for each board lot of 6,000 Shares. If the final Offer Price is less than the maximum indicative Offer Price, arrangements will be made to refund any excess amount to the investors, without interest.

Determining the Offer Price

The Placing Underwriters are soliciting from prospective investors indications of interest in acquiring the Shares in the Placing. Prospective investors will be required to specify the number of Placing Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as "bookbuilding", is expected to continue up to, and to cease on or around the Price Determination Date. The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and the Company (for itself and on behalf of the Selling Shareholder), on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Saturday, 7 March 2020 or such later date as the Joint Bookrunners (for themselves and on behalf of the Underwriters) and the Company may agree.

The Offer Price shall be fixed on the Price Determination Date by agreement among the Company (for itself and on behalf of the Selling Shareholder) and the Joint Bookrunners (for themselves and on behalf of the Underwriters) in Hong Kong dollars after the market demand for the Offer Shares has been determined. The Offer Price range disclosed in this prospectus and the Application Forms is indicative only and the Joint Bookrunners (for themselves and on behalf of the Underwriters) may, based on the level of indications of interest expressed by prospective investors during the bookbuilding process and after consultation with the Company and with the written consent of the Company (for itself and on behalf of the Selling Shareholder), reduce the indicative Offer Price range below that disclosed in this prospectus and the Application Forms at any time not later than the morning of the last day for lodging applications under the Public Offer. If the Offer Price range is reduced, the Sponsor shall assist the Company in arranging for, and the Company shall, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer, cause there to be published in accordance with the Listing Rules a notice of reduction of the Offer Price range or to be announced in such manner as permitted under the Listing Rules and agreed between the Company, the Joint Bookrunners and the Sponsor. Upon issue of these notices, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and the Company (for itself and on behalf of the Selling Shareholder) will be fixed within this revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in indicative Offer Price range may not be made until the last day for lodging applications under the Public Offer. Such notice shall also include confirmation or revision, as appropriate, of the working capital statement, offer statistics and any financial or other information in this prospectus which may change as a result of any such reduction. Applicants under the Public Offer should note that if an application for the Public Offer Shares before the last day for lodging applications under the Public Offer have been submitted, applicants will not be allowed to subsequently withdraw their application. However, if the Offer Price range is reduced, applicants will be notified that they are required to confirm their applications. If applicants have been notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If, for any reason, the Company (for itself and on behalf of the Selling Shareholder) and the Joint Bookrunners (for themselves and on behalf of the Underwriters) are unable to reach an agreement on the Offer Price on or before the Price Determination Date, the Share Offer will not become unconditional and will lapse immediately.

CONDITIONS OF THE SHARE OFFER

Acceptance of applications for the Offer Shares will be conditional upon:

(i) the Listing Committee granting the listing of, and permission to deal in, on the Stock Exchange, the Shares in issue, any Shares to be issued pursuant to the Capitalisation Issue and the Share Offer and any Shares which may fall to be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme, and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange; and

(ii) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming unconditional (including, if relevant, as a result of a waiver of any condition(s) by the Joint Bookrunners (for themselves and on behalf of the Underwriters)) and not being terminated in accordance with the terms and conditions of the respective agreements,

in each case, on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is the 30th day after the date of this prospectus.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If any of the above conditions has not been fulfilled or waived prior to the time(s) and date(s) specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of lapse of the Share Offer will be caused to be published by the Company on the Stock Exchange's website at **www.hkexnews.hk** and the Company's website at **www.smcelectric.com.hk** the next day following such lapse. In such event, all application money will be refunded, without interest. The terms on which the application money will be refunded are set forth under "Refund of your money" on the Application Forms. In the meantime, all application money received from the Public Offer will be held in a separate bank account (or separate bank accounts) with the receiving bank in Hong Kong.

The Company expects to issue share certificates for the Offer Shares on Monday, 16 March 2020. Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on Tuesday, 17 March 2020 provided that (i) the Share Offer has become unconditional in all respects; and (ii) the right of termination as described in section headed "Underwriting — Underwriting arrangements, commissions and expenses — Public Offer — Grounds for termination" in this prospectus has not been exercised.

THE PUBLIC OFFER

The Company is initially offering 187,500,000 New Shares under the Public Offer, at the Offer Price, representing 50% of the total number of the Offer Shares being offered in the Share Offer, for subscription by way of a public offer in Hong Kong, subject to the re-allocation as mentioned below and under the Listing Rules. The Public Offer is managed by the Joint Bookrunners and is fully underwritten by the Public Offer Underwriters. Applicants for the Public Offer Shares are required to pay on application the maximum indicative Offer Price of HK$0.38 per Offer Share plus brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%.

The Public Offer is open to all members of the public in Hong Kong. An applicant for the Public Offer Shares will be required to give an undertaking and confirmation in the Application Form that he has not taken up and will not indicate an interest to take up any Placing Shares nor otherwise participate in the Placing. Applicants should note that if such undertaking and/or confirmation given by the applicant is breached and/or is untrue (as the case may be), such applicant's application under the Public Offer is bound to be rejected. The Public Offer will be subject to the conditions stated under the sub-section "Conditions of the Share Offer" in this section.

The total number of Public Offer Shares available under the Public Offer will initially be divided equally into two pools (subject to adjustments for odd lot size) for allocation purposes as follows:

(i) Pool A: Pool A will complete 50% of the then available Public Offer Shares, which will be allocated on an equitable basis to applicants who have applied for Public Offer Shares each with a total subscription amount (excluding brokerage fee, Stock Exchange trading fee and SFC transaction levy) of HK$5 million or less; and

(ii) Pool B: Pool B will complete 50% of the then available Public Offer Shares, which will be allocated on an equitable basis to applicants who have applied for Public Offer Shares each with a total subscription amount (excluding brokerage fee, Stock Exchange trading fee and SFC transaction levy) of more than HK$5 million and up to the value of Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Public Offer Shares in one pool (but not both pools) are under-subscribed, the unsubscribed Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly.

When there is over-subscription, allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The allocation of Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

Applicants can only receive an allocation of Public Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications under the Public Offer and any application for more than 93,750,000 Public Offer Shares or 50% of the Public Offer Shares initially available for subscription will be rejected. Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not received any Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

If the Public Offer is not fully subscribed for, the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) has the authority to re-allocate all or any of the unsubscribed Public Offer Shares originally included in the Public Offer to the Placing in such number as they deem appropriate to satisfy demand under the Placing. The total number of the Public Offer Shares to be allotted and issued may change as a result of the re-allocation as mentioned below.

THE PLACING

The Company is initially offering 187,500,000 Shares at the Offer Price, representing 50% of the total number of the Offer Shares being offered in the Share Offer, for subscription by way of the Placing, subject to re-allocation as mentioned below and under the Listing Rules.

The Placing is fully underwritten by the Placing Underwriters on a several basis upon and subject to the terms and conditions of the Placing Underwriting Agreement.

Investors subscribing for the Placing Shares are also required to pay brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%.

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to purchase further Shares or hold or sell the Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a broad Shareholder base for the benefit of the Company and the Shareholders as a whole.

In addition, the Company and the Joint Bookrunners will use their best endeavours to observe the minimum public float requirement under the Listing Rules when making allocations of the Placing Shares to investors who are anticipated to have a sizeable demand for such Shares. The Placing is subject to the Public Offer being unconditional.

The total number of the Placing Shares to be allotted and issued may change as a result of reallocation mentioned below and any reallocation of the unsubscribed Public Offer Shares to the Placing as mentioned under the sub-section headed "The Public Offer" in this section.

RE-ALLOCATION BETWEEN THE PLACING AND THE PUBLIC OFFER

If the Public Offer is not fully subscribed, the Joint Bookrunners may reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as the Joint Bookrunners deem appropriate. The total number of Shares to be issued or sold pursuant to the Placing may change as a result of any reallocation of unsubscribed Offer Shares originally included in the Public Offer.

Details of any reallocation of Offer Shares between the Public Offer and the Placing will be disclosed in the results announcement of the Share Offer, which is expected to be published on Monday, 16 March 2020.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on the Stock Exchange and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence at 9:00 a.m. on Tuesday, 17 March 2020. Shares will be traded in board lots of 6,000 Shares and are fully transferable. The stock code for the Shares is 2381.

1. HOW TO APPLY

If you apply for the Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for the Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **eWhite Form** service at **www.ewhiteform.com.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Bookrunners, the **eWhite Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for the Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **eWhite Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Bookrunners may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **eWhite Form** service for the Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Share Offer; and
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR OFFER SHARES

Which Application Channel to Use

For Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.ewhiteform.com.hk**.

For Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Saturday, 29 February 2020 to 12:00 noon, Friday, 6 March 2020 from:

(i) the following office of the Joint Bookrunners:

Futu Securities International (Hong Kong) Limited	Unit C1–2, 13/F, United Centre No. 95 Queensway Hong Kong
CMBC Securities Company Limited	45/F, One Exchange Square 8 Connaught Place, Central Hong Kong
Essence International Securities (Hong Kong) Limited	39/F, One Exchange Square, Central Hong Kong

First Shanghai Securities Limited	19/F, Wing On House 71 Des Voeux Road Central Hong Kong
Guosen Securities (HK) Capital Company Limited	Suites 3207–3212, 32/F One Pacific Place, 88 Queensway Hong Kong
Guotai Junan Securities (Hong Kong) Limited	27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Red Sun Capital Limited	Room 3303, 33/F West Tower, Shun Tak Centre 168–200 Connaught Road Central Hong Kong
Shanxi Securities International Limited	Unit A, 29/F, Admiralty Center Tower 1 18 Harcourt Road, Admiralty Hong Kong

(ii) the following office of the Joint Lead Managers:

Guotai Junan Securities (Hong Kong) Limited	27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Quasar Securities Co., Limited	Unit A, 12/F, Harbour Commercial Building 122–124 Connaught Road Central, Sheung Wan Hong Kong
Pacific Foundation Securities Limited	11/F, New World Tower II 16–18 Queen's Road Central Hong Kong
Essence International Securities (Hong Kong) Limited	39/F, One Exchange Square, Central Hong Kong

(iii) any of the following branches of the receiving bank:

Hang Sang Bank Limited

District	**Branch Name**	**Address**
Hong Kong Island	Head Office	83 Des Voeux Road Central
	North Point Branch	335 King's Road
Kowloon	Tsimshatsui Branch	18 Carnarvon Road, Tsimshatsui
	Kowloon Main Branch	618 Nathan Road, Mongkok

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Saturday, 29 February 2020 until 12:00 noon, Friday, 6 March 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**HANG SENG (NOMINEE) LIMITED — SMC ELECTRIC LIMITED PUBLIC OFFER**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

Saturday, 29 February 2020 — 9:00 a.m. to 12:00 noon
Monday, 2 March 2020 — 9:00 a.m. to 5:00 p.m.
Tuesday, 3 March 2020 — 9:00 a.m. to 5:00 p.m.
Wednesday, 4 March 2020 — 9:00 a.m. to 5:00 p.m.
Thursday, 5 March 2020 — 9:00 a.m. to 5:00 p.m.
Friday, 6 March 2020 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 6 March 2020, the last application day or such later time as described in "10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **eWhite Form** service, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorise the Company and/or the Joint Bookrunners (or its agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;

(vi) agree that none of the Company, the Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;

(viii) agree to disclose to the Company, the Hong Kong Branch Share Registrar, receiving bank, the Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorise the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and the Company and/or its agents to send any Share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the Share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that the Company, the Directors, the Sponsor, the Joint Bookrunners and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **eWhite Form** Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH eWHITE FORM SERVICE

General

Individuals who meet the criteria in "Who can apply" section, may apply through the **eWhite Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.ewhiteform.com.hk**.

Detailed instructions for application through the **eWhite Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the **eWhite Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **eWhite Form** service.

Time for Submitting Applications under the eWhite Form service

You may submit your application to the **eWhite Form** Service Provider at **www.ewhiteform.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Saturday, 29 February 2020 until 11:30 a.m. on Friday, 6 March 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 6 March 2020 or such later time under the "10. Effects of Bad Weather on the Opening of the Application Lists" in this section.

No Multiple Applications

If you apply by means of **eWhite Form** service, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **eWhite Form** service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **eWhite Form** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **eWhite Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979-7888 or through the CCASS Internet System **(https://ip.ccass.com)** (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Bookrunners and Hong Kong Branch Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Public Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;

- declare that only one set of **electronic application instructions** has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;

- confirm that you understand that the Company, the Directors, the Sponsor, the Joint Bookrunners and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorise the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Public Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between the Company and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of the Company, the Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to the Company, the Sponsor, the Hong Kong Branch Share Registrar, receiving banks, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with the Company and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Public Offer results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Public Offer Shares;

- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

(i) instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;

(ii) instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

(iii) instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 6,000 Public Offer Shares. Instructions for more than 6,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates *(Note)*:

Monday, 2 March 2020 — 8:00 a.m. to 8:30 p.m.
Tuesday, 3 March 2020 — 8:00 a.m. to 8:30 p.m.
Wednesday, 4 March 2020 — 8:00 a.m. to 8:30 p.m.
Thursday, 5 March 2020 — 8:00 a.m. to 8:30 p.m.
Friday, 6 March 2020 — 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Saturday, 29 February 2020 until 12:00 noon on Friday, 6 March 2020 (24 hours daily, except on Friday, 6 March 2020, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 6 March 2020, the last application day or such later time as described in "10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

Note: The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by the Company, the Hong Kong Branch Share Registrar, the receiving bankers, the Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Offer Shares through the **eWhite Form** service is also only a facility provided by the **eWhite Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **eWhite Form** service will be allotted any Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 6 March 2020.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **eWhite Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company, then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **eWhite Form** service in respect of a minimum of 6,000 Offer Shares. Each application or **electronic application instruction** in respect of more than 6,000 Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.ewhiteform.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please refer to the section headed "Structure of the Share Offer — Pricing" in this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warming signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 6 March 2020. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 6 March 2020 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable", an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Monday, 16 March 2020 on the Company's website at **www.smcelectric.com.hk** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company's website at **www.smcelectric.com.hk** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Monday, 16 March 2020;
- from the designated results of allocations website at **www.ewhiteform.com.hk/results** with a "search by ID" function on a 24-hour basis from 9:00 a.m., Monday, 16 March 2020 to 12:00 midnight, Sunday, 22 March 2020;
- by telephone enquiry line by calling 2153 1688 between 9:00 a.m. and 6:00 p.m. from Monday, 16 March 2020 to Friday, 20 March 2020;
- in the special allocation results booklets which will be available for inspection during opening hours from Monday, 16 March 2020 and Thursday, 19 March 2020 at all the receiving bank designated branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed "Structure of the Share Offer" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Offer shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **eWhite Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Joint Bookrunners, the **eWhite Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Offer Shares is void:

The allotment of Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **eWhite Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Bookrunners believes that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Public Offer Shares initially offered under the Public Offer.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$0.38 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with the section headed "Structure of the Share Offer — Conditions of the Share Offer" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Monday, 16 March 2020.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Monday, 16 March 2020. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, 17 March 2020 provided that the Share Offer has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from the Hong Kong Branch Share Registrar, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 16 March 2020 or such other date as notified by the Company in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on or before Monday, 16 March 2020, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Monday, 16 March 2020, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Monday, 16 March 2020, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

  For Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Offer Shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

  The Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "11. Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 16 March 2020 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the eWhite Form service

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 16 March 2020, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, 16 March 2020 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic application instructions to HKSCC

Allocation of Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, 16 March 2020, or, on any other date determined by HKSCC or HKSCC Nominees.

- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in "11. Publication of Results" above on Monday, 16 March 2020. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 16 March 2020 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, 16 March 2020. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, 16 March 2020.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-3 received from BDO Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, for the purpose of inclusion in this prospectus.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SMC ELECTRIC LIMITED AND RED SUN CAPITAL LIMITED

Introduction

We report on the historical financial information of SMC Electric Limited (the "Company") and its subsidiaries (together the "Group") set out on pages I-4 to I-70, which comprises the combined statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 September 2019, the statement of financial position of the Company as at 31 December 2018 and 30 September 2019, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the three years ended 31 December 2018 and the nine months ended 30 September 2019 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-70 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 29 February 2020 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in notes 2 and 3 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in notes 2 and 3 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2016, 2017 and 2018 and 30 September 2019 and the Company's financial position as at 31 December 2018 and 30 September 2019, and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in notes 2 and 3 to the Historical Financial Information.

Review of stub period comparative historical financial information

We have reviewed the stub period comparative historical financial information of the Group which comprises the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the nine months ended 30 September 2018 and other explanatory information (together the "Stub Period Comparative Historical Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Historical Financial Information in accordance with the basis of preparation and presentation set out in notes 2 and 3 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Historical Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Historical Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in notes 2 and 3 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information and the Stub Period Comparative Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 14(a) to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

BDO Limited
Certified Public Accountants
Lee Ming Wai
Practising Certificate no. P05682

Hong Kong
29 February 2020

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by BDO Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong Dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December			Nine months ended 30 September	
		2016	2017	2018	2018	2019
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
Revenue	7	217,110	250,982	266,056	201,261	228,708
Cost of revenue		(156,613)	(179,927)	(185,317)	(141,912)	(156,882)
Gross profit		60,497	71,055	80,739	59,349	71,826
Other income	8	2,939	3,040	4,848	3,243	4,901
Other gains and losses	9	457	(1,250)	1,404	1,530	1,949
Selling and distribution expenses		(3,823)	(4,078)	(3,005)	(2,199)	(2,665)
Administrative and other operating expenses		(29,903)	(29,491)	(33,155)	(22,376)	(17,822)
Listing expenses		—	—	(5,340)	(1,069)	(5,502)
Finance costs	10	(540)	(400)	(713)	(489)	(477)
Profit before income tax	11	29,627	38,876	44,778	37,989	52,210
Income tax expense	12	(5,710)	(7,670)	(10,150)	(6,962)	(10,144)
Profit for the year/period		23,917	31,206	34,628	31,027	42,066
Other comprehensive income for the year/period						
Items that may be reclassified subsequently to profit or loss						
Exchange difference arising from translation of overseas operations		(726)	1,094	(1,008)	(1,219)	(605)
Total comprehensive income for the year/period		23,191	32,300	33,620	29,808	41,461
Earnings per share	15	N/A	N/A	N/A	N/A	N/A

COMBINED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2016 HK$'000	As at 31 December 2017 HK$'000	As at 31 December 2018 HK$'000	As at 30 September 2019 HK$'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	16	2,953	3,177	2,983	3,084
Right-of-use assets	17	—	—	1,104	3,751
Prepayment for acquisition of property, plant and equipment		175	109	236	611
		3,128	3,286	4,323	7,446
Current assets					
Inventories	20	14,481	15,363	13,871	9,190
Trade and bills receivables, other receivables, deposits and prepayments	21	41,985	65,633	92,836	97,001
Amount due from a fellow subsidiary	22	59,468	72,829	87,485	135,156
Cash and bank balances	23	4,672	3,122	6,889	28,905
		120,606	156,947	201,081	270,252
Current liabilities					
Trade and other payables and accruals	24	37,644	39,292	52,422	45,949
Lease liabilities	25	—	—	566	3,039
Amount due to ultimate holding company	26	17,871	23,431	4,933	22,318
Amounts due to fellow subsidiaries	26	273	29	99	718
Tax payable		1,442	1,944	1,749	9,906
Bank borrowings	27	4,275	1,008	10,098	18,580
		61,505	65,704	69,867	100,510
Net current assets		59,101	91,243	131,214	169,742
Total assets less current liabilities		62,229	94,529	135,537	177,188
Non-current liabilities					
Deferred tax liabilities	28	2	2	—	—
Lease liabilities	25	—	—	584	774
		2	2	584	774
Net assets		62,227	94,527	134,953	176,414
CAPITAL AND RESERVES					
Share capital	29(b)	—	—	—	—
Reserves	30	62,227	94,527	134,953	176,414
Total equity		62,227	94,527	134,953	176,414

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2018 *HK$'000*	As at 30 September 2019 *HK$'000*
ASSETS AND LIABILITIES			
Non-current asset		—	—
Current assets		—	—
Current liabilities		—	—
Net current assets		—	—
Net assets		—	—
CAPITAL AND RESERVES			
Share capital	29(a)	—	—
Retained earnings		—	—
Total equity		—	—

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Translation reserve*	Capital contribution*	Retained earnings*	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2016	—	(524)	—	39,560	39,036
Profit for the year	—	—	—	23,917	23,917
Other comprehensive income for the year					
— Exchange difference arising from translation of overseas operations	—	(726)	—	—	(726)
Total comprehensive income for the year	—	(726)	—	23,917	23,191
At 31 December 2016 and 1 January 2017	—	(1,250)	—	63,477	62,227
Profit for the year	—	—	—	31,206	31,206
Other comprehensive income for the year					
— Exchange difference arising from translation of overseas operations	—	1,094	—	—	1,094
Total comprehensive income for the year	—	1,094	—	31,206	32,300
At 31 December 2017 and 1 January 2018	—	(156)	—	94,683	94,527
Profit for the year	—	—	—	34,628	34,628
Other comprehensive income for the year					
— Exchange difference arising from translation of overseas operations	—	(1,008)	—	—	(1,008)
Total comprehensive income for the year	—	(1,008)	—	34,628	33,620
Capital contribution *(note 30)*	—	—	8,254	—	8,254
Deemed distribution *(note 32(a)(iii))*	—	—	—	(1,448)	(1,448)
At 31 December 2018 and 1 January 2019	—	(1,164)	8,254	127,863	134,953
Profit for the period	—	—	—	42,066	42,066
Other comprehensive income for the period					
— Exchange difference arising from translation of overseas operations	—	(605)	—	—	(605)
Total comprehensive income for the period	—	(605)	—	42,066	41,461
At 30 September 2019	—	(1,769)	8,254	169,929	176,414

	Share capital	Translation reserve*	Capital contribution*	Retained earnings*	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Nine months ended 30 September 2018 *(Unaudited)*					
At 1 January 2018	—	(156)	—	94,683	94,527
Profit for the period	—	—	—	31,027	31,027
Other comprehensive income for the period					
— Exchange difference arising from translation of overseas operations	—	(1,219)	—	—	(1,219)
Total comprehensive income for the period	—	(1,219)	—	31,027	29,808
Capital contribution *(note 30)*	—	—	8,254	—	8,254
At 30 September 2018	—	(1,375)	8,254	125,710	132,589

* *the total of these equity accounts at the end of the reporting periods represent "Reserves" in the respective combined statements of financial position.*

COMBINED STATEMENTS OF CASH FLOWS

		Year ended 31 December			Nine months ended 30 September	
		2016	2017	2018	2018	2019
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Operating activities						
Profit before income tax		29,627	38,876	44,778	37,989	52,210
Adjustment for:						
Interest income		(351)	(200)	(216)	(205)	(124)
Finance costs		540	400	713	489	477
Depreciation of property, plant and equipment		650	487	500	369	488
Depreciation of right-of-use assets		—	—	46	—	2,262
Allowance/(Reversal of allowance) for inventories		260	(159)	(4)	1	(1,243)
Write-off/Loss on disposal of property, plant and equipment		3	25	113	—	—
Impairment loss/(Reversal of impairment loss) on financial assets		—	—	444	—	(117)
Bad debt written off		—	—	5	—	—
Exchange difference		(293)	239	155	—	(4)
Operating profit before working capital changes		30,436	39,668	46,534	38,643	53,949
(Increase)/Decrease in inventories		(2,627)	(275)	971	(342)	5,581
Decrease/(Increase) in trade and bills receivables, other receivables, deposits and prepayments		3,066	(23,644)	(27,660)	(23,398)	(4,108)
Increase/(Decrease) in trade and other payables and accruals		3,142	900	14,008	23,643	(5,661)
(Decrease)/Increase in amounts due to fellow subsidiaries		(22)	(244)	70	58	619
Increase in amount due from a fellow subsidiary		(21,985)	(19,229)	(25,185)	(29,366)	(48,606)
Cash generated from/(used in) operations		12,010	(2,824)	8,738	9,238	1,774
Income tax refunded/(paid)		100	(371)	(2,648)	(2,633)	(1,944)
Net cash generated from/(used in) operating activities		12,110	(3,195)	6,090	6,605	(170)
Investing activities						
Interest received		351	200	216	205	124
Proceeds from disposal of property, plant and equipment		—	5	—	—	—
Purchase of property, plant and equipment		(1,616)	(471)	(685)	(426)	(1,051)
Net cash used in investing activities		(1,265)	(266)	(469)	(221)	(927)

	Notes	Year ended 31 December 2016 HK$'000	2017 HK$'000	2018 HK$'000	Nine months ended 30 September 2018 HK$'000 (Unaudited)	2019 HK$'000
Financing activities	31					
Interest paid for bank borrowings and amount due to ultimate holding company		(540)	(400)	(713)	(489)	(375)
Proceeds from bank borrowings		10,976	6,926	17,992	11,977	50,282
Repayment of bank borrowings		(6,701)	(10,193)	(8,891)	(4,806)	(41,808)
Payment of principal element of lease liabilities		—	—	—	—	(2,245)
Payment of interest element of lease liabilities		—	—	—	—	(102)
(Decrease)/Increase in amount due to ultimate holding company		(11,977)	5,560	(10,244)	(7,686)	17,385
Net cash (used in)/ generated from financing activities		(8,242)	1,893	(1,856)	(1,004)	23,137
Net increase/(decrease) in cash and cash equivalents		2,603	(1,568)	3,765	5,380	22,040
Cash and cash equivalents at the beginning of year/ period		2,069	4,672	3,122	3,122	6,889
Effect of foreign exchange rate change on cash and cash equivalents		—	18	2	(301)	(24)
Cash and cash equivalents at the end of year/period		4,672	3,122	6,889	8,201	28,905
Analysis of the balances of cash and cash equivalents						
Cash and bank balances		4,672	3,122	6,889	8,201	28,905

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was incorporated on 5 December 2018 in the Cayman Islands as an exempted company with limited liability. The address of the Company's registered office is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The principal place of business of the Company is located at 1/F., Shell Industrial Building, 12 Lee Chung Street, Chai Wan, Hong Kong.

The Company is an investment holding company. The Group is principally engaged in manufacturing and selling of electric tools and sourcing and selling of electric fans (the "Electrical Appliances Business").

The ultimate holding company of the Company is Shell Electric Holdings Limited ("Shell Holdings"), a company incorporated in Bermuda. Shell Holdings and its subsidiaries are collectively referred to as "Shell Holdings Group".

2. REORGANISATION AND BASIS OF PRESENTATION

(a) Reorganisation

The purpose of this Historical Financial Information is to present the financial position, financial performance and cash flows of the Electrical Appliances Business, which is one of the businesses of Shell Holdings Group.

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. (H.K.) 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 ("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 (formerly known as Omen Glory Limited 兆傲有限公司) ("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 蜆壳電業(香港)有限公司 (formerly known as Ever Express (H.K.) Limited 永滙(香港)有限公司) ("SMC Electric HK") and its wholly-owned subsidiary, 廣東蜆壳家電有限公司 (SMC Electric (China) Limited) ("SMC Electric China").

The Reorganisation comprises the following principal steps:

1. SMC Electric Holdings was incorporated in the British Virgin Islands ("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 People's Republic of China (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 MM Trading, the customer and Shell HK in July 2017, MM Trading would pass all purchase orders to Shell HK and Shell HK would undertake all obligations from MM Trading with effect from 1 August 2017. By another comprehensive amendment to the Manufacturer Agreement entered into by and among the customer, MM Trading and SMC Electric HK in January 2018, MM Trading would pass all purchase orders to SMC Electric HK and SMC Electric HK would undertake 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 would assume MMHK's obligations in the CMA with effect from 1 January 2018. All purchase orders issued by the customer would be novated from MMHK to SMC Electric HK and will be fulfilled by SMC Electric HK with effect from 1 January 2018.

5. By an instrument of transfer and bought and sold notes, all dated 2 January 2018, entered into between Shell HK as the transferor and SMC Electric Holdings as the transferee, Shell HK transferred 100 shares, representing the entire issued shares of Shell China to SMC Electric Holdings for a consideration of US$1,000 with reference to the par value of shares of US$10.00 each and the number of issued shares in Shell China.

6. By an instrument of transfer and bought and sold notes, all dated 2 January 2018, entered into between Shell HK as the transferor and SMC Electric Holdings as the transferee, Shell HK transferred 1 share, representing the entire issued share of Quanta Global to SMC Electric Holdings for a consideration of US$1.00 with reference to the par value of shares of US$1.00 each and the number of issued share in Quanta Global.

7. By an instrument of transfer and the bought and sold notes, all dated 12 January 2018, entered into between Shell HK as the transferor and SMC Electric Holdings as the transferee, Shell HK transferred 2 shares, representing the entire issued shares of Speed Power to SMC Electric Holdings for a consideration of HK$2.00 with reference to the par value of shares of HK$1.00 each and the number of issued shares in Speed Power.

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 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").

Upon completion of the Reorganisation, the Company became the holding company of the companies now comprising the Group. At the date of this report, the particulars of the Company's subsidiaries are as follows:

Name of subsidiary	Place and date of incorporation and type of legal entity	Place of operations	Issued and paid up capital	Effective interest held by the Company Directly	Effective interest held by the Company Indirectly	Principal activities
SMC Electric Holdings Limited *(note (a))*	The BVI/Limited liability company/23 March 2016	Hong Kong	1 share of United States dollars ("US$") 1	100%	—	Investment holding
SMC Electric (HK) Limited (蜆壳電業(香港)有限公司) *(note (b))*	Hong Kong/Limited liability company/26 February 2016	Hong Kong	1 share of HK$1	—	100%	Trading of electric fans and electric tools
Shell Electric Mfg. (China) Company Limited *(note (c))*	The BVI/Limited liability company/31 August 1987	Hong Kong	100 shares of US$10 each	—	100%	Trading of electric fans
Quanta Global Limited *(note (c))*	The BVI/Limited liability company/20 January 1999	Hong Kong	1 share of US$1	—	100%	Trading of electric fans
Speed Power Limited *(note (c))*	Hong Kong/Limited liability company/1 November 1985	Hong Kong	2 shares of HK$2	—	100%	Trading of electric fans
廣東蜆壳家電有限公司 (SMC Electric (China) Limited*) *(note (d))*	The PRC/wholly-owned foreign enterprise/16 November 2017	The PRC	US$999,958.50	—	100%	Manufacturing and trading of electric tools

* *for identification purpose only*

Notes:

(a) No audited financial statements have been issued for this subsidiary as it was not subject to any statutory audit requirement under the relevant rules and regulations in its jurisdictions of incorporation.

(b) The financial statements of this subsidiary for the period from 26 February 2016 (date of incorporation) to 31 December 2016 and the years ended 31 December 2017 and 2018 were audited by BDO Limited. The financial statements were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

(c) The financial statements of this subsidiary for the years ended 31 December 2016, 2017 and 2018 were audited by BDO Limited. The financial statements were prepared in accordance with HKFRSs issued by the HKICPA.

(d) The entity was newly established in 2017. The first set of financial statements of this subsidiary for the year ended 31 December 2018 were audited by 廣東德正有限責任會計師事務所, certified public accountants registered in the PRC. The statutory financial statements were prepared in accordance with the relevant accounting policies and financial regulations applicable to enterprises established in the PRC.

(b) Basis of presentation

The Company has not carried out any business other than taking part in the Reorganisation. The Group resulting from the Share Swap as mentioned in note 2(a) is merely insertion of new holding company for SMC Electric Holdings which has not resulted in any change in economic substance. Accordingly, the Share Swap is accounted for as a continuation of SMC Electric Holdings and its subsidiaries and the financial information of the Company has been combined with that of SMC Electric Holdings and its subsidiaries using the predecessor carrying amounts as if the group structure under the Reorganisation had been in existence throughout the Track Record Period by adopting merger basis of accounting. The combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the reporting periods 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 those periods. The combined statements of financial position of the Group as of 31 December 2016, 2017 and 2018 and 30 September 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 has 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 HKICPA (note 3(b)).

The combined statements of comprehensive income and the combined statements of cash flows for the Track Record Period include the results and cash flows of the Electrical Appliances Division and the results and cash flows of SMC Electric HK and its wholly-owned subsidiary, SMC Electric China for the Track Record Period. The combined statements of financial position as at 31 December 2016, 2017 and 2018 and 30 September 2019 have included the assets and liabilities of the Electrical Appliances Division and the assets and liabilities of SMC Electric HK and its wholly-owned subsidiary, SMC Electric China at the respective dates. The items on the financial statements have been combined using their existing book values from Shell Holdings's perspective.

The financial information of the Electrical Appliances Division is extracted from the consolidated financial statements of Shell Holdings Group. For the purposes of presenting the Other Electrical Appliances Business, certain expenses incurred by MMSD and the rest of the Multi-Media Group during the years ended 31 December 2016, 2017 and 2018 which were relevant to the economic activities of the Other Electrical Appliances Business have been allocated and accounted for in the historical financial information of the Other Electrical Appliances Business as follows:

(i) During the three years ended 31 December 2018, the Electrical Appliances Division occupied certain areas of the factory and staff quarter in Shunde, the PRC which are owned by MMSD and utilised certain of MMSD's office equipment. Factory related expenses comprising depreciation and amortisation charges of the factory, staff quarter and the office equipment, and the insurance and property tax incurred for the factory had been allocated to the divisions of MMSD including the Electrical Appliances Division with reference to the floor area of those premises occupied by these divisions. Such factory related expenses allocated to the Electrical Appliances Division for the years ended 31 December 2016, 2017 and 2018 amounted to HK$1,149,000, HK$927,000 and HK$1,064,000 respectively.

(ii) During the three years ended 31 December 2018, MMSD incurred administrative staff costs and other operating expenses in Shunde, the PRC which were necessary in procuring for the production activities of its divisions including the Electrical Appliances Division. MMSD allocated these administrative staff costs and other operating expenses to its divisions including Electrical Appliances Division with reference to floor area of the factory occupied by these divisions. Such administrative staff costs and other operating expenses allocated to the Electrical Appliances Division for the years ended 31 December 2016, 2017 and 2018 amounted to HK$2,676,000, HK$2,245,000 and HK$2,148,000 respectively.

(iii) During the three years ended 31 December 2018, Multi-Media Group excluding MMSD incurred administrative staff costs and certain other operating expenses in Hong Kong which were relevant for the economic activities of different business segments of Shell Holdings Group including the Other Electrical Appliances Business. Administrative staff costs had been allocated to the business segments with reference to time spent by the administrative staff. Administrative staff costs reflect the cost of management at corporate level and the directors consider that their time spent on the affairs of each of the business segments is representative basis for allocation. Other operating expenses, mainly included office and utility expenses, had been allocated to the business segments with reference to floor area occupied by these business segments. The amount of these administrative staff costs and other operating expenses allocated to the Electrical Appliances Division for the years ended 31 December 2016, 2017 and 2018 amounted to HK$1,977,000, HK$2,694,000 and HK$1,675,000 respectively.

Income tax expense in the statements of comprehensive income of the Electrical Appliances Division represented income tax incurred for the Other Electrical Appliances Business, which included income tax incurred by individual group companies as well as tax recharge to the Electrical Appliances Division. Tax recharge to the Electrical Appliances Division represented the amount of tax recharged by Multi-Media Group for the estimated tax exposure of the Electrical Appliances Division which is determined on the basis as if the division is a separate reporting entity by using applicable tax rates of 25% for assessable income arising from the PRC and 16.5% for assessable profit derived in Hong Kong. The income tax recharged by Multi-Media Group to the Electrical Appliances Division amounted to HK$4,187,000, HK$6,797,000 and HK$7,698,000 respectively for the years ended 31 December 2016, 2017 and 2018.

The directors consider that the above methods of allocation and presentation are reasonable and the fairest approximation of the costs and expenses attributable to the economic activities of the Other Electrical Appliances Business for the Track Record Period having regard to the nature of those costs and expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Historical Financial Information has been prepared in accordance with the basis of presentation set out in note 2 and the accounting policies set out below which conform with HKFRSs (which collective term includes Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the HKICPA. The Historical Financial Information also complies with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange.

The HKICPA has issued a number of new or revised HKFRSs which are relevant to the Group and became effective during the Track Record Period. In preparing the Historical Financial Information, the Group has adopted all relevant new or revised HKFRSs effective for annual period beginning on 1 January 2019 consistently throughout the Track Record Period.

HKFRS 15, "Revenue from Contracts with Customers" replaces the previous revenue standards of HKFRS 18 "Revenue" and HKAS 11 "Construction Contracts" and related interpretations. HKFRS 9 "Financial Instruments" replaces the provisions of HKAS 39 "Financial Instruments" that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

HKFRS 16 "Leases" replaces the previous HKAS 17 "Leases" and related interpretations.

HKFRS 15 and HKFRS 9 are mandatorily effective for financial year beginning on or after 1 January 2018 and HKFRS 16 is mandatorily effective for financial year beginning on or after 1 January 2019. In preparation of the Historical Financial Information, they are applied consistently throughout the Track Record Period.

At the date of this report, certain new or revised HKFRSs have been issued by the HKICPA but are not yet effective and have not been early adopted by the Group. Details of which are set out in note 4.

The Historical Financial Information has been prepared under the historical cost basis.

The Historical Financial Information is presented in HK$, which is the same as the functional currency of the Company.

It should be noted that accounting estimates and assumptions are used in the preparation of the Historical Financial Information. Although these estimates and assumptions are based on management's best knowledge and judgment of current events and actions, actual results may ultimately 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 Historical Financial Information are disclosed in note 5.

(b) Basis of combination/consolidation

As explained in note 2 above, the historical financial information of the Other Electrical Appliances Business has been prepared with reference to the principles of merger accounting under AG 5. The historical financial information incorporates the financial statements of the combining entities and businesses in which the common control combination occurring, which comprise the Electrical Appliances Division of Multi-Media Group and SMC Electric HK and its wholly-owned subsidiary, SMC Electric China, as if they had been combined from the date when the combining entities and businesses first came under common control of the controlling party i.e. Shell Holdings.

Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the combined/consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(c) 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.

(d) 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 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 is 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 investment in 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.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses (note 3(r)).

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	1–10 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.

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.

(f) Leases

The Group assesses whether a contract is or contains a lease, at inception of a contract.

The Group as lessee

The Group recognises a right-of-use asset and a corresponding lease liability at the lease commencement date, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Leases payments included in the measurement of the lease liability comprise fixed lease payments (including in-substance fixed payments), less any lease incentives. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The lease liability is presented as a separate line in the statement of financial position.

The right-of-use asset is initially measured at cost. It is subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use asset is depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

The right-of-use asset is presented as a separate line in the statement of financial position.

The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

(g) Financial instruments

(i) Financial assets

Classification

The Group classifies its financial assets in the following measurement categories:

— Financial assets at fair value (either through other comprehensive income or through profit or loss); and

— Financial assets at amortised cost.

The classification is generally based on two criteria:

— the business model under which the financial asset is managed; and

— the contractual cash flow characteristics of the financial asset.

Recognition

Regular way purchases and sales of financial assets are recognised on trade date, that is the date the Group commits to purchase or sell that asset.

Measurement

At initial recognition, the Group measures a financial asset (unless it is a trade receivable without a significant financing component) at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest on the principal amount outstanding.

The subsequent measurement of financial assets depends on their classification as follows:

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the financial asset and the cash flow characteristics of the financial asset. There are three measurement categories into which the Group classifies its debt instruments:

— Amortised cost

Financial assets that are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss.

— Fair value through other comprehensive income

Financial assets that are held within a business model whose objective is to be achieved by both collecting contractual cash flows and selling the financial assets and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at fair value though other comprehensive income. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are recycled to profit or loss.

— Fair value through profit or loss

Financial assets that do not meet the criteria for amortised cost or financial assets at fair value through other comprehensive income are measured at fair value through profit or loss.

Equity instruments

There are two measurement categories into which the Group classifies its equity instruments:

— Fair value through profit or loss

Equity investments at fair value through profit or loss are subsequently measured at fair value. Changes in fair value, dividend income and interest income are recognised in profit or loss.

— Fair value through other comprehensive income

For equity investment which is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at fair value through other comprehensive income, they are subsequently measured at fair value and changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. Equity instruments at fair value through other comprehensive income are not subject to impairment assessment.

(ii) Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost (including trade and bills receivables, other receivables and deposits, amounts due from fellow subsidiaries and cash and bank balances) and debt instruments measured at fair value through other comprehensive income.

Expected credit losses are a probability-weighted estimate of credit losses which are measured at the present value of all cash shortfalls (i.e. the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive) discounted at an approximation of original effective interest rate. The maximum period to consider when measuring expected credit losses is the maximum contractual period over which the entity is exposed to credit risk.

For trade and bills receivables, the Group applies a simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses. Expected credit losses on trade and bills receivables are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. For other debt financial assets, the Group measures the loss allowance either based on 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of these financial assets has occurred since initial recognition, loss allowance is measured based on lifetime expected credit losses.

The Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring 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.

Expected credit losses are measured at the end of each reporting period to reflect changes in the debt instrument's credit risk since initial recognition. Loss allowances for debt instruments measured at amortised cost are recognised in profit or loss by adjusting the gross carrying amount of the assets. The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

For debt instruments at fair value through other comprehensive income, loss allowance is recognised in other comprehensive income and accumulated in fair value reserve (recycling), instead of reducing the carrying amount of the financial assets.

(iii) Financial liabilities

A financial liability is classified as (i) financial liabilities at amortised cost; or (ii) financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

A financial liability may be designated irrevocably as at fair value through profit or loss upon initial recognition if:

— such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;

— the financial liability forms part of a group of financial liabilities or financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel; or

— the financial liability contains an embedded derivative that would need to be separately recorded.

If a financial liability forms part of a contract containing one or more embedded derivatives, the entire combined contract is allowed to be designated as at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities at fair value through profit or loss are initially measured at fair value. Subsequent to initial recognition, changes in fair value are recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables and accruals, amounts due to ultimate holding company and fellow subsidiaries and bank borrowings, are initially measured at fair value, net of directly attributable costs incurred and subsequently measured at amortised cost using the effective interest method. The related interest expense is accounted for in accordance with the accounting policy as set out in note 3(q).

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

(v) Equity instruments

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

(vi) 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 for expected credit losses determined in accordance with accounting policy set out in note 3(g)(ii) above; and (ii) the amount initially recognised less, when appropriate, cumulative amount of income recognised in accordance with HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15").

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when expected credit losses on the financial guarantees are determined to be higher than the carrying amount of the guarantees. To determine expected credit losses, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month expected credit loss is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime expected credit loss is measured. As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an expected credit loss is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(vii) Derecognition

The Group derecognises a financial asset when, and only when the contractual rights to the cash flows from 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 Instruments*.

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

(h) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 3(m)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses in accordance with the policy set out in note 3(g)(ii). Loss allowance for contract assets is measured at an amount equal to lifetime expected credit losses. Expected credit losses on contract assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the customers and an assessment of both the current and forecast general economic conditions at the reporting date. Contract assets are reclassified to receivables when the right to the consideration has become unconditional (note 3(i)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 3(m)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

(i) Trade and bills receivables and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 3(h)). Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 3(g)(ii)).

(j) Trade and other payables and accruals

Trade and other payables and accruals are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 3(g)(vi), trade and other payables and accruals are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(k) Inventories

Inventories are stated at the lower of cost, computed using weighted average method, and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

(l) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(m) Recognition of revenue and other income

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

Revenue from contracts with customers is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding amounts collected on behalf of third parties and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of goods or services may be transferred over time or at a point in time. 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.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. 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 liabilities (note 3(h)) under the effective interest method. The Group takes advantage of the practical expedient in HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

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 recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or fair value through other comprehensive income (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance (see note 3(g)(ii))) of the asset.

(n) Income tax

Income taxes 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 the 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 goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, 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 the reporting period.

When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average rates that are expected to apply to the taxable profit or tax loss of the periods in which the temporary differences are expected to reverse. The determination of the average tax rates requires an estimation of (i) when the existing temporary differences will reverse and (ii) the amount of taxable income in those years. The estimate of future taxable income includes income or loss excluding reversals of temporary differences; and reversals of existing temporary differences.

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

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.

(o) 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 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.

In preparing the combined financial statements, 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 period, 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 the reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as translation reserve (attributed to minority interests as appropriate). 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 translation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the translation 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.

(p) 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 12 months after the end of the 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.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(ii) Defined contribution retirement plan

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.

(q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. Other borrowing costs are recognised as an expense in the period in which they are incurred.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

(r) Impairment of non-financial assets

Property, plant and equipment and investment in an associate are subject to impairment testing. They are tested for impairment whenever there are indications that the assets' carrying amount may not be recoverable.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from 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.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, 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 current market assessment of the time value of money and the risk specific to the asset.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset'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.

(s) Provision 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 will probably result in an outflow of economic benefits that can be reasonably 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.

(t) 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.

(u) 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 Group 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 Group'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.

4. NEW OR REVISED HKFRS ISSUED BUT NOT YET EFFECTIVE

The following new or revised HKFRSs have been issued, but are not yet effective and have not been early adopted by the Group in the preparation of the Historical Financial Information.

Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[2]
HKFRS 17	Insurance Contracts[4]
Amendments to HKFRS 3	Definition of a business[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint venture[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[2]

1 The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred or removed. Early application of the amendments continues to be permitted.

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

3 Effective for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

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

The directors of the Company 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 to standards is unlikely to have a material impact to the Group's financial statements.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgment, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The estimates and assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

(i) Allocation of common costs and tax charges relevant for the Other Electric Appliances Business

As disclosed in note 2(b), the combined financial statements include the financial statements of the Other Electric Appliance Business which are prepared by combining the financial statements of the Electrical Appliances Division of Multi-Media Group with the financial statements of SMC Electric HK and its subsidiary, SMC Electric China.

For the purposes of preparing the carved-out financial statements of the Electrical Appliances Division, expenses incurred by Multi-Media Group during the Track Record Period which are relevant to the economic activities of the Other Electrical Appliances Business have been directly allocated to the Electrical Appliances Division and accounted for in the carved-out financial statements of the Electrical Appliances Division. Expenses for which specific identification methods are not practicable were allocated to the Electrical Appliances Division based on management's estimates of the fairest approximation of the expenses attributable to the economic activities of the Other Electrical Appliances Business. In addition, tax charges incurred by Multi-Media Group for the Other Electrical Appliances Business and recharged to the Electrical Appliances Division under the taxation arrangements within Multi-Media Group have been included in the carved-out financial statements of the Electrical Appliances Division. Details of these estimates are described in note 2(b).

(ii) Impairment losses on receivables

The measurement of impairment losses on receivables requires judgment, 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.

(iii) 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.

(iv) 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.

6. 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 resource allocation and assessment of segment performance. The Group has identified the following reportable segments for its operating segments:

SMC segment — develop, design and trading of electric 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 the two reportable segments during the Track Record Period. Segment profit represents gross profit generated by the segment.

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

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

	Non-SMC segment	**SMC segment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Year ended 31 December 2016			
Reportable segment revenue recognised at a point in time	158,195	58,915	217,110
Reportable segment profit	41,994	18,503	60,497
Corporate and unallocated income^			2,939
Corporate and unallocated expenses^			(33,809)
Profit before income tax			29,627

	Non-SMC segment	**SMC segment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Year ended 31 December 2017			
Reportable segment revenue recognised at a point in time	193,424	57,558	250,982
Reportable segment profit	54,657	16,398	71,055
Corporate and unallocated income^			3,040
Corporate and unallocated expenses^			(35,219)
Profit before income tax			38,876

	Non-SMC segment *HK$'000*	SMC segment *HK$'000*	Total *HK$'000*
Year ended 31 December 2018			
Reportable segment revenue recognised at a point in time	220,292	45,764	266,056
Reportable segment profit	66,909	13,830	80,739
Corporate and unallocated income^			4,848
Corporate and unallocated expenses^			(40,809)
Profit before income tax			44,778

	Non-SMC segment *HK$'000*	SMC segment *HK$'000*	Total *HK$'000*
Nine months ended 30 September 2019			
Reportable segment revenue recognised at a point in time	183,688	45,020	228,708
Reportable segment profit	57,990	13,836	71,826
Corporate and unallocated income^			4,901
Corporate and unallocated expenses^			(24,517)
Profit before income tax			52,210

	Non-SMC segment *HK$'000*	SMC segment *HK$'000*	Total *HK$'000*
Nine months ended 30 September 2018 *(Unaudited)*			
Reportable segment revenue recognised at a point in time	163,893	37,368	201,261
Reportable segment profit	48,086	11,263	59,349
Corporate and unallocated income^			3,243
Corporate and unallocated expenses^			(24,603)
Profit before income tax			37,989

^ 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/period.

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 2016				
Depreciation of property, plant and equipment	585	7	58	650
Allowance for inventories	—	260	—	260
Additions to specified non-current assets*	1,604	12	—	1,616

	Non-SMC segment HK$'000	SMC segment HK$'000	Corporate/ Unallocated HK$'000	Total HK$'000
Year ended 31 December 2017				
Depreciation of property, plant and equipment	420	9	58	487
Reversal of allowance for inventories	—	159	—	159
Additions to specified non-current assets*	376	95	—	471

	Non-SMC segment HK$'000	SMC segment HK$'000	Corporate/ Unallocated HK$'000	Total HK$'000
Year ended 31 December 2018				
Depreciation of property, plant and equipment	401	22	77	500
Depreciation of right-of-use assets	46	—	—	46
Reversal of allowance for inventories	—	4	—	4
Impairment loss on financial assets	301	143	—	444
Additions to specified non-current assets*	319	6	360	685

	Non-SMC segment HK$'000	SMC segment HK$'000	Corporate/ Unallocated HK$'000	Total HK$'000
Nine months ended 30 September 2019				
Depreciation of property, plant and equipment	316	17	155	488
Depreciation of right-of-use assets	418	—	1,844	2,262
Reversal of allowance for inventories	—	1,243	—	1,243
Reversal of impairment loss on financial assets	58	59	—	117
Additions to specified non-current assets*	87	611	353	1,051

	Non-SMC segment	SMC segment	Corporate/ Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Nine months ended 30 September 2018 *(Unaudited)*				
Depreciation of property, plant and equipment	305	17	47	369
Allowance for inventories	—	1	—	1
Additions to specified non-current assets*	420	6	—	426

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

(b) Geographical segment information

The following table provides 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:

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
United States	55,039	95,388	99,970	67,948	88,797
Canada	4,151	3,798	3,021	2,399	4,196
Mexico	21,088	25,127	41,837	34,419	39,972
Other countries in Americas	1,949	641	458	458	450
Americas	82,227	124,954	145,286	105,224	133,415
Hong Kong (place of domicile)	7,865	7,016	8,147	6,889	6,756
Other region of the PRC	3,290	4,249	6,097	5,166	6,426
Other countries in Asia	30,412	34,406	19,496	17,949	19,638
Asia	41,567	45,671	33,740	30,004	32,820
Australia	59,791	54,536	56,145	42,571	34,701
Other country in Oceania	5,878	5,371	7,626	4,954	5,526
Oceania	65,669	59,907	63,771	47,525	40,227
Europe	13,089	9,789	12,204	10,417	8,279
Africa	14,558	10,661	11,055	8,091	13,967
	217,110	250,982	266,056	201,261	228,708

(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:

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Customer I	93,153	131,639	157,107	116,503	146,633
Customer II	58,430	52,879	54,920	41,434	32,938

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

7. REVENUE

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

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Sales of electric fans and electric tools					
— Fans	119,293	118,460	128,048	92,986	117,942
— Vacuum cleaners	49,294	64,102	75,411	59,510	63,503
— Work lights	43,859	59,718	54,333	42,809	43,189
— Others	4,664	8,702	8,264	5,956	4,074
	217,110	250,982	266,056	201,261	228,708

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 at the end of the reporting period.

8. OTHER INCOME

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interest income from					
— bank deposits	—	—	7	1	30
— bills receivables	181	200	184	185	94
— amount due from ultimate holding company *(note 32)*	170	—	19	19	—
— others	—	—	6	—	—
	351	200	216	205	124
Handling fee income	992	1,288	3,019	1,524	974
Sales of spare parts and sample products	1,242	1,047	705	1,314	2,622
Sundry	354	505	908	200	1,181
	2,939	3,040	4,848	3,243	4,901

9. OTHER GAINS AND LOSSES

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Exchange gain/(loss), net	460	(1,225)	1,517	1,530	1,949
Write-off/Loss on disposal of property, plant and equipment	(3)	(25)	(113)	—	—
	457	(1,250)	1,404	1,530	1,949

10. FINANCE COSTS

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interest expenses on					
— bank borrowings	105	176	558	337	375
— lease liabilities	—	—	—	—	102
— amount due to ultimate holding company *(note 32)*	435	224	155	152	—
	540	400	713	489	477

11. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Auditor's remuneration					
— Current year/period	205	211	220	169	146
Cost of inventories recognised as expense					
— Carrying amount of inventories consumed	156,353	180,086	185,321	141,911	158,125
— Allowance/(Reversal of allowance) for inventories	260	(159)	(4)	1	(1,243)
	156,613	179,927	185,317	141,912	156,882
Depreciation of property, plant and equipment#	650	487	500	369	488
Depreciation of right-of-use assets	—	—	46	—	2,262
Bad debt recovery	(192)	(628)	(1,676)	(1,278)	—
Impairment loss/(Reversal of impairment loss) on financial assets *(note 36(a))*	—	—	444	—	(117)
Employee benefit expenses (including directors' emoluments)					
— Salaries, wages and other benefits^*	28,886	30,427	33,777	23,161	19,793
— Contribution to defined contribution retirement plans^	849	1,335	1,932	1,367	1,344
	29,735	31,762	35,709	24,528	21,137

^ include staff costs incurred by Multi-Media Group which had been allocated to the Electrical Appliances Division of Multi-Media Group as mentioned in note 2(b) amounting to HK$2,134,000, HK$2,231,000 and HK$1,172,000 respectively for the three years ended 31 December 2018

include depreciation of the Group's property, plant and equipment as disclosed in note 16, but exclude depreciation incurred by MMSD which had been allocated to the Electrical Appliances Division of Multi-Media Group as mentioned in note 2(b) as it represents depreciation of premises and equipment not held by the Group

* include staff costs recharged by Shell Holdings to the Group as mentioned in note 32(a)

12. INCOME TAX EXPENSE

The amount of income tax expense in the combined statements of comprehensive income represents:

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Current tax*					
— Hong Kong Profits Tax					
— tax for the year/period	3,145	4,061	7,415	5,479	7,580
— over provision in respect of prior year	—	—	(30)	—	(165)
— PRC Enterprise Income Tax for the year/period	2,565	3,609	2,767	1,483	2,729
	5,710	7,670	10,152	6,962	10,144
Deferred tax *(note 28)*	—	—	(2)	—	—
Income tax expense	5,710	7,670	10,150	6,962	10,144

* *include tax recharge by Multi-Media Group amounting to HK$4,187,000, HK$6,797,000 and HK$7,698,000 respectively for the years ended 31 December 2016, 2017 and 2018 as mentioned in note 2(b)*

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.

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits derived from Hong Kong.

Enterprise Income Tax arising from other regions of the PRC is calculated at 25% on the estimated assessable income.

The income tax expense for the year/period can be reconciled to the profit before income tax in the combined statements of comprehensive income as follows:

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Profit before income tax	29,627	38,876	44,778	37,989	52,210
Tax on profit at the tax rates applicable to the profits in the jurisdictions concerned	5,761	7,640	8,515	6,756	9,587
Tax effect of income not taxable for tax purpose	(7)	—	(1)	(24)	(98)
Tax effect of expenses not deductible for tax purpose	4	9	887	337	1,199
Tax losses not recognised	399	107	857	5	49
Utilisation of previously unrecognised tax losses	(422)	(50)	(84)	(114)	(480)
Over provision in prior year	—	—	(30)	—	(165)
Others	(25)	(36)	6	2	52
Income tax expense	5,710	7,670	10,150	6,962	10,144

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

(a) Directors' emoluments

The emoluments of each of the directors for the Track Record Period are set out below:

	Fees	Salaries, allowances and other benefits	Discretionary bonus	Pension scheme contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2016					
Executive directors					
Mr. Leung Chun Wah ("Mr. Leung")	—	1,162	—	58	1,220
Mr. Tang Che Yin ("Mr. Tang")	—	794	72	43	909
Non-executive director					
Mr. Yung	—	932	285	94	1,311
	—	2,888	357	195	3,440

	Fees	Salaries, allowances and other benefits	Discretionary bonus	Pension scheme contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2017					
Executive directors					
Mr. Leung	—	1,209	—	60	1,269
Mr. Tang	—	826	385	45	1,256
Non-executive director					
Mr. Yung	—	1,491	579	74	2,144
	—	3,526	964	179	4,669

	Fees	Salaries, allowances and other benefits	Discretionary bonus	Pension scheme contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2018					
Executive directors					
Mr. Leung	—	1,780	—	89	1,869
Mr. Tang	—	369	—	7	376
Non-executive director					
Mr. Yung	—	1,782	822	122	2,726
	—	3,931	822	218	4,971

	Fees	Salaries, allowances and other benefits	Discretionary bonuses	Pension scheme contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Nine months ended 30 September 2019					
Executive directors					
Mr. Leung	—	1,283	—	64	1,347
Mr. Tang	—	268	—	14	282
Non-executive director					
Mr. Yung	—	—	—	—	—
	—	1,551	—	78	1,629

	Fees	Salaries, allowances and other benefits	Discretionary bonuses	Pension scheme contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Nine months ended 30 September 2018 *(Unaudited)*					
Executive directors					
Mr. Leung	—	1,232	—	62	1,294
Mr. Tang	—	255	—	2	257
Non-executive director					
Mr. Yung	—	1,265	—	97	1,362
	—	2,752	—	161	2,913

Notes:

(i) The emoluments of the executive and non-executive directors during the years ended 31 December 2016, 2017 and 2018 included remuneration of a director incurred by Multi-Media Group which had been allocated to Electrical Appliances Division during those years following the basis as described in note 2(b) and remuneration of the other directors incurred by Shell Holdings which had been charged to the Group by way of management fee as disclosed in note 32(a)(i).

(ii) No emoluments were paid or payable to the independent non-executive directors during the Track Record Period.

(iii) During the Track Record Period, 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. In addition, none of the directors waived or agreed to waive any emoluments during the Track Record Period.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the years ended 31 December 2016, 2017 and 2018 and nine months ended 30 September 2018 and 2019 included 3, 3, 2, 2 and 1 directors of the Company, respectively, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 2, 2, 3, 3 and 4 individuals for the years ended 31 December 2016, 2017 and 2018 and nine months ended 30 September 2018 and 2019, respectively are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Salaries, allowances and other benefits	989	1,031	1,756	1,539	1,719
Discretionary bonus	28	31	132	—	—
Pension scheme contribution	51	53	77	67	77
	1,068	1,115	1,965	1,606	1,796

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

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	Numbers of individuals	*Numbers of individuals*	*Numbers of individuals*	*Numbers of individuals* (Unaudited)	*Numbers of individuals*
Nil to HK$1,000,000	2	2	3	3	4

During the Track Record Period, no emoluments were paid by the Group to the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

(c) Senior management's emoluments

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

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	Numbers of individuals	*Numbers of individuals*	*Numbers of individuals*	*Numbers of individuals* (Unaudited)	*Numbers of individuals*
Nil to HK$1,000,000	4	4	4	4	4

14. DISTRIBUTIONS

(a) Dividends

No dividend was paid or declared by the Company or other entities comprising the Group during the Track Record Period or since its incorporation up to 30 September 2019.

(b) Deemed distribution

Subsequent to the Track Record Period, the Group effected a deemed distribution of approximately HK$135,500,000 to settle the current account due from SMC Multi-Media (note 22).

15. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this Historical Financial Information, is not considered meaningful due to the Reorganisation and the preparation of the results of the Group for the Track Record Period on a combined basis as disclosed in note 2(b).

16. PROPERTY, PLANT AND EQUIPMENT

	Moulds, tools and equipment HK$'000	Furniture, fixtures, and fittings HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost					
At 1 January 2016	10,582	3,052	301	—	13,935
Translation difference	(605)	(116)	—	—	(721)
Additions	1,270	180	—	—	1,450
Write-off	(66)	(6)	—	—	(72)
At 31 December 2016 and 1 January 2017	11,181	3,110	301	—	14,592
Translation difference	668	114	—	—	782
Additions	537	—	—	—	537
Disposal	(59)	(248)	—	—	(307)
Write-off	—	—	(8)	—	(8)
At 31 December 2017 and 1 January 2018	12,327	2,976	293	—	15,596
Translation difference	(484)	(71)	—	(5)	(560)
Additions	192	220	11	135	558
Write-off	(1,817)	(1,671)	(293)	—	(3,781)
At 31 December 2018 and 1 January 2019	10,218	1,454	11	130	11,813
Translation difference	(298)	(42)	(5)	(10)	(355)
Additions	322	—	164	190	676
At 30 September 2019	10,242	1,412	170	310	12,134
Accumulated depreciation					
At 1 January 2016	8,382	2,914	300	—	11,596
Translation difference	(437)	(102)	1	—	(538)
Depreciation	591	59	—	—	650
Write-off	(63)	(6)	—	—	(69)
At 31 December 2016 and 1 January 2017	8,473	2,865	301	—	11,639
Translation difference	478	100	—	—	578
Depreciation	429	58	—	—	487
Disposal	(53)	(224)	—	—	(277)
Write-off	—	—	(8)	—	(8)
At 31 December 2017 and 1 January 2018	9,327	2,799	293	—	12,419
Translation difference	(359)	(62)	—	—	(421)
Depreciation	423	76	1	—	500
Write-off	(1,817)	(1,558)	(293)	—	(3,668)
At 31 December 2018 and 1 January 2019	7,574	1,255	1	—	8,830
Translation difference	(225)	(39)	(1)	(3)	(268)
Depreciation	332	16	33	107	488
At 30 September 2019	7,681	1,232	33	104	9,050
Net carrying amount					
At 31 December 2016	2,708	245	—	—	2,953
At 31 December 2017	3,000	177	—	—	3,177
At 31 December 2018	2,644	199	10	130	2,983
At 30 September 2019	2,561	180	137	206	3,084

17. RIGHT-OF-USE ASSETS

The Group entered into a lease agreement with MMSD on 30 November 2018 for leasing of factory and staff quarters located at Shunde, the PRC which is effective from 1 December 2018 and lasts for a period of 25 months. The Group also entered into lease agreements with Shell Holdings on 11 January 2019 for leasing of office premises, warehouse and carpark space located in Hong Kong which are effective from 1 January 2019 and last for a period of 24 months.

The Group's right-of-use assets in respect of the above-mentioned lease arrangements including factory, office premises, warehouse and carpark space at the end of each of the reporting periods are as follows:

	Factory, office premises, warehouse and carpark space *HK$'000*
Cost	
At 1 January 2016, 31 December 2016, 31 December 2017 and 1 January 2018	—
Addition	1,150
At 31 December 2018 and 1 January 2019	1,150
Translation difference	(33)
Addition	4,928
At 30 September 2019	6,045
Accumulated depreciation	
At 1 January 2016, 31 December 2016, 31 December 2017 and 1 January 2018	—
Depreciation	46
At 31 December 2018 and 1 January 2019	46
Translation difference	(14)
Depreciation	2,262
At 30 September 2019	2,294
Net carrying amount	
At 31 December 2016 and 31 December 2017	—
At 31 December 2018	1,104
At 30 September 2019	3,751

For the nine months ended 30 September 2019, the total cash payments for the Group's lease arrangements (including repayment of lease liabilities) amounted to HK$2,347,000.

Lease liabilities in respect of the above lease arrangements are disclosed in note 25.

18. INVESTMENT IN AN ASSOCIATE

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted shares, at cost less impairment losses	—	—	—	—

Details of the associate held by the Group as at 31 December 2016, 2017 and 2018 and 30 September 2019 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 dissolving the entity, the residual assets of Sien Hua is not entitled by the Group. The Group can only derive investment return from Sien Hua in term of dividend distribution made by Sien Hua, which is not controlled by the Group and is not expected in foreseeable future in light of the financial position of Sien Hua. Hence, the Group has made full provision for any profit generated by Sien Hua and shared by the Group and the value of the investment at the end of each of the reporting periods was nil.

19. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted equity securities	—	—	—	—

As at 31 December 2016 and 2017, the Group held 19% equity interest in Huaxia, a company established in the PRC on 11 October 2001, at investment cost of HK$3,627,000. The directors considered that the financial performance of Huaxia was not satisfactory and its future prospect was uncertain. As assessed by the directors, the fair value was zero as at 31 December 2016 and 2017.

As disclosed in note 2(a), the Group entered into a sale and purchase agreement on 28 October 2018 to dispose of its entire interest in Huaxia at a consideration of US$1. The transaction was completed on 20 November 2018.

20. INVENTORIES

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	8,622	9,100	11,000	5,284
Work-in-progress	1,454	3,104	140	907
Finished goods	4,405	3,159	2,731	2,999
	14,481	15,363	13,871	9,190

21. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade and bills receivables	41,443	62,468	84,094	89,989
Less: Provision for impairment	(258)	—	(444)	(327)
Trade and bills receivables, net *(note)*	41,185	62,468	83,650	89,662
Other receivables	261	184	1,952	615
Prepaid listing expenses	—	—	2,020	3,595
Other prepayments and deposits	539	2,981	5,214	3,129
	41,985	65,633	92,836	97,001

Note:

The movements in the allowance for impairment of trade and bills receivables during the Track Record Period are as follows:

	Year ended 31 December			Nine months ended 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of the year/period	258	258	—	444
Amount written off as uncollectible	—	(258)	—	—
Impairment losses recognised during the year/period	—	—	444	19
Impairment losses reversed during the year/period	—	—	—	(136)
At the end of the year/period	258	—	444	327

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

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 – 30 days	10,363	16,730	18,876	18,425
31 – 60 days	10,538	13,930	19,084	21,404
61 – 90 days	8,849	12,871	18,513	20,127
Over 90 days	11,693	18,937	27,621	30,033
	41,443	62,468	84,094	89,989

The ageing analysis of the trade and bills receivables (net), based on due date, as of the end of each of the reporting periods is as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Neither past due nor impaired	32,566	50,803	65,480	81,845
Past due but not impaired				
Past due less than 30 days	7,887	11,197	17,315	7,405
Past due for 30 or more but less than 60 days	407	14	1	411
Past due for 60 or more but less than 90 days	6	—	854	1
Past due for 90 days or more	319	454	—	—
	8,619	11,665	18,170	7,817
	41,185	62,468	83,650	89,662

The Group normally allows a credit period of 45 days to 180 days. Further details on the Group's credit policy and credit risk arising from trade and bills receivables are set out in note 36(a).

22. AMOUNT DUE FROM A FELLOW SUBSIDIARY

The amount due from a fellow subsidiary are as follows:

Fellow subsidiary	As at 1 January 2016	As at 31 December 2016	Maximum outstanding balance during the year
	HK$'000	*HK$'000*	*HK$'000*
SMC Multi-Media	43,863	59,468	59,468

Fellow subsidiary	As at 1 January 2017	As at 31 December 2017	Maximum outstanding balance during the year
	HK$'000	*HK$'000*	*HK$'000*
SMC Multi-Media	59,468	72,829	72,829

Fellow subsidiary	As at 1 January 2018	As at 31 December 2018	Maximum outstanding balance during the year
	HK$'000	*HK$'000*	*HK$'000*
SMC Multi-Media	72,829	87,485	95,461

Fellow subsidiary	As at 1 January 2019	As at 30 September 2019	Maximum outstanding balance during the period
	HK$'000	*HK$'000*	*HK$'000*
SMC Multi-Media	87,485	135,156	135,156

The amount due arose from trading activities which mainly represents profits generated from the operations of Electrical Appliances Division. Such amount is unsecured, interest-free and repayable on demand.

This current account with SMC Multi-Media mainly resulted from combining the results of Electrical Appliances Division of Multi-Media Group using carve-out basis as disclosed in note 2(b), which Electrical Appliances Division will not form part of the Group after the Reorganisation takes effect. This current account will be settled by way of deemed distribution which is to be accounted for as an equity transaction.

23. CASH AND BANK BALANCES

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

24. TRADE AND OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables *(note (a))*	21,317	18,758	29,111	25,275
Accruals and other payables	12,585	13,416	21,749	19,081
Contract liabilities *(note (b))*	3,742	7,118	1,562	1,593
	37,644	39,292	52,422	45,949

Notes:

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

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

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 – 30 days	12,409	14,617	17,326	10,635
31 – 60 days	3,161	1,372	3,969	7,549
61 – 90 days	2,494	1,629	6,026	5,551
Over 90 days	3,253	1,140	1,790	1,540
	21,317	18,758	29,111	25,275

(b) The Group may request the customers to pay certain percentage of the contract sum upon placing orders as deposit. The deposit received by the Group is 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. Movements in contract liabilities during the Track Record Period are as follows:

	Year ended 31 December			Nine months ended 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of the year/period	2,170	3,742	7,118	1,562
Decrease in contract liabilities as a result of recognising revenue during the year/period that was included in the contract liabilities at the beginning of the reporting period	(833)	(3,226)	(7,118)	(1,559)
Increase in contract liabilities as a result of receiving deposits and advances during the year/period, the orders of which were still outstanding	2,405	6,602	1,562	1,590
At the end of the year/period	3,742	7,118	1,562	1,593

25. LEASE LIABILITIES

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities	—	—	566	3,039
Non-current liabilities	—	—	584	774
	—	—	1,150	3,813

Maturity analysis

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	—	—	566	3,039
Within a period of more than one year but not exceeding two years	—	—	584	774
	—	—	1,150	3,813

Minimum lease payment due

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	—	—	593	3,112
Within a period of more than one year but not exceeding two years	—	—	593	778
	—	—	1,186	3,890
Less: Future finance charges	—	—	(36)	(77)
	—	—	1,150	3,813

26. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

The amount due to ultimate holding company, Shell Holdings is non-trade in nature, unsecured and repayable on demand. Among the balances as at 31 December 2016, 2017 and 2018, HK$17,871,000, HK$23,431,000 and HK$1,428,000 respectively were interest-bearing at fixed rate of 1.5% per annum, whereas the remaining balances of nil, nil and HK$3,505,000 respectively are interest-free. The balance as at 30 September 2019 was interest-free. The directors considered that the amount due to ultimate holding company will be settled before listing.

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

27. BANK BORROWINGS

The Group's bank borrowings as at the end of each of the reporting periods are denominated in US$ and HK$ and interest-bearing at floating rates. The annual interest rates of the Group's bank borrowings ranged from 1.82% to 1.96% for bank borrowings as at 31 December 2016, was 2.63% for bank borrowings as at 31 December 2017, ranged from 2.76% to 3.81% for bank borrowings as at 31 December 2018 and ranged from 3.28% to 3.56% for bank borrowings as at 30 September 2019. 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.

The bank borrowings as at 31 December 2016, 2017 and 2018 were secured by corporate guarantee executed by Shell Holdings, personal guarantee executed by Mr. Yung, and a charge over the investment securities of a fellow subsidiary. During the nine months ended 30 September 2019, the Group signed new banking facilities. The Group's bank borrowings as at 30 September 2019 which were drawn down under the new banking facilities were secured by corporate guarantee executed by Shell Holdings and personal guarantee executed by Mr. Yung.

28. DEFERRED TAX LIABILITIES

Details of the deferred tax liabilities recognised and movements during the Track Record Period are as follows:

	Accelerated tax depreciation
	HK$'000
At 1 January 2016	2
Credited to profit or loss for the year *(note 12)*	—
At 31 December 2016 and 1 January 2017	2
Credited to profit or loss for the year *(note 12)*	—
At 31 December 2017 and 1 January 2018	2
Credited to profit or loss for the year *(note 12)*	(2)
At 31 December 2018 and 30 September 2019	—

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Group had unused tax losses amounting to approximately HK$14,947,000, HK$15,266,000, HK$15,572,000 and HK$15,078,000, respectively, which were incurred by certain subsidiaries operating in Hong Kong and unused tax losses of nil, nil, HK$1,384,000 and nil, respectively, which were incurred by a subsidiary operated in the PRC. 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 and the tax loss of the subsidiary operating in the PRC can be carried forward for five years.

29. SHARE CAPITAL

(a) The share capital as at 31 December 2018 and 30 September 2019 represented the issued share capital of the Company. 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 30 September 2019 are summarised as follows:

Ordinary shares	**Par value**	**Number of shares**	**Amount**
	HK$		*HK$'000*
Authorised:			
Upon incorporation	0.01	38,000,000	380
At 31 December 2018, 1 January 2019 and 30 September 2019	0.01	38,000,000	380
Issued and fully paid:			
Issue of share upon incorporation	0.01	1	—
At 31 December 2018, 1 January 2019 and 30 September 2019	0.01	1	—

The Company was incorporated on 5 December 2018 with initial authorised share capital of HK$380,000 divided into 38,000,000 shares of par value of 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) For the purpose of this Historical Financial Information, the share capital balance in the combined statements of financial position as at 31 December 2016 and 2017 represented the issued share capital of SMC Electric Holdings as at those dates while that as of 31 December 2018 and 30 September 2019 represented the issued share capital of SMC Electric Holdings and the Company.

30. RESERVES

The Group

Details of the movements of the Group's reserves for the Track Record Period are presented in the combined statements of changes in equity.

The nature of the reserves is as follows:

Translation reserve

Translation reserve comprises foreign exchange differences arising from the translation of the financial statements of overseas operations in accordance with the accounting policy in note 3(o).

Capital contribution

During the year ended 31 December 2018, Shell Holdings agreed to waive the balances due to it by the Group amounted to HK$8,254,000. Such waiver is recognised as a capital contribution in equity.

Retained earnings

Retained earnings are the cumulated net gains and losses recognised in profit or loss.

31. NOTE TO THE COMBINED STATEMENTS 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 combined statements of cash flows as cash flows from financing activities.

	Amount due to ultimate holding company	Bank borrowings	Lease liabilities
	HK$'000	*HK$'000*	*HK$'000*
	(note 26)	*(note 27)*	*(note 25)*
At 1 January 2016	29,848	—	—
Changes from cash flows:			
Cash advanced from ultimate holding company	17,219	—	—
Cash paid to ultimate holding company	(29,196)	—	—
Proceeds from bank borrowings	—	10,976	—
Repayment of bank borrowings	—	(6,701)	—
	(11,977)	4,275	—
At 31 December 2016 and 1 January 2017	17,871	4,275	—
Changes from cash flows:			
Cash advanced from ultimate holding company	12,169	—	—
Cash paid to ultimate holding company	(6,609)	—	—
Proceeds from bank borrowings	—	6,926	—
Repayment of bank borrowings	—	(10,193)	—
	5,560	(3,267)	—
At 31 December 2017	23,431	1,008	—

	Amount due to ultimate holding company HK$'000 (note 26)	Bank borrowings HK$'000 (note 27)	Lease liabilities HK$'000 (note 25)
At 1 January 2018	23,431	1,008	—
Changes from cash flows:			
Cash advanced from ultimate holding company	47,636	—	—
Cash paid to ultimate holding company	(57,880)	—	—
Proceeds from bank borrowings	—	17,992	—
Repayment of bank borrowings	—	(8,891)	—
	(10,244)	9,101	—
Non-cash changes:			
Capital contribution *(note 30)*	(8,254)	—	—
Recognition of lease liabilities	—	—	1,150
Exchange difference	—	(11)	—
	(8,254)	(11)	1,150
At 31 December 2018 and 1 January 2019	4,933	10,098	1,150
Changes from cash flows:			
Cash advanced from ultimate holding company	45,410	—	—
Cash paid to ultimate holding company	(28,025)	—	—
Proceeds from bank borrowings	—	50,282	—
Repayment of bank borrowings	—	(41,808)	—
Payment of principal element of lease liabilities	—	—	(2,245)
Payment of interest element of lease liabilities	—	—	(102)
	17,385	8,474	(2,347)
Non-cash changes:			
Recognition of lease liabilities	—	—	4,928
Interest expenses of lease liabilities	—	—	102
Exchange difference	—	8	(20)
	—	8	5,010
At 30 September 2019	22,318	18,580	3,813
For the nine months ended 30 September 2018 (unaudited)			
At 1 January 2018	23,431	1,008	—
Changes from cash flows:			
Cash advanced from ultimate holding company	2,537	—	—
Cash paid to ultimate holding company	(10,223)	—	—
Proceeds from bank borrowings	—	11,977	—
Repayment of bank borrowings	—	(4,806)	—
	(7,686)	7,171	—
Non-cash changes:			
Capital contribution *(note 30)*	(8,254)	—	—
At 30 September 2018	7,491	8,179	—

32. RELATED PARTY TRANSACTIONS

The amounts due from or due to related parties are disclosed in notes 22 and 26. Save as disclosed elsewhere in this Historical Financial Information, the Group had the following significant transactions with its related parties:

(a) Significant transactions entered into by the Group with related parties during the Track Record Period

			Transaction amount				
			Year ended 31 December			Nine months ended 30 September	
Name	Relationship	Type of transaction	2016	2017	2018	2018	2019
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Shell Holdings	Ultimate holding company	Interest expenses paid or payable to the related party	435	224	155	152	—
Shell Holdings	Ultimate holding company	Interest income received or receivable from the related party	170	—	19	19	—
Shell Holdings	Ultimate holding company	Recharge of staff costs and corporate expenses by the related party *(note (i) & (iv))*	11,743	10,859	5,614	4,474	—
Shell Holdings	Ultimate holding company	Rental and building management fee charged by the related party for office premises *(note (iii))*	1,345	1,530	2,047	1,525	—
Multi-Media Group	Fellow subsidiaries	Recharge of factory related expenses by the related parties *(note (iii))*	1,149	927	1,064	981	—
Multi-Media Group	Fellow subsidiaries	Recharge of administrative staff costs and other operating expenses by the related parties *(note (iv))*	4,653	4,939	3,823	2,711	—
Multi-Media Group	Fellow subsidiaries	Recharge of income tax by the related parties	4,187	6,797	7,698	5,717	—
MMSD	Fellow subsidiary	Assets Transfer *(note (iii))*	—	—	10,341	—	—
Sunny Resource Limited *(note (ii))*	Fellow subsidiary	Licence fee paid or payable to the related party	256	105	86	—	—
Sien Hua	Associate	Purchase of raw materials and goods from the related party	37,612	41,792	40,035	30,277	24,647

Notes:

(i) It represents management fee charged by Shell Holdings to the Group which comprise recharge of staff costs of HK$10,481,000, HK$9,657,000 and HK$4,217,000 respectively for the years ended 31 December 2016, 2017 and 2018 and recharge of corporate expenses of HK$1,262,000, HK$1,202,000 and HK$1,397,000 respectively for the years ended 31 December 2016, 2017 and 2018. Staff costs recharged for the years ended 31 December 2016 and 2017 included direct staff costs of HK$7,427,000 and HK$6,632,000 respectively. Those staff have been employed directly by the Group starting from 2018 and hence there is no recharge of direct staff costs by Shell Holdings thereafter.

(ii) Sunny Resource Limited is an indirect wholly-owned subsidiary of Shell Holdings.

(iii) During the three years ended 31 December 2018, the Other Electrical Appliances Business was mainly conducted by the Electrical Appliances Division of Multi-Media Group and its production facilities were located in the factories of MMSD at Shunde, the PRC. On 6 December 2018, MMSD and SMC Electric China entered into an agreement (the "Transfer Agreement") pursuant to which MMSD has agreed to transfer certain of its machinery and equipment and inventories which are necessary for manufacturing of electric tools to SMC Electric China. The consideration (exclude VAT) for the transfer of machinery and equipment having carrying amount of RMB2,490,000 (equivalent to approximately HK$2,842,000) is RMB3,759,000 (equivalent to approximately HK$4,290,000). The consideration (exclude VAT) for the transfer of inventories is RMB5,302,000 (equivalent to approximately HK$6,051,000), which is equal to the carrying amount of those inventories. The transaction was completed on 31 December 2018. The excess of consideration over the carrying amount of the transferred assets amounted to HK$1,448,000 was recognised as deemed distribution in the combined statement of changes in equity for the year ended 31 December 2018.

Upon completion of the Transfer Agreement, the production of the Other Electrical Appliances Business is conducted by SMC Electric China instead of the Electrical Appliances Division of Multi-Media Group. In connection to this, SMC Electric China entered into tenancy agreements with MMSD in November 2018 for leasing of factory and staff quarter at Shunde, the PRC. In addition, SMC Electric HK entered into tenancy agreements with Shell Holdings in January 2019 for leasing of office and warehouse in Hong Kong. Rentals and management fee payable under these leases for the year ended 31 December 2019 are estimated to be HK$3,797,000. During the three years ended 31 December 2018, the Group occupied the premises of Shell Holdings and Multi-Media Group for its business and operations. Rental and premises expenses incurred by the Group were therefore recharged by Shell Holdings and Multi-Media Group which recharges in aggregate amounted to HK$2,494,000, HK$2,457,000 and HK$3,111,000 respectively for the years ended 31 December 2016, 2017 and 2018. No further recharges are applicable starting from 2019 since the Group has entered into leases for premises by itself as mentioned above.

(iv) During the three years ended 31 December 2018, Shell Holdings and Multi-Media Group provided head office and administrative support to the Group and recharged the Group for those support. In respect of those support, the recharges by Shell Holdings excluding direct staff costs recharges as mentioned in note (i) amounted to HK$4,316,000, HK$4,227,000 and HK$5,614,000 respectively for the years ended 31 December 2016, 2017 and 2018 whereas the recharges by Multi-Media Group amounted to HK$4,653,000, HK$4,939,000 and HK$3,823,000 respectively for the years ended 31 December 2016, 2017 and 2018, the aggregate of which amounted to HK$8,969,000, HK$9,166,000 and HK$9,437,000 respectively for the years ended 31 December 2016, 2017 and 2018. The recharges comprised of recharges for staff costs related expenses of HK$5,188,000, HK$5,256,000 and HK$5,389,000 respectively for the years ended 31 December 2016, 2017 and 2018 and other operating expenses of HK$3,781,000, HK$3,910,000 and HK$4,048,000 respectively for the years ended 31 December 2016, 2017 and 2018. The Transfer Agreement was completed on 31 December 2018 as mentioned in note (iii) above by which time the Reorganisation was substantially completed and the Group is able to conduct business activities independently by itself. Hence, no further recharges are applicable thereafter.

(v) The Group entered into a lease agreement with MMSD on 30 November 2018 for leasing of factory and staff quarters located at Shunde, the PRC which was effective from 1 December 2018 and last for a period of 25 months. Under the lease agreement, the monthly rental payable of leasing of factory is RMB43,352 (exclude VAT) (equivalent to approximately HK$49,000) while the monthly rental payable of leasing of staff quarters is charged based on the actual number of use of the rooms. The rental for the month of December 2018 was waived by MMSD.

The Group also entered into lease agreements with Shell Holdings on 11 January 2019 for leasing of office premises, warehouse and carpark space located in Hong Kong which are effective from 1 January 2019 and last for a period of 24 months. The monthly rental payables under the lease agreements are approximately HK$211,000.

The Group recognised right-of-use assets (note 17) and lease liabilities (note 25) in relation to the above-mentioned lease agreements for factory, office premises, warehouse and carpark space following the requirements of HKFRS 16. For the nine months ended 30 September 2019, total undiscounted rental payments under these lease agreements were approximately HK$2,347,000. Rental payment for leasing of staff quarters for the nine months ended 30 September 2019 amounted to RMB74,000 (equivalent to approximately HK$84,000).

The above transactions were conducted on mutually agreed terms.

(b) Guarantees

For the Track Record Period, Shell Holdings and certain subsidiaries of Shell Holdings including certain subsidiaries of the Group engaging in Fan Business shared the banking facilities (the "Shared Facilities") granted by a bank. 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.

As disclosed in note 27, the Group's bank borrowings as at 31 December 2016, 2017 and 2018 which were drawn down under the Shared Facilities were secured by corporate guarantee executed by Shell Holdings, personal guarantee executed by Mr. Yung and a charge over the investment securities of a fellow subsidiary.

During the nine months ended 30 September 2019, the Group signed new banking facilities. The Group's new banking facilities and the Group's bank borrowings as at 30 September 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 will be released and replaced by the guarantee from the Company upon listing.

(c) Compensation of key management personnel

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

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Salaries, allowances and other benefits	3,355	4,603	6,151	3,573	2,563
Pension scheme contribution	199	183	267	196	118
	3,554	4,786	6,418	3,769	2,681

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 2016, 2017 and 2018 and 30 September 2019 amounted to HK$145,000,000, HK$145,000,000, HK$116,000,000 and HK$101,500,000 respectively.

34. 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.

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 at 31 December 2016, 2017 and 2018 and 30 September 2019 was as follows:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings	4,275	1,008	10,098	18,580
Amount due to ultimate holding company	17,871	23,431	4,933	22,318
Less: cash and bank balances	(4,672)	(3,122)	(6,889)	(28,905)
Net debt	17,474	21,317	8,142	11,993
Total equity	62,227	94,527	134,953	176,414
Net debt to equity ratio	28.1%	22.6%	6.0%	6.8%

The Group strives to reduce 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 Track Record Period.

35. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

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

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at amortised costs				
— Trade and bills receivables and other receivables	41,446	62,652	85,602	90,277
— Amount due from a fellow subsidiary	59,468	72,829	87,485	135,156
— Cash and bank balances	4,672	3,122	6,889	28,905
	105,586	138,603	179,976	254,338
Financial liabilities at amortised costs				
— Trade and other payables and accruals	33,902	32,174	50,860	44,139
— Lease liabilities	—	—	1,150	3,813
— Amount due to ultimate holding company	17,871	23,431	4,933	22,318
— Amounts due to fellow subsidiaries	273	29	99	718
— Bank borrowings	4,275	1,008	10,098	18,580
	56,321	56,642	67,140	89,568

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and bills receivables, other receivables, 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, the carrying values of the above financial instruments approximate their fair values.

(b) Financial instruments measured at fair value

As at 31 December 2016 and 2017, the fair value of the unlisted equity investment in Huaxia (note 19) is estimated using a discounted cash flow method which is a level 3 fair value measurements.

The Group followed HKFRS 13, Fair Value Measurement, which introduces a 3 level hierarchy for fair value measurement disclosures. The hierarchy groups financial assets and liabilities into 3 levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In light of the unsatisfactory financial performance and uncertain future prospect of Huaxia, management considers that the fair value of the Group's investment in Huaxia was zero at 1 January 2016, 31 December 2016 and 31 December 2017. The investment was disposed of in November 2018. No sensitivity analysis is presented as reasonable changes in unobservable inputs, such as weighted average cost of capital, long term revenue growth rate and discount for lack of marketability will not result in a significantly higher or lower fair value measurement. There were no changes in valuation technique during the years ended 31 December 2016 and 2017.

There have been no transfers between levels during the Track Record Period.

There have been no movement of the level 3 financial assets during the Track Record Period.

36. 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 bills receivables, other receivables including amount due from a fellow subsidiary and bank balances.

In respect of trade and bills receivables and other receivables, the Group limits its exposure to credit risk by rigorously selecting the counterparties and to deal with credit worthy counterparties. Credit terms are granted to new customers after credit worthiness 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 condition, current creditworthiness, past settlement history, business relationship with the Group and other factors such as current market conditions.

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Group had certain concentration of credit risk as 95%, 98%, 98% and 93% of the Group's trade and bills receivables were due from the Group's two largest customers of the respective years.

The Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition on an ongoing basis throughout the Track Record 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.

— 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 and bills 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 and bills receivables. Trade and bills 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.

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

	As at 31 December			As at 30 September
	2016	2017	2018	2019
Current	0.15%	0.14%	0.30%	0.30%
Past due less than 30 days	0.71%	0.71%	1.25%	1.25%
Past due for 30 or more but less than 60 days	1.41%	1.41%	2.49%	2.49%
Past due for 60 or more but less than 90 days	2.41%	2.41%	3.49%	3.49%
Past due for 90 days or more	3.21%	3.21%	4.25%	4.25%

The Group has assessed that the expected credit loss rate was immaterial as at 31 December 2016 and 2017. Accordingly, no additional loss allowance for trade and bills receivables was recognised for the years ended 31 December 2016 and 2017. Movement in the loss allowance in respect of the trade and bills receivables is as follows:

	Year ended 31 December			Nine months ended 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of the year/period	—	—	—	444
Impairment losses recognised during the year/period	—	—	444	19
Impairment losses reversed during the year/period	—	—	—	(136)
At the end of the year/period	—	—	444	327

In respect of amount due from a fellow subsidiary, the Group considered that the fellow subsidiary having a low risk of default and a strong financial capacity to meet its contractual cash flows. The Group assessed that the expected credit losses for the balances are immaterial under the 12-month expected credit losses method. Accordingly, no loss allowance provision was recognised during the Track Record Period.

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

As disclosed in note 33, 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 2016, 2017 and 2018 and 30 September 2019 amounted to HK$145,000,000, HK$145,000,000, HK$116,000,000 and HK$101,500,000 respectively. As assessed by the directors, it is not probable that the bank would demand the Group to repay the outstanding loan and any interest thereon drawn down by Shell Holdings in light of the financial condition of Shell Holdings and the securities in place over such loan. Accordingly, the Group's exposure to credit risk in respect of such guarantee is low.

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. All of the Group's bank borrowings as at 31 December 2016, 2017 and 2018 and 30 September 2019 mainly comprised of short-term borrowing drawn down under the invoice financing facilities. Interest is charged on invoice financing loans at the rate of HIBOR/LIBOR or cost of funds of the bank prevailing at the date of drawdown plus certain basis points. The Group is subject to cash flow interest rate risk as the interest rates on the invoice financing loans fluctuate on the dates of drawdown. The interest rates and repayment terms of the bank borrowings outstanding at 31 December 2016, 2017 and 2018 and 30 September 2019 are disclosed in note 27.

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 low level of deposit interest rate.

The following sensitivity analysis demonstrates the Group's exposure to a reasonably possible change in interest rates on its bank borrowings as at 31 December 2016, 2017 and 2018 and 30 September 2019 with all other variables held constant at the end of each of the reporting periods (in practice, the actual trading results may differ from the sensitivity analysis and the difference could be material):

	Year ended 31 December			Nine months ended 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(Decrease)/Increase in profit for the year/period and retained earnings				
+ 50 basis points	(18)	(4)	(42)	(78)
– 10 basis points	4	1	8	16

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 interest rate are 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 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 or division 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 or division. 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.

The overall exposure in respect of the carrying amounts of the Group's foreign currency denominated monetary assets and liabilities in net position as at 31 December 2016, 2017 and 2018 and 30 September 2019 are as follows:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net monetary assets/(liabilities) denominated in foreign currencies				
US$ (functional currency being HK$)	26,681	53,715	68,319	75,039
US$ (functional currency being RMB)	27,025	35,003	45,921	4,734
RMB (functional currency being HK$)	(1,613)	(1,607)	(1,870)	(1,257)

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 denominate 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 of the reporting periods (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/period and retained earnings			
	Year ended 31 December			**Nine months ended 30 September**
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
US$ appreciated by 5%	1,013	1,313	1,722	178
RMB appreciated by 5%	(67)	(67)	(78)	(52)

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.

(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 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 of the reporting periods, based on undiscounted cash flows (including interest payments computed using contractual rates or if floating, based on rates ruling at the end of each of reporting periods) and at the earliest date the Group can be required to pay. Specifically, for bank loans which contain 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	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2016				
Non-derivative				
Trade and other payables and accruals	33,902	33,902	33,902	—
Amount due to ultimate holding company	17,871	17,871	17,871	—
Amounts due to fellow subsidiaries	273	273	273	—
Bank borrowings	4,275	4,275	4,275	—
	56,321	56,321	56,321	—
Derivative				
Financial guarantee issued	—	145,000	145,000	—
At 31 December 2017				
Non-derivative				
Trade and other payables and accruals	32,174	32,174	32,174	—
Amount due to ultimate holding company	23,431	23,431	23,431	—
Amounts due to fellow subsidiaries	29	29	29	—
Bank borrowings	1,008	1,008	1,008	—
	56,642	56,642	56,642	—
Derivative				
Financial guarantee issued	—	145,000	145,000	—
At 31 December 2018				
Non-derivative				
Trade and other payables and accruals	50,860	50,860	50,860	—
Amount due to ultimate holding company	4,933	4,933	4,933	—
Amounts due to fellow subsidiaries	99	99	99	—
Bank borrowings	10,098	10,098	10,098	—
	65,990	65,990	65,990	—
Lease liabilities	1,150	1,186	593	593
Derivative				
Financial guarantee issued	—	116,000	116,000	—
At 30 September 2019				
Non-derivative				
Trade and other payables and accruals	44,139	44,139	44,139	—
Amount due to ultimate holding company	22,318	22,318	22,318	—
Amounts due to fellow subsidiaries	718	718	718	—
Bank borrowings	18,580	18,580	18,580	—
	85,755	85,755	85,755	—
Lease liabilities	3,813	3,890	3,112	778
Derivative				
Financial guarantee issued	—	101,500	101,500	—

The following table summarises the maturity analysis of bank borrowings with 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 the bank will exercise its discretion to demand immediate repayment. The directors believe that these bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Carrying amount	**Total contractual undiscounted cash flow**	**Within one year or on demand**
	HK$'000	*HK$'000*	*HK$'000*
At 31 December 2016			
Bank borrowings	4,275	4,277	4,277
At 31 December 2017			
Bank borrowings	1,008	1,009	1,009
At 31 December 2018			
Bank borrowings	10,098	10,116	10,116
At 30 September 2019			
Bank borrowings	18,580	18,603	18,603

The contractual financial guarantees provided by the Group are disclosed in note 33. As assessed by the directors, it was not probable that the ultimate holding company would default 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 contracts due to security in place for the underlying bank borrowings. Accordingly, it is remote that the Group would incur outflow of cash which affect liquidity of the Group as a result of guarantees.

The liquidity policies have been followed by the Group throughout the Track Record Period and are considered to have been effective in managing liquidity risks.

37. SUBSEQUENT EVENTS

Except as disclosed elsewhere in this Historical Financial Information, the following significant events took place subsequent to 30 September 2019:

(a) Pursuant to the resolution passed by the 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.

(b) Pursuant to the resolutions passed by the shareholders of the Company on 7 February 2020, and subject to the same conditions as stated in the sub-paragraph headed "Conditions of the Share Offer" in the section headed "Structure of the Share Offer" included in the Prospectus of the Company, the following have been approved:

(i) The offer of 375,000,000 shares of the Company, comprising 187,500,000 public offer shares and 187,500,000 placing shares, at offer price of not more than HK$0.38 per offer share and not less than HK$0.335 per offer share (the "Share Offer");

(ii) Conditional on the share premium account of the Company having sufficient balance, or otherwise being credited with the proceeds of the Share Offer, the issue of a total of 1,274,500,000 ordinary shares at par by the Company to the shareholder, being Shell Holdings, by way of capitalising an amount of HK$12,745,000 from the share premium account of the Company ("Capitalisation Issue"); and

(iii) The principal terms of the share option scheme as set out in the sub-section headed "Share Option Scheme" in the section headed "Statutory and General Information" included in Appendix V of the Prospectus.

(c) The outbreak of Novel Coronavirus after it was first detected in Wuhan, China in December 2019 (Coronavirus COVID-19) has impact on the business and operations of the Group as the Group's factory is located in China. As required by the local government offices in which the Group's factory is located, factories located in the area were not allowed to resume operations until 9 February 2020. The Group's factory resumed its operations on 15 February 2020 and the Group's major suppliers have also resumed their operations. As at the date of this report, the Coronavirus COVID-19 has not resulted in material impact to the Group. Pending on the development and spread of Coronavirus COVID-19 subsequent to the date of this report, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of this report.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 30 September 2019.

The information set forth in this appendix does not form part of the Accountants' Report from BDO Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

(A) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS OF THE GROUP

The following unaudited pro forma statement of adjusted combined net tangible assets of the Group prepared in accordance with paragraph 4.29 of the Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants is for illustrative purpose only, and is set out herein to provide the prospective investors with further illustrative financial information about how the Share Offer might have affected the combined net tangible assets of the Group after the completion of the Share Offer as if the Share Offer had taken place on 30 September 2019. Because of its hypothetical nature, this unaudited pro forma statement of adjusted combined net tangible assets of the Group may not give a true picture of the financial position of the Group had the Share Offer been completed on 30 September 2019 or at any future dates.

	Combined net tangible assets of the Group as at 30 September 2019	**Estimated net proceeds from the Share Offer**	**Unaudited pro forma adjusted combined net tangible assets of the Group**	**Unaudited pro forma adjusted combined net tangible assets per Share**
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*
Based on Offer Price of HK$0.335 per Offer Share	176,414	52,031	228,445	0.1523
Based on Offer Price of HK$0.38 per Offer Share	176,414	59,119	235,533	0.1570

Notes:

1. The combined net tangible assets of the Group as at 30 September 2019 are based on the combined net assets of the Group as at 30 September 2019 of HK$176,414,000 as shown in the Accountants' Report set out in Appendix I to this prospectus.

2. The estimated net proceeds to be received by the Group from the Share Offer are based on 187,500,000 New Shares and the Offer Price of HK$0.335 per Offer Share (being the low-end of the indicative Offer Price range between HK$0.335 to HK$0.38 per Offer Share) and HK$0.38 per Offer Share (being the high-end of the indicative Offer Price range between HK$0.335 to HK$0.38 per Offer Share), respectively after deduction of the underwriting fees and related expenses payable by the Group which has not been reflected in combined net tangible assets of the Group as at 30 September 2019, taking into account the portion of listing fees to be shared by the Selling Shareholder. No account has been taken of any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme.

3. The unaudited pro forma adjusted combined net tangible assets of the Group per Share is calculated based on 1,500,000,000 Shares, being the Shares in issue immediately following the completion of the Capitalisation Issue and the Share Offer but takes no account of any Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix V to this prospectus.

4. The unaudited pro forma adjusted combined net tangible assets of the Group and the unaudited pro forma adjusted combined net tangible assets of the Group per Share have not taken into account the deemed distribution of approximately HK$135,500,000 to the then shareholders of the Group proposed in February 2020 (the "Distribution"), which is to be settled by offsetting the equivalent amounts in the relevant current accounts of a fellow subsidiary. The unaudited pro forma adjusted combined net tangible assets of the Group would have been decreased to HK$92,945,000 and HK$100,033,000 respectively based on the Offer Price of HK$0.335 per Offer Share and HK$0.38 per Offer Share, after taking into account the Distribution and as if the Distribution had taken place on 30 September 2019.

5. No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets of the Group to reflect any trading results or other transactions of the Group entered into subsequent to 30 September 2019.

(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the accountants' report received from BDO Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of inclusion in this prospectus.

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INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the directors of SMC Electric Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of SMC Electric Limited (the "Company") and its subsidiaries (together the "Group") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted combined net tangible assets of the Group as at 30 September 2019 and related notes as set out on pages II-1 to II-2 of Appendix II to the Company's prospectus dated 29 February 2020 (the "Prospectus") in connection with the proposed initial public offerings of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited. The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the proposed public offer and placing of the shares of the Company (the "Share Offer") on the Group's combined financial position as at 30 September 2019 as if the Share Offer had taken place on 30 September 2019. As part of this process, information about the Group's financial position has been extracted by the directors of the Company from the Group's financial information for the three years ended 31 December 2018 and the nine months ended 30 September 2019, on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction as at 30 September 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the entity, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Company; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

BDO Limited
Certified Public Accountants
Hong Kong

29 February 2020

The estimate of the combined profit attributable to owners of the Company for the year ended 31 December 2019 is set out in the section headed "Financial Information — Profit estimate for FY2019" in this prospectus.

A. BASES

The Directors have prepared the estimate of the combined profit attributable to owners of the Company for the year ended 31 December 2019 (the "Profit Estimate") based on the audited combined results of the Group for the nine months ended 30 September 2019 and the unaudited combined results based on the management accounts of the Group for the three months ended 31 December 2019.

The Profit Estimate has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted as summarised in the Accountants' Report as set out in Appendix I to this prospectus.

B. LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a letter received from BDO Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's profit estimate for the year ended 31 December 2019, prepared for the purpose of inclusion in this prospectus.

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Hong Kong

Date: 29 February 2020

Dear Sirs

SMC ELECTRIC LIMITED (THE "COMPANY")
PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2019

We refer to the estimate of the combined profit attributable to owners of the Company for the year ended 31 December 2019 (the "Profit Estimate") set forth in the section headed "Financial Information — Profit Estimate for FY2019" in the prospectus of the Company dated 29 February 2020 (the "Prospectus").

Directors' Responsibilities

The Profit Estimate has been prepared by the directors of the Company based on the audited combined results of the Company and its subsidiaries (collectively referred to as the "Group") for the nine months ended 30 September 2019, and the unaudited combined results based on the management accounts of the Group for the three months ended 31 December 2019.

The Company's directors are solely responsible for the Profit Estimate.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibility

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Estimate based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Profit Estimate in accordance with the bases adopted by the directors of the Company and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the directors as set out in Appendix III to the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated 29 February 2020, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully

BDO Limited
Certified Public Accountants
Hong Kong

C. LETTER FROM THE SOLE SPONSOR

红日资本有限公司
RED SUN CAPITAL LIMITED

The Board of Directors
SMC Electric Limited

29 February 2020

Dear Sirs,

We refer to the estimate of the combined profit attributable to owners of SMC Electric Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2019 (the "Profit Estimate"), as set out in the prospectus issued by the Company dated 29 February 2020.

The Profit Estimate, for which you, as the directors of the Company are solely responsible, has been prepared by you based on (i) the audited combined results of the Group for the nine months ended 30 September 2019; and (ii) the unaudited combined results based on the management accounts of the Group for the three months ended 31 December 2019.

We have discussed with you the bases upon which the Profit Estimate has been made, we have also considered the letter dated 29 February 2020 addressed to you and us from BDO Limited regarding the accounting policies and calculations upon which the Profit Estimate has been made.

On the basis of the information comprising the Profit Estimate and on the basis of the accounting policies and calculations adopted by you and reviewed by BDO Limited, we are of the opinion that the Profit Estimate, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

For and on behalf of
Red Sun Capital Limited
Robert Siu
Managing Director

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 December 2018 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association ("Memorandum") and its Amended and Restated Articles of Association ("Articles").

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 7 February 2020 and will be effective on the Listing Date. A summary of certain provisions of the Articles is set out below.

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall mutatis mutandis apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a member being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new Shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; and (g) change the currency of denomination of its share capital.

(iv) Transfer of shares

Subject to the Cayman Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(v) Power of the Company to purchase its own shares

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(b) Directors

(i) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed 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 so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the "retirement by rotation" provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

(aa) resigns;

(bb) dies;

(cc) is declared to be of unsound mind and the Board resolves that his office be vacated;

(dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(ee) is prohibited from being or ceases to be a director by operation of law;

(ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;

(gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or

(hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iv) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above.

Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

(aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

(ix) Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

(d) Meetings of member

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(ii) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

(A) at least two members;

(B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(iv) Requisition of general meetings

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.

(v) Notices of meetings and business to be conducted

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

(i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(vi) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vii) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(e) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to members who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those members that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The members may, at a general meeting remove the auditor(s) by a special resolution at any time before the expiration of the term of office of the auditor(s) and shall, by an ordinary resolution, at that meeting appoint new auditor(s) in place of the removed auditor(s) for the remainder of the term.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(f) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

(i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;

(ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and

(iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

(aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

(bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(g) Inspection of corporate records

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

(h) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(i) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if the Company is wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively; and

(ii) if the Company is wound up and the surplus assets available for distribution among the members are insufficient to repay the whole of the paid-up capital, such assets shall be distributed, subject to the rights of any shares which may be issued on special terms and conditions, so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(j) Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 5 December 2018 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

Under Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

(i) paying distributions or dividends to members;

(ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(iii) any manner provided in section 37 of the Cayman Companies Law;

(iv) writing-off the preliminary expenses of the company; and

(v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of Foss v. Harbottle and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

(h) Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Financial Secretary that:

(i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(ii) no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

(aa) on or in respect of the shares, debentures or other obligations of the Company; or

(bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The undertaking for the Company is for a period of 20 years from 22 January 2019.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

(o) Register of Directors and officers

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(p) Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(q) Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(r) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(s) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY

1. Incorporation

(a) The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 5 December 2018. The Company has established its principal place of business in Hong Kong at 1/F., Shell Industrial Building, 12 Lee Chung Street, Chai Wan, Hong Kong and has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 18 January 2019. Mr. Leung has been appointed as the authorised representative of the Company for acceptance of service of process and notices on behalf of the Company in Hong Kong.

(b) As the Company is incorporated in the Cayman Islands, the corporate structure and the Memorandum and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of the relevant provisions of the Memorandum and Articles of Association and certain relevant aspects of the Companies Law is set out in Appendix IV to this prospectus.

2. Changes in share capital of the Company

The authorised share capital of the Company as at the date of its incorporation was HK$380,000 divided into 38,000,000 shares of a par value of HK$0.01 each.

The following sets out the changes in the share capital since the date of the Company's incorporation:

(a) on 5 December 2018, one Share of par value of HK$0.01 was allotted and issued as fully paid up to Reid Services Limited as the initial subscriber which was subsequently transferred to Mr. Yung;

(b) on 2 January 2019, the one Share was transferred from Mr. Yung to Shell Holdings for the consideration of HK$0.01;

(c) pursuant to resolutions in writing by the sole Shareholder passed on 7 February 2020, the authorised share capital of the Company was increased from HK$380,000 divided into 38,000,000 Shares of par value of HK$0.01 each to HK$50,000,000 divided into 5,000,000,000 Shares of par value of HK$0.01 each by the creation of an additional 4,962,000,000 new Shares of par value of HK0.01 each, each ranking *pari passu* in all respects with the Shares in issue; and

(d) immediately following the completion of the Capitalisation Issue and Share Offer (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme), the issued share capital of the Company will be HK$15,000,000 divided into 1,500,000,000 Shares of par value of HK$0.01 each, all fully paid or credited as fully paid and 3,500,000,000 Shares will remain unissued.

Other than pursuant to the exercise of any options which may be by granted under the Share Option Scheme below, the Company does not have any present intention to issue any part of the authorised but unissued shares of the Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save for the above and as mentioned in the paragraph headed "A. Further information about the Company — 4. Resolutions in writing of the Sole Shareholder" below in this Appendix, there has been no alteration in the share capital of the Company since its incorporation.

3. Changes in share capital of the subsidiaries

The subsidiaries are referred to in the Accountants' Report as set out in Appendix I to this prospectus.

Save for the alterations disclosed in the section headed "History, Reorganisation and Corporate Structure" in this prospectus, there is no other alternation in the share capital of the subsidiaries which took place within the two years immediately preceding the date of this prospectus.

4. Resolutions in writing of the sole Shareholder

Pursuant to the resolutions in writing of the sole Shareholder passed on 7 February 2020:

(a) the authorised share capital of the Company was increased from HK$380,000 divided into 3,800,000 Shares of a par value of HK$0.01 each to HK$50,000,000 divided into 5,000,000,000 Shares of a par value of HK$0.01 each, by the creation of an additional 4,962,000,000 new Shares of a par value of HK$0.01 each which shall, when issued and paid, rank *pari passu* in all respects with the existing issued Shares;

(b) the Memorandum and Articles were conditionally approved and adopted and be effective upon the Listing;

(c) conditional on (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus (including any Shares which may be allotted and issued pursuant to the exercise of the options under the Share Option Scheme); (ii) the entering into of the Price Determination Agreement on the Price Determination Date; (iii) the execution and delivery of the Underwriting Agreements on or before the dates mentioned in this prospectus; and (iv) the obligations of the Underwriters under the

Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:

(i) the Share Offer was approved and the Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer; and

(ii) the rules of the Share Option Scheme (the principal terms of which are set out in the paragraph headed "Share Option Scheme" in this Appendix) were approved and adopted and the Directors were authorised to grant options to subscribe for Shares under the Share Option Scheme and to allot, issue and deal with Shares pursuant thereto and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme.

(d) conditional upon the share premium account of the Company having sufficient balance, or otherwise being credited as a result of the allotment and issue of the Offer Shares pursuant to the Share Offer, the Directors were authorised to capitalise an amount of HK$12,745,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par a total of 1,274,500,000 Shares for allotment and issue to the person(s) whose names appear on the register of members of the Company as at the date of this resolution and the Shares to be allotted and issued under this resolution shall rank *pari passu* in all respects with the existing issued Shares;

(e) a general unconditional mandate was given to the Directors to allot, issue and deal with the shares (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to a rights issue or pursuant to any scrip dividend scheme or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to the grant of options under the Share Option Scheme or other similar arrangement or pursuant to a specific authority granted by the Shareholders in general meeting, unissued Shares with a total number not exceeding 20% of the total number of Shares in issue immediately following completion of the Capitalisation Issue and Share Offer (but taking no account of the number of Shares which may be repurchased by the Company pursuant to the authority granted to the Directors referred to in paragraph (f) below and any Shares which may be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws to be held, or until varied or revoked or renewed by an ordinary resolution of the Shareholders in general meeting, whichever occurs first;

(f) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase, on the Stock Exchange or on any other stock exchange on which the Company's Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the total number of the Shares in issue immediately following completion of the Capitalisation Issue and the Share Offer (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws to be held, or until varied, revoked or renewed by an ordinary resolution of the Shareholders in general meeting, whichever occurs first;

(g) the general unconditional mandate as mentioned in paragraph (e) above was extended by the addition to the aggregate number of the Shares which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate number of Shares repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (f) above;

(h) the form and substance of each of the service agreements to be entered into by the Company with each of the executive Directors and the form and substance of each of the appointment letters to be issued by the Company to and countersigned by each of the independent non-executive Directors be and are hereby approved; and

(i) the appointments of Mr. Leung Man Chiu Lawrence, Mr. Poon Chak Sang Plato and Mr. Lam Sai Yu Geoffrey as independent non-executive Directors on 2 October 2019 be and are hereby approved, ratified and confirmed.

5. Corporate reorganisation

In preparation for the Share Offer, the Group undertakes the Reorganisation. Please refer to the section headed "History, Reorganisation and Corporate Structure — Reorganisation" in this prospectus for further details.

6. Repurchase of the Shares

(a) Relevant legal and regulatory requirements

The Listing Rules permit the Shareholders to grant to the Directors a general mandate to repurchase the Shares that are listed on the Stock Exchange. The mandate is required to be given by way of an ordinary resolution passed by the Shareholders in a general meeting.

(b) Shareholders' approval

All proposed repurchases of Shares (which must be fully paid up) must be approved in advance by ordinary resolutions of the Shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to the resolutions in writing passed by the sole Shareholder on 7 February 2020, the Directors were granted a general unconditional mandate (the "Repurchase Mandate") to repurchase up to 10% of the total number of Shares in issue immediately following the Capitalisation Issue and the Share Offer (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme) on the Stock Exchange or on any other stock exchange on which the Company's Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose. Such mandate will expire at the earliest of (i) the conclusion of the Company's next annual general meeting, (ii) the date by which the Company's next general meeting is required by applicable laws and the Company's Articles to be held, or (iii) such mandate being varied or revoked or renewed by ordinary resolutions of the Shareholders in a general meeting (the "Relevant Period").

(c) Source of funds

The Company's repurchase of the Shares listed on the Stock Exchange must be funded out of funds legally available for the purpose in accordance with the Articles and the applicable laws of Hong Kong and the Cayman Islands. The Company may not repurchase the Shares on the Stock Exchange for consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, the Company may make repurchases out of the profit, the share premium account or out of the proceeds of a fresh issue of Shares for the purpose of the repurchase. Any amount of premium payable on the purchase over the par value of the Shares to be repurchased must be out of profits of the Company or out of the Company's share premium account. If authorised by the Articles and subject to the Companies Law, repurchase may also be made out of capital.

(d) Reasons for repurchases

The Directors believe that it is in the best interests of the Company and its Shareholders for the Directors to have general authority to execute repurchases of the Shares in the market. The repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets per Share and/or earnings per Share and will only be made where the Directors believe that the repurchases will benefit the Company and its Shareholders.

(e) Funding of repurchases

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules, the Companies Law and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise in accordance with the trading rules of the Stock Exchange from time to time.

On the basis of the current financial position of the Company as disclosed in this prospectus and taking into account the current working capital position of the Company, the Directors believe that, if the Repurchase Mandate was to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Company as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as it would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

(f) Share capital

The exercise in full of the current Repurchase Mandate, on the basis of 1,500,000,000 Shares in issue immediately after the Capitalisation Issue and the Share Offer (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options that may be granted under the Share Option Scheme), could accordingly result in up to 150,000,000 Shares being repurchased by the Company during the Relevant Period.

(g) General

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any of the Shares to the Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Articles, the Companies Law and any other applicable laws of the Cayman Islands.

If, as a result of any repurchase of the Shares, a Shareholder's proportionate interest in the Company's voting rights is increased, the increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code.

No connected person of the Company has notified the Group that he or it has a present intention to sell his or its Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The Group has entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this prospectus that are or may be material:

(a) the sale and purchase agreement dated 28 October 2018 entered into between Quanta Global as vendor and Mr. Chan Lai Shun (陳禮舜) as purchaser in relation to transfer of 19% equity interest in Huaxia at a consideration of US$1.00;

(b) the Business Transfer Agreement;

(c) the asset transfer confirmation letter (資產交割確認書) dated 31 December 2018 entered into between MMSD and SMC Electric China pursuant to which MMSD transferred certain fixed assets and stocks to SMC Electric China;

(d) the staff transfer confirmation letter (人員轉移確認書) dated 31 December 2018 entered into between MMSD and SMC Electric China in relation to transfer of staff from MMSD to SMC Electric China;

(e) the Share Swap Agreement;

(f) the Deed of Indemnity; and

(g) the Public Offer Underwriting Agreement.

2. Intellectual property rights

(a) As at the Latest Practicable Date, Sunny Resource has granted a licence to the Group to use the trademarks and patents owned by it. Please refer to the section headed "Continuing Connected Transactions" for further details.

(b) As at the Latest Practicable Date, the Group had registered the following domain names which, in the opinion of the Directors, is material to the business:

Domain name	Name of Registered Owner	Expiry date
www.smcelectric.com.hk	SMC Electric HK	26 November 2021

(c) As at the Latest Practicable Date, the Group had applied the following patents:

Name	Country	Application no.	Filing Date
電源裝置及風扇	PRC	20181138113.0	7 November 2018
自動植螺母機	PRC	201811455327.2	30 November 2018

C. DISCLOSURE OF INTERESTS

(a) Disclosure of interests of Directors

Immediately following completion of the Capitalisation Issue and the Share Offer (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme), the interests of the Directors and chief executives in the equity or debt securities of the Company or any associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required, under section 352 of the SFO, to be entered in the register referred to therein, or under the Listing Rules, to be notified to the Company and the Stock Exchange will be as follows:

Interest in the shares of the Company

Name	Capacity/Nature of Interest	Number of Shares held/interested *(Note 1)*	Approximate percentage of shareholding *(Note 2)*
Mr. Yung	Interest in a controlled corporation *(Note 3)*	1,125,000,000	75%

Notes:

(1) All interests stated are long positions.

(2) The calculation is based on the total number of 1,500,000,000 Shares in issue immediately following the completion of the Capitalisation Issue and the Share Offer (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme).

(3) Mr. Yung holds the entire issued share capital of Red Dynasty, which , in turn, holds 80.4% 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 SFO.

Interest in the shares of associated corporation

Name of Director/chief executive	Name of associated corporation	Capacity/Nature of interest	Number of shares in associated corporation *(Note 1)*	Percentage of shareholding in the associated corporation (%)
Mr. Yung	Shell Holdings	Interest of a controlled corporation *(Note 2)*	421,121,126	80.4%

Notes:

(1) All interests stated are long positions.

(2) Shell Holdings is owned as to 80.4% 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.

(b) Disclosure of interests of Substantial Shareholders

For information about the substantial shareholders of the Company, please refer to the section headed "Substantial Shareholders" in this prospectus. Save as disclosed in the section headed "Substantial Shareholders" in this prospectus, the Directors are not aware of any other person, not being a Director or chief executive of the Company, who will have an interest or short position in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group immediately following completion of the Share Offer.

D. FURTHER INFORMATION ABOUT THE DIRECTORS

1. Directors' service contracts

Each of the executive Directors and non-executive Director will enter into a service contract with the Company for an initial term of three (3) years, commencing from the Listing Date which may be terminated in accordance with the provisions of the service contract or by (i) the executive Directors or non-executive Director (as the case may be) giving not less than three (3) months' prior notice in writing or (ii) the Company giving not less than three (3) months' prior notice in writing (or by payment in lieu of notice).

Each of the independent non-executive Directors will enter into a letter of appointment with the Company for an initial term of three (3) years, commencing from the Listing Date, which may be terminated in accordance with the provisions of the letter of appointment or by (i) the relevant independent non-executive Director giving not less than one (1) month's prior notice in writing or (ii) the Company giving not less than one (1) month's prior notice in writing (or by payment in lieu of notice).

Save as disclosed above, none of the Directors has or is proposed to have a service contract or an appointment letter (as the case may be) with any member of the Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

2. Directors' remuneration during the Track Record Period

For FY2016, FY2017, FY2018 and 9M2019, the aggregate amount of the remuneration paid and benefits in kind granted to the Directors was approximately HK$3,440,000, HK$4,669,000, HK$4,971,000 and HK$1,629,000, respectively.

Save as disclosed above, no other emoluments have been paid or are payable in respect of FY2016, FY2017, FY2018 and 9M2019 by the Group to the Directors.

The aggregate amount of the remuneration paid and benefits in kind granted to the Directors for the year ended 31 December 2019 was HK$2,351,895.

E. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted under the written resolutions of the sole Shareholder passed on 7 February 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).

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 150,000,000 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.

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).

(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. Rights on ceasing employment or death

If the grantee of an option, who is an employee of the Group or any Invested Entity at the time of the grant of the option, ceases to be an employee of the Group or Invested Entity for any reason other than death, ill-health or retirement in accordance with his contract of employment or certain other grounds, before exercising the option in full, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless the Directors otherwise determine, in which case the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as the Directors may determine following the date of such cessation or termination, which date shall be the last day on which the grantee was actually at work with the Group or the relevant Invested Entity, whether salary is paid in lieu of notice or not. Failing such exercise, the option will lapse.

If the grantee of an option, who is an employee of the Group or any Invested Entity at the time of the grant of the option, ceases to be an employee of the Company or Invested Entity by reason of death, ill-health or retirement in accordance with his contract of employment, before exercising the option in full, the grantee or, if appropriate, his lawful personal representative(s) may exercise the option in whole or in part (to the extent not already exercised) within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with the Group or any Invested Entity, whether salary is paid in lieu of notice or not (or such longer period as the Directors may determine), failing which it will lapse.

10. Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the Company shall use all reasonable endeavors to procure that such offer is extended to all the grantees (or his personal representative(s)) on the same terms, *mutatis mutandis*, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer, having been approved in accordance with applicable laws and regulatory requirements, becomes or is declared unconditional, a grantee (or his personal representative(s)) shall, notwithstanding any other terms on which his options were granted, be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the Company in accordance with the provisions of the Share Option Scheme at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under scheme of arrangement, as the case may be.

11. Rights on winding-up

In the event of an effective resolution being proposed for the voluntary winding-up of the Company during the option period, the grantee of an option (or his personal representative(s)) may, subject to the provisions of all applicable laws, by notice in writing to the Company elect to exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice within two business days prior to the proposed general meeting of the Company considering such winding up, such notice to be accompanied by the subscription price for the Shares in respect of which the notice is given, whereupon the grantee will be entitled, in respect of the Shares falling to be allotted and issued upon the exercise of his options, to receive out of the assets available in the liquidation *pari passu* with the holders of Shares such sum as would have been received in respect of the Shares the subject of such election. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date of commencement of the winding-up of the Company.

12. Ranking of Shares

The Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the Company's Memorandum and Articles of Association for the time being in force and will rank *pari passu* in all respects with the then existing fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of the Company is closed, the first day of the re-opening of the register of members (the "Exercise Date") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered on the register of members of the Company as the holder thereof.

13. 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.

14. Alteration of the Share Option Scheme

The Share Option Scheme may be altered in any respect by a resolution of the Board except that any material alteration to its terms and conditions, any change to the terms of options granted (except for changes which automatically take effect under the existing terms of the Share Option Scheme) and the matters contained in the relevant provisions of the Listing Rules shall not be altered to the advantage of the grantees or prospective grantees without the prior sanction of any resolution of the Company in general meeting.

The amended terms of the Share Option Scheme or the options must still comply with the applicable requirements under the Listing Rules. Any change to the authority of the Directors or scheme administrators (if applicable) in relation to any alteration to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

15. Effect of alterations to capital

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital or otherwise howsoever, then, in any such case, the Company shall instruct the auditors for the time being or an independent financial adviser to the Company to certify in writing the adjustment, if any, to be made either generally or as regards any particular grantee, to (a) the number of Shares to which the Share Option Scheme or any option(s) relates (insofar as it is/they are unexercised), and/or (b) the subscription price of any unexercised option, and/or (c) the maximum number of Shares referred to in the sub-paragraph headed "Maximum number of Shares" above, and (d) an adjustment as so certified by the auditors or the independent financial adviser to the Company shall be made, provided that (i) any such adjustment shall be made on the basis that the aggregate subscription price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event; (ii) no such adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; (iii) no such adjustment shall be made the effect of which would be to increase the proportion of the issued share capital of the Company for which any grantee would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustment; (iv) the issue of Shares or securities of the Company as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and (v) for the avoidance of doubt, any adjustments shall be made in compliance with the Listing Rules and the "Supplementary Guidance on Main Board Listing Rule 17.03(13)/GEM Listing Rules 23.03(13) and the note immediately after the rule" set out in the letter from the Stock Exchange to all listed issuers dated 5 September 2005 or other relevant guidance as the Stock Exchange may from time to time issue. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements that they give a participant the same proportion (or rights in respect of the same proportion) of the equity capital as that to which that person was previously entitled.

16. Cancellation of options

The Directors may effect the cancellation of any options granted but not exercised on such terms as may be agreed with the relevant grantee, as the Directors may in their absolute discretion see fit and in a manner that complies with all applicable legal requirements for cancellation. Where the Company cancels any options granted and offers to grant or grants new options to the same grantee, the offer or grant of such new options may only be made under the Share Option Scheme if there are available unissued options (excluding the cancelled options) within each of the limits as referred of in the sub-paragraph headed "Maximum Number of Shares" above.

17. Conditions of the Share Option Scheme

The Share Option Scheme is conditional on (i) the Listing Committee granting approval of the listing of, and permission to deal in, the Shares, which Shares may fall to be issued pursuant to the exercise of options granted under the Share Option Scheme; (ii) upon the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any conditions by the Sponsor and/or the Joint Bookrunners, for itself and on behalf of the Underwriters) and such obligation not being terminated in accordance with the terms of the Underwriting Agreements; and (iii) the commencement of dealings in the Shares on the Stock Exchange.

18. Termination of the Share Option Scheme

The Company may by resolution in general meeting at any time terminate the operation of Share Option Scheme and in such event no further options will be offered but in all other respects the provisions of Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any outstanding options granted prior to such termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme and outstanding options granted prior to such termination shall continue to be valid and exercisable in accordance with the provisions of the Share Option Scheme.

Details of the options granted, including options exercised or outstanding, under Share Option Scheme and (if applicable) options that become void or non-exercisable as a result of the termination must be disclosed in the circular to shareholders of the Company seeking approval of the first new scheme to be established after such termination.

19. Status of the Listing Rules

The Share Option Scheme shall comply with the Listing Rules as amended from time to time. In the event that there are differences between the terms of the Share Option Scheme and the Listing Rules, the Listing Rules shall prevail.

20. Present status of the Share Option Scheme

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme. Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme, as described above.

F. OTHER INFORMATION

1. Tax and other indemnities

The Controlling Shareholders entered into the Deed of Indemnity with and in favour of the Company (for itself and as trustee for the subsidiaries) (being the contract referred to in the paragraph headed "— B. Further information about the Business — 1. Summary of material contracts" in this Appendix) to provide indemnities in respect of, among other matters, (i) taxation resulting from income, profits or gains earned, accrued or received on or before the date when the Share Offer becomes unconditional and (ii) any legal claim against the Group.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Cayman Islands or the BVI or Hong Kong or the PRC, being jurisdictions in which one or more of the companies comprising the Group were incorporated.

2. Litigation

As at the Latest Practicable Date, save as disclosed in the section headed "Business — Legal proceedings" in this prospectus, neither the Company nor any of the subsidiaries are involved in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group, that would have a material adverse effect on the Group's results of operation or financial condition.

3. The Sponsor

The Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules and has made an application on behalf of the Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, including any Shares falling to be allotted and issued under the exercise of any options which may be granted under the Share Option Scheme.

The Sponsor's fees are HK$5,800,000 and are payable by the Company.

4. Preliminary expenses

The estimated preliminary expenses incurred or proposed to be incurred by the Company are approximately HK$70,000 and were paid by the Company.

5. Promoter

The Company has no promoter for the purpose of the Listing Rules. Within the two years immediately preceding to the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given to, or is proposed to be paid, allotted or given to, any promoter in connection with the Share Offer or the related transactions described in this prospectus.

6. Qualification of experts

The qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given their opinions or advice in this prospectus are as follows:

Name	**Qualifications**
Red Sun Capital Limited	A licensed corporation carrying on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
BDO Limited	Certified Public Accountants
BDO Tax Limited	Hong Kong tax advisers to the Company
Ipsos Limited	Industry Consultant
Appleby	Legal advisers to the Company as to Cayman Islands laws
Zhong Lun Law Firm	Legal advisers to the Company as to PRC laws
Mr. Yip Chi Ho	Barrister-at-law, Hong Kong
Hogan Lovells	International Sanctions Counsel

7. Consents

Each of the experts named in paragraph 6 of this Appendix has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included in this prospectus in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

8. Share register

The register of members of the Company will be maintained in the Cayman Islands by Estera Trust (Cayman) Limited and a branch share register of members will be maintained in Hong Kong by the Hong Kong Branch Share Registrar, Boardroom Share Registrars (HK) Limited. Unless the Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by the Hong Kong Branch Share Registrar and may not be lodged in the Cayman Islands.

9. Miscellaneous

Save as disclosed in this prospectus:

(a) none of the Directors nor chief executives has any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules in each case once the Shares are listed;

(b) none of the Directors nor any of the parties listed in the paragraph headed "Consents" in this Appendix has any direct or indirect interest in the promotion of the Company or any of the subsidiaries, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to the Company or any of the subsidiaries, or are proposed to be acquired or disposed of by or leased to the Company or any of the subsidiaries;

(c) none of the Directors nor any of the parties listed in the paragraph headed "Consents" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Company;

(d) save for the Underwriting Agreements, none of the parties listed in the paragraph headed "Consents" in this Appendix:

(i) is interested legally or beneficially in any of the Shares or any shares in any of the subsidiaries; or

(ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for the securities;

(e) none of the equity and debt securities of the Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought from any other stock exchange;

(f) within the two years preceding the date of this prospectus, no share or loan capital of the Company has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

(g) within the two years preceding the date of this prospectus, no share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option;

(h) the Company has not issued or agreed to issue any founder shares, management shares or deferred shares or debentures;

(i) the Company has no outstanding convertible debt securities or debentures;

(j) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special items have been granted in connection with the issue or sale of any share or loan capital of the Company or any of the subsidiaries and the Company has not issued or agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;

(k) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in or debentures of the Company;

(l) since 30 September 2019 (being the date to which the latest audited financial information of the Company was prepared for) and up to the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects of the Company;

(m) there is no arrangement under which future dividends are waived or agreed to be waived;

(n) the Share Offer does not involve the exercise of any right of pre-emption or the transfer of subscription rights;

(o) there has not been any interruption in the business of the Company which may have or has had a significant effect on the financial position of the Company in the 12 months preceding the date of this prospectus;

(p) all necessary arrangements have been made to enable the Shares to be admitted to CCASS; and

(q) none of the Company or any of the subsidiaries is presently listed on any stock exchange or traded on any trading system.

10. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

11. Particulars of the Selling Shareholder

The particulars of the Selling Shareholder are set out as follows:

Name:	Shell Holdings
Number of Sale Shares to be sold:	187,500,000
Address:	1/F Shell Industrial Building 12 Lee Chung Street Chai Wan Hong Kong
Nature of business:	Investment holding

12. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). In case of inconsistency, the English text of this prospectus shall prevail over the Chinese text.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were (i) copies of the written consents as referred to in the section headed "Statutory and General Information — F. Other information — 7. Consents" in Appendix V to this prospectus; (ii) copies of the material contracts as referred to in the section headed "Statutory and General Information — B. Further information about the Business — 1. Summary of material contracts" in Appendix V to this prospectus; (iii) the statement of particulars of the Selling Shareholder as referred to in the section headed "Statutory and General Information — F. Other information — 11. Particulars of the Selling Shareholder" in Appendix V to this prospectus; and (iv) a copy of each of the **WHITE, YELLOW, GREEN** Application Forms.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Kwok Yih & Chan at Suites 2103–05, 21st Floor, 9 Queen's Road Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

1. the Memorandum and the Articles;
2. the accountants' report on the historical financial information of the Group from BDO Limited, the text of which is set out in Appendix I to this prospectus;
3. the audited underlying financial statements of the Group for FY2016, FY2017, FY2018 and 9M2019;
4. the accountants' report from BDO Limited on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix II to this prospectus;
5. the respective letters on the profit estimate of the Group from BDO Limited and the Sponsor for the year ended 31 December 2019, the text of which is set out in Appendix III to this prospectus;
6. the transfer pricing review of the Group from BDO Tax Limited for FY2016, FY2017, FY2018 and 9M2019;
7. the letter of advice prepared by Appleby summarising certain aspects of Cayman Islands company law as referred to in Appendix IV to this prospectus;
8. the legal opinion as to PRC laws issued by Zhong Lun Law Firm in respect of the Group;
9. the memorandum of advice issued by Hogan Lovells in respect of the Group's sales in the Sanctioned Countries;

10. the Companies Law;

11. the rules of the Share Option Scheme;

12. the material contracts as referred to in the section headed "Statutory and General Information — B. Further information about the Business — 1. Summary of material contracts" in Appendix V to this prospectus;

13. the service agreements and letters of appointment as referred to in the section headed "Statutory and General Information — D. Further information about the Directors — 1. Directors' service contracts" in Appendix V to this prospectus;

14. the written consents as referred to in the section headed "Statutory and General Information — F. Other information — 7. Consents" in Appendix V to this prospectus;

15. the Ipsos Report;

16. the legal opinion issued by Mr. Yip Chi Ho, barrister-at-law, Hong Kong; and

17. particulars of the Selling Shareholder as referred to in the section headed "Statutory and General Information — F. Other Information — 11. Particulars of the Selling Shareholder" in Appendix V to this prospectus.

SMC ELECTRIC LIMITED
晛壳電業有限公司