PFC Device Inc.

節能元件有限公司

(incorporated in the Cayman Islands with limited liability)

Stock code: 8231

ANNUAL REPORT 2016

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the "Directors") of PFC Device Inc. (the "Company", together with its subsidiaries, the "Group") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report 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 any statement herein or this report misleading.

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Chow Kai Chiu, David
Mr. Hong James Man-fai *(Chief Executive Officer)*

Non-executive Directors

Mr. Yung Kwok Kee, Billy *(Chairman)*
Mr. Tang Che Yin

Independent Non-executive Directors

Mr. Lam, Peter
Mr. Leung Man Chiu, Lawrence
Mr. Fan Yan Hok, Philip

Audit Committee

Mr. Leung Man Chiu, Lawrence *(Chairman)*
Mr. Fan Yan Hok, Philip
Mr. Yung Kwok Kee, Billy

Remuneration Committee

Mr. Fan Yan Hok, Philip *(Chairman)*
Mr. Lam, Peter
Mr. Yung Kwok Kee, Billy

Nomination Committee

Mr. Yung Kwok Kee, Billy *(Chairman)*
Mr. Fan Yan Hok, Philip
Mr. Lam, Peter

Principal Banker

The Hong Kong and Shanghai Banking
Corporation Limited

Company Secretary

Ms. Cherry K. M. Lee *ACIS ACS*

Registered Office

PO Box 1350, Clifton House, 75 Fort Street,
Grand Cayman KY1-1108, Cayman Islands

Head Office and Principal Place of Business in Hong Kong

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

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Service Limited
Level 22 Hopewell Centre, 183 Queen's Road East, Hong Kong

Authorised Representatives

Mr. Chow Kai Chiu, David
Mr. Hong James Man-fai

Compliance Officer

Mr. Chow Kai Chiu, David

Compliance Adviser

Messis Capital Limited

Auditor

BDO Limited
Certified Public Accountants

Company's Website

www.pfc-device.com

Stock Code

8231

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I am pleased to present the audited financial results of the Group for the year 2016.

Listing

On 7 October 2016, the Company was successfully listed on the GEM of the Stock Exchange (the "Listing"). The Listing represents a key milestone for our Group.

Business Overview

We achieved stable growth in 2016. The Group recorded a turnover of approximately US$22.8 million for the year ended 31 December 2016, representing an increase of 26% when compared to the previous year. Profit attributable to the owners of the Company for the year ended 31 December 2016 decreased from US$0.7 million to a loss of US$0.1 million representing a decrease of US$0.8 million over the corresponding period of last year. The decrease in profit was mainly attributed to the non-recurring listing expenses of US$1.4 million incurred by the Group.

Business Outlook

The Group is principally engaged in the design, assembly, and sales of our own branded power discrete semiconductors. Our products' principal applications and core segments include (1) power supply and adapter units for TV, PC and laptop; (2) chargers for mobile phone, tablet and other portable electronic devices; and (3) industrial and automotive applications.

The Group continues to expand its market share in 2016 with growth mostly coming from the power supply and adapter market for TV, PC and laptop in China and Taiwan. The Group maintains steady growth in the mobile charger market.

The Group continues to expand its customer base and product portfolio.

Appreciation

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

On behalf of the Board

Mr. Yung Kwok Kee, Billy
Chairman

Hong Kong, 20 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The shares of the Company (the "Shares") were listed on GEM of the Stock Exchange on 7 October 2016. The Group is principally engaged in the design, assembly, and sales of its own branded power discrete semiconductors.

The Group's business exhibited stable growth when compared to the previous year and is in line with its established business strategy. During the year, the Group continued to focus its efforts to penetrate new customers and markets.

To meet customers growing demands, the Group acquired additional moulds, tools and machineries amounting to US$1.1 million which represent 9.4% of the opening carrying amount to enhance the packaging production capability.

During the year, the Group continued to expand its market applications beyond power supply with the introduction of five new Schottky diode parts specifically tailored for the solar junction box application.

In addition to its manufacturing business, the Group engages in the trading of raw materials mainly Epitary ("EPI"). The Group purchases EPI, the semiconductor material being the core raw material for the production of fabricated wafer, as its principal raw materials. The Group sells some of its EPI to a foundry company in the People's Republic of China (the "PRC") from which the Group purchased fabricated wafers.

Looking forward, the Directors consider the future opportunities and challenges which the Group faces will be affected by the expanding number of local Chinese competitors as well as the rising labor and material costs. The Directors view that expanding into tier-1 customers and extending the products portfolio are the key drivers for the growth of the Group.

For key performance indicators of the Group, please refer to the Section of "Financial Review" in this report.

Comparison of Business Objectives with Actual Business Progress

The table below sets out an analysis by comparing the business objectives of the Group as set out in the prospectus of the Company dated 30 September 2016 (the "Prospectus") with the Group's achievement of these objectives up to 31 December 2016. These business objectives are in place with a view to generating long-term value to the Group and the shareholders.

Business Objectives

1. To increase the production capability of the Group's power discrete semiconductors
   - → In 2016, the Group has increased machineries to enhance the production lines for the production of its TO-220 and ITO-220 package types such that it is in line with its growth.

2. To continue research and development effort
   - → The R&D team of the Group continued to introduce technologically advanced products and diversify the Group's presence in industries that the Group consider to have high potential. The Group has released new products of Super Junction MOSFET and Synchronous MOSFET to compliment its product portfolio in the power supply market. The Group has also introduced new Schottky products tailored specifically for the solar market.

3. To expand its distribution network
   - → The Group has aligned three new distributors in the PRC to expand its distribution network and customer reach. The new distributors will allow the Group a greater presence in the industrial, automotive, and solar markets.

Use of Proceeds

The estimated net proceeds from the Listing (after deducting the underwriting fees and related expenses) amounted to approximately HK$57.7 million (equivalent to approximately US$7.4 million), which are intended to be applied in the manner as disclosed in the section "Statement of business objectives and use of proceeds" to the Prospectus. The net proceeds from the Listing were approximately HK$57.4 million (equivalent to approximately US$7.4 million), which was different from the estimation. The Group intends to adjust the difference of approximately US$0.04 million by reducing the purchase of equipment for the same amount to the use of proceeds as shown in the Prospectus. The Directors had evaluated the Group's business plan and considered that, as at 31 December 2016, no modification of the business plan regarding the use of proceeds as described in the Prospectus was required.

The Group had utilised approximately US$0.7 million, from the net proceeds as at 31 December 2016. The unused net proceeds have been placed as interest bearing deposits with a licensed bank in Hong Kong and is intended to be applied in the manner consistent with the proposed allocations.

Principal Risk and Uncertainties

The principal risks and uncertainties in implementing the Group's business strategies include the followings:

(i) If the Group is unable to obtain additional packaging equipment or facilities in a timely manner and at a reasonable cost, its competitiveness and future profitability could be adversely affected;

(ii) The production capacity of the Group may not correspond precisely to its production demands, and any significant increase in its idle or unutilised production capacity during any particular period could adversely affect its operating results in that period;

(iii) The Group relies on stable operation of its production facilities and there is no assurance that its production would be free of disruptions in the future;

(iv) The Group's success depends on the collective experiences of its employees. If the Group is unable to retain its existing personnel or attract, assimilate and retain new experienced personnel in the future, the Group's operations may be adversely affected and the growth of the Group's business could be delayed or restricted; and

(v) The Group's production process requires that the Group obtains adequate supplies of raw materials. Any shortage in the supply of raw materials may result in occasional industry wide price adjustments and delivery delays, which may adversely affect the Group's operation, revenue and profitability.

In addressing these risks and uncertainties, the Group will take a cautious approach when considering new purchases of equipment and machinery and will only do so if and when the Group thinks it is in the interest of the Group. The production facilities of the Group are subject to inspection, maintenance and machinery and part replacement during which production capacity may be affected. The Group may require maintenance services or equipment to be purchased from external vendors who may or may not provide timely services, equipment or parts.

The other risks and uncertainties incidental to the Group's business operations are detailed further in the section headed "Risk Factors" in the Prospectus.

Environment Policy

While the Group is subject to the PRC environmental laws and regulations including the Environment Protection Law of the PRC, which govern a broad range of environmental matters, including air pollution, noise emissions, discharge of waste water and waster residues, the Group believes that its production process does not generate environmental hazards and does not otherwise have a significant adverse effect on the environment and that its environmental protection measures are adequate to comply with all applicable current local and national PRC regulations.

During the year and to the best of the Directors' knowledge, the Group did not receive any complaint from its customers or any other parties in respect to any environmental protection issues, and the Group had not experienced any material environmental incidents arising from its manufacturing activities. During the year, no administrative sanctions or penalties were imposed upon the Group for the violation of environmental laws and regulations.

Financial Review

Revenue and Operating Results

Revenue from the Group's operations for the year ended 31 December 2016 grew at a quicker pace than previous years to US$22.8 million, representing an increase of US$4.7 million or 26% compared to US$18.1 million for 2015. The boost in revenue came mainly from higher sales of the Group's Schottky products.

Profit attributable to the owners of the Company for the year ended 31 December 2016 dropped from US$0.7 million to a loss of US$0.1 million representing a decrease of US$0.8 million over the corresponding period of last year. The slide in profit was mainly attributable to the non-recurring listing expenses of US$1.4 million incurred by the Group. Should these expenses not have been incurred, profit attributable to the owners of the Company for the year ended 31 December 2016 would reach approximately US$1.3 million.

Liquidity, Financial Resources and Capital Structure

The Group was able to maintain a satisfactory financial position with its financial resources and liquidity position consistently monitored and put in place in a healthy state throughout the period under review. Given the current economic situation, the Group would constantly re-evaluate its operational and investment status with a view to improving its cash flow and minimising its financial risks.

As at 31 December 2016, the Group had a total cash and bank balances of approximately US$11.2 million (2015: US$2.8 million) which is mainly denominated in Hong Kong Dollars. The increase in total cash and bank balances was mainly due to the receipt of proceeds from the Listing of approximately US$7.4 million, after the deduction of underwriting fees and related expenses.

The banking facilities of the Group are interest-bearing at floating interest rates. Interest cover of the Group as at 31 December 2016, calculated as operating profit divided by total interest expenses net of interest income, stood at 5 times (31 December 2015: 569 times).

The Company's shares were successfully listed on the GEM of the Stock Exchange on 7 October 2016. There has been no change in the Company's capital structure since then. The capital structure of the Group comprises of ordinary shares and bank loan.

Foreign Exchange Exposure

Operations of the Group are mainly conducted in United States dollars, Taiwan dollars and Renminbi. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group who will closely monitor its foreign exchange position. During the year, the Group did not engage in any hedging activities.

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the year. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Gearing Ratio

The Group targets to maintain a gearing ratio to be in line with expected changes in economic and financial conditions, expressed as a percentage of total bank borrowings and amounts due to fellow subsidiaries net of cash and bank balances to total equity of the Group. As at 31 December 2016, the Group had net cash balances whereas at 31 December 2015, the Group's gearing ratio was 201%.

Capital Commitments

As at 31 December 2016, the Group had total capital commitments of approximately US$0.1 million (2015: US$0.05 million) for the acquisition of property, plant and equipment.

Capital Expenditure

The Group had capital expenditures totalling US$1.7 million during the year (2015: US$4.3 million).

Contingent Liabilities

As at 31 December 2016, the Group did not have any significant contingent liabilities (2015: nil).

Segment Information

Segment Information for the Group is presented as disclosed on note 6 to the consolidated financial statements.

Significant Investments/Material Acquisitions and Disposal

During the year ended 31 December 2016, the Group had not made any significant investments or material acquisitions and disposal of subsidiaries.

Employees and Remuneration Policies

As at 31 December 2016, the Group had 176 employees (2015: 149). The Group's staff cost for the year ended 31 December 2016 amounted to approximately US$3.8 million. The pay levels of these employees are commensurate with their responsibilities, performance and market condition. In addition, share option schemes are put in place as a longer term incentive to align interests of employees to those of shareholders.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Executive Directors

Mr. Chow Kai Chiu, David (周啟超), aged 52, Chartered Financial Analyst, joined the Group in 2006 and was appointed as an executive Director of the Company on 21 March 2016. Mr. Chow received his Bachelor degree of Applied Science in Computer Engineering and his Master's degree in Business Administration from the University of Waterloo and York University, Canada. He has previously had related position at First Marathon Securities Limited in Canada, Asian Capital Partners, and HSBC Private Equity (Asia) Limited in the corporate finance and investment management field. He is also a director of all subsidiaries of the Group and the Deputy Chief Executive of Shell Electric Holdings Limited.

Mr. Hong James Man-fai (洪文輝), aged 44, was appointed as an executive Director of the Company on 21 March 2016. Mr. Hong is the chief executive officer of the Group and primarily responsible for the overall management and operations and the implementation of the strategic planning of the Group. Mr. Hong is also a director of a number of the subsidiaries of the Group.

Mr. Hong obtained a Bachelor degree in Electrical Engineering and Computer Science from University of California, Berkeley, USA and a Master of Business Administration from University of Southern California, USA. Mr. Hong has more than 18 years of experience in the manufacturing and retail of semiconductor products with extensive knowledge in business development of semiconductor product. Prior to joining the Group, Mr. Hong was employed by Advanced Micro Devices, Inc., Pittiglio Rabin Todd & McGrath, APD Semiconductor, Inc., Diodes Incorporated, and Skyworks Solutions, Inc.

Non-executive Directors

Mr. Yung Kwok Kee, Billy (翁國基), aged 63, is one of the controlling shareholders. Mr. Yung was appointed as a Director of the Company on 2 March 2016 and was re-designated as a non-executive Director and Chairman of the Board of the Company on 19 September 2016. Mr. Yung is primarily responsible for the strategic direction and overall management of the strategic planning of the Group. Mr. Yung is the chairman of the Nomination Committee and a member of both the Audit Committee and the Remuneration Committee of the Company. Mr. Yung is also a director of a number of the subsidiaries of the Group.

Mr. Yung received a bachelor degree in Electrical Engineering from University of Washington and a master degree in Industrial Engineering from Stanford University. Mr. Yung has over 31 years of experience in managing manufacturing, retailing, transportation, semi-conductor, computer hardware and software business in China, Hong Kong and US. Prior to founding the Group, Mr. Yung had been the executive director of Shell Electric Mfg. (Holdings) Co. Ltd. from 1973 to 2010, now known as China Overseas Grand Oceans Group Ltd., which shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 0081). Since Feb. 10, 2010, Mr. Yung became a non-executive director and vice chairman of that company. Mr. Yung has been the chairman and the chief executive of Shell Electric Holdings Limited since 2009. Mr. Yung is currently the Permanent Honorary President of Friends of Hong Kong Association Ltd., the Honorary President of Shun Tak Fraternal Association, a member of Senior Police Call Central Advisory Board and was awarded the Honorary Citizen of the City of Guangzhou and the Honorary Citizen of the City of Foshan.

Mr. Tang Che Yin (鄧自然), aged 61, was appointed as a non-executive Director of the Company on 21 March 2016. Mr. Tang 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. Mr. Tang is also a director of Guangdong PFC Device Limited.

Mr. Tang obtained his Master degree of Computer Science from the University of Manchester of the United Kingdom, United Kingdom, in December 1980 and his Master degree of Business Administration from the Chinese University of Hong Kong, Hong Kong, in December 1987. He obtained the qualification of a Chartered Engineer and also membership of the Council of Engineer in the United Kingdom in February 1987. He also obtained the qualification of a Chartered Electrical Engineer in March 1991 and the membership of the Institution of Electrical Engineers in April 1986.

Independent non-executive Directors

Mr. Lam, Peter (林晉光), aged 65, was appointed as an independent non-executive Director on 19 September 2016. Mr. Lam received a Bachelor degree in Civil Engineering from Lehigh University and a Master degree in Construction Management from Stanford University. He is the President of Lam Construction Group Limited. He has over 30 years of experience in construction, project management and real estate development.

Mr. Leung Man Chiu, Lawrence (梁文釗), aged 68, was appointed as an independent non-executive Director on 19 September 2016. He is a fellow member of the Association of Chartered Certified Accountant and the Hong Kong Institute of Certified Public Accountant. He has been in public practice for over 46 years and is now a partner of Tang and Fok, certified public accountants. He is also an independent non-executive director of Safety Godown Company Limited (stock number 237) and Pak Fah Yeow International Limited (stock number 239), both listed in the Hong Kong Stock Exchange Limited.

Mr. Fan Yan Hok, Philip (范仁鶴), aged 67, was appointed as an independent non-executive Director of the Company on 19 September 2016. Mr. Fan is also an independent non-executive director of the following Hong Kong listed public companies, namely China Everbright International Ltd., Hysan Development Company Limited, First Pacific Company Limited, China Aircraft Leasing Group Holdings Limited. Mr. Fan is also an independent director of Goodman Group, an Australian listed company. He was formerly an independent director of Zhuhai Zhongfu Enterprise Co., Ltd., a Shenzhen listed company and Suntech Power Holdings Co., Ltd. (under official liquidation) until June 2013 and December 2013 respectively. He was also formerly an independent non-executive director of HKC (Holdings) Limited and Guolian Securities Co., Ltd, both being Hong Kong listed companies, until December 2014 and July 2016 respectively.

Senior management

Mr. Kuo Hung Hsin (郭鴻鑫), aged 63, is the president of PFC Device Corporation (Taiwan Branch) (the "PFC Device (TW)"). He joined the Group on 2 July 2007 and he is primarily responsible for the implementation of strategic direction of the Group, product roadmap definition, strategic marketing and planning. Mr. Kuo has over 31 years of experience in the semiconductor industry.

Mr. Kuo obtained a Bachelor degree of Chemical Engineering from Tamkang University, Taiwan, an Executive Master degree of Business Administration degree from National Taipei University, Taiwan, and an Industry Research Master's degree of Science on Embedded Systems Engineering from the Technology and Science Institute of Northern Taiwan (now known as Taipei City University of Science and Technology), Taiwan. Mr. Kuo previously worked in Globe Industries Corporation, Lite-on Semiconductor Corp and APD Semiconductor (Asia) Inc.

Mr. Tseng Chao Li (曾昭禮), aged 52, is the chief operating officer of PFC Device (TW). He joined the Group on 5 August 2014 and he is primarily responsible for sales, marketing and operation of the Group in Taiwan. Mr. Tseng has over 26 years of experience in the semiconductor industry.

Mr. Tseng obtained a Bachelor degree of Mechanical Engineering from the Nanya Junior College of Technology, Taiwan and an Executive Master of Business Administration degree in Industrial Management from National Taiwan University of Science & Technology, Taiwan. Mr. Tseng previously worked at Huayuan Technology Limited, Zenitron Corporation, Diodes Incorporated, and Chip Integration Technology Corporation.

Ms. Chen Mei-Ling (陳美玲), aged 46, is a vice president of research and development of PFC Device (TW). She joined the Group on 3 February 2009 and she is primarily responsible for the new product development and enhancement, research and development of new product and technology. Ms. Chen has over 16 years of experience in the semiconductor industry.

Ms. Chen obtained a Master degree of Chemistry from Tunghai University, Taiwan. Ms. Chen had served as a senior engineer of Vishay Intertechnology, had acted as a marketing and research and development director of MPEC, and had acted as a marketing and research and development director of DACO Semiconductor Co., Ltd.

CORPORATE GOVERNANCE REPORT

Pursuant to Rule 18.44(2) of the GEM Listing Rules, the Board is pleased to present hereby the corporate governance report of the Company for the year ended 31 December 2016.

Compliance with the Corporate Governance Code

The Company is committed to achieving high standards of corporate governance. The Directors of the Company believe that sound and reasonable corporate governance practices are essential for the continuing growth of the Group and for safeguarding and maximising shareholders' interests.

Since 7 October 2016 (the "Listing Date") and up to 31 December 2016, the Company had complied with the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules except for the following deviation.

Under code provision C.2.5 of the CG Code, an issuer should have an internal audit function. The Company does not have an internal audit function from the date of Listing and up to 31 December 2016. Taking into account the size and complexity of the operations of the Group, the Company considers that the existing organisation structure and the close supervision of the management could provide sufficient risk management and internal control for the Group. However, the Board has reviewed the need to set up an internal audit function and an internal auditor has been appointed shortly.

Board of Directors

The key responsibilities of the Board include formulation of the Group's overall strategies, the setting of management targets and supervision of management performance. The management is delegated with the authority and responsibility by the Board for the management and administration of the Group. In addition, the Board has also delegated various responsibilities to the board committees of the Company (the "Board Committees"). Further details of the Board Committees are set out below in this annual report. The duties of the Board in respect of corporate governance are as follows:

1. to develop and review the policies and practices on corporate governance of the Group and make recommendations;

2. to review and monitor the training and continuous professional development of the Directors and senior management;

3. to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to Directors and employees; and

5. to review the Company's compliance with the Code and disclosure in the corporate governance report of the Company.

On 20 March 2017, the Board reviewed and discussed the corporate governance policy of the Group and was satisfied with the effectiveness of its corporate governance policy.

Composition of the Board

Up to the date of this annual report, the Board comprises of seven Directors, including two executive Directors, two non-executive Directors and three independent non-executive Directors (the "INED"). In particular, the composition of the Board is set out as follows:

Executive Directors

Mr. Chow Kai Chiu, David
Mr. Hong James Man-fai *(Chief Executive Officer)*

Non-executive Directors

Mr. Yung Kwok Kee, Billy *(Chairman)*
Mr. Tang Che Yin

Independent non-executive Directors

Mr. Lam, Peter
Mr. Leung Man Chiu, Lawrence
Mr. Fan Yan Hok, Philip

In compliance with rules 5.05(1) and 5.05A of the GEM Listing Rules, the Board consisted of three INEDs from the date of appointment and up to 31 December 2016, with at least one independent non-executive Director processing appropriate professional qualifications or accounting or related financial management expertise. From the date of appointment and up to the date of this report, the number of INEDs represents more than one-third of the Board as required under the GEM Listing Rules. As such, there is a strong independent element in the Board to provide independent judgement.

In accordance with code provision A.4.1 of the Code, the Company has entered into a letter of appointment with each of the INEDs under which each INED is appointed for a specific term. The commencement date of the appointment is 19 September 2016 and each of the letter of appointment carries a fixed term of three years initially commencing from the Listing Date unless terminated by either party in accordance with the terms thereof.

Pursuant to Article 108 of the Articles of Association of the Company (the "Articles"), one-third of the Directors shall retire from office by rotation at each annual general meeting and every Director shall be subject to retirement by rotation at least once every three years. However, a retiring Director shall be eligible for re-election.

Specific enquiry has been made by the Company to each of the INEDs to confirm their independence pursuant to rule 5.09 of the GEM Listing Rules. In this connection, the Company has received positive confirmations from all of the three INEDs. Based on the confirmations received, the Company considers all the INEDs to be independent under the GEM Listing Rules.

Saved as disclosed in the section "Biographical Details of Directors and Senior Management" in this annual report, there is no financial, business, family or other material or relevant relationship among members of the Board and senior management.

Chairman and Chief Executive Officer

The Chairman is Mr. Yung Kwok Kee, Billy and the chief executive officer (the "CEO") is Mr. Hong James Man-fai. The roles of the Chairman and the CEO are clearly defined and segregated to ensure independence and proper checks and balances. The Chairman focuses on formulating business strategies and direction of the Company and has executive responsibilities, provides leadership for the Board and ensures proper and effective functioning of the Board in discharging its responsibilities. The CEO is accountable to the Board for the overall implementation of the Company's strategies and the co-ordination of overall business operations.

Board and General Meetings

From the Listing Date and up to 31 December 2016, one board meeting was held approving the unaudited 2016 third quarterly financial results of the Group. The forthcoming annual general meeting which will be held on 9 May 2017 is the first general meeting of the Company since the Listing Date.

The attendance record of each Director at the board meeting is set out in the table below:

Name of Director	Number of Attendance/ number of meetings
Executive Directors	
Mr. Chow Kai Chiu, David	1/1
Mr. Hong James Man-fai	1/1
Non-executive Directors	
Mr. Yung Kwok Kee, Billy	1/1
Mr. Tang Che Yin	1/1
Independent non-executive Directors	
Mr. Lam, Peter	0/1
Mr. Leung Man Chiu, Lawrence	1/1
Mr. Fan Yan Hok, Philip	1/1

Code of Conduct for Securities Transactions by Directors

The Company has adopted the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by the Directors in respect of the shares of the Company (the "Code of Conduct"). The Company has made specific enquiry to all Directors, and all Directors have confirmed that they have fully complied with the required standard of dealings set out in the Code of Conduct from the Listing Date and up to 31 December 2016.

Directors' Continuing Professional Development Programme

Pursuant to the Code Provision A.6.5 under Appendix 15 of the GEM Listing Rules, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

During the year, all Directors have participated in seminars/courses in relation to corporate governance arranged by accredited service providers. The Company will provide timely and regular trainings to the Directors to ensure that they keep abreast of the current requirements under the GEM Listing Rules.

Board Diversity Policy

Pursuant to the Code, the Board has adopted a board diversity policy (the "Policy"). The Company recognises and embraces the benefits of having a diverse Board. All Board appointments are made on merits and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of aspects, including (but not limited to) gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

The Board will consider to set measurable objectives to implement the Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. At present, the Board has not set any measurable objectives.

Board Committees

The Board has established three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, to oversee particular aspects of the Company's affairs. All committees have been provided with sufficient resources and support from the Group to discharge their duties. The relevant terms of reference of each of the three committees can be found on the Group's website (*www.pfc-device.com*) and the website of the Stock Exchange.

Audit Committee

The Audit Committee was established on 19 September 2016 with written terms of reference in compliance with the Corporate Governance Code. It consists of two independent non-executive Directors and one non-executive Director, namely Mr. Leung Man Chiu, Lawrence, Mr. Fan Yan Hok, Philip and Mr. Yung Kwok Kee, Billy. Mr. Leung Man Chiu, Lawrence currently serves as the chairman of the Audit Committee. He has appropriate professional qualifications and experience in accounting matters. The members of the Audit Committee shall be appointed or removed by the Board. If any member of the Audit Committee ceases to be a Director, he will cease to be a member of the Audit Committee automatically.

The Audit Committee must comprise a minimum of three members, at least one of whom is an INED with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 5.28 of the GEM Listing Rules. In addition, the majority of the Audit Committee members shall be INEDs.

With reference to the terms of reference, the primary responsibilities of the Audit Committee are, among others, the following (for complete terms of reference, please refer to the Group's website at *www.pfc-device.com* or the website of the Stock Exchange):

1. to make recommendations to the Board on the appointment, re-appointment and removal of the Company's external auditor, and approve the remuneration and terms of engagement of the Company's external auditor;

2. to review and monitor the Company's external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

3. to monitor integrity of the Company's financial statements, annual report and accounts, half-year report and quarterly report and review significant financial reporting judgements contained in them;

4. to discuss the risk management and internal control and systems with the Company's management to ensure that management has performed its duty to maintain the effectiveness of risk management and internal control systems;

5. to review the financial and accounting policies and practices of the Group;

6. to review the external auditor's management letter, any material queries raised by the auditor to the management in respect of accounting records, financial accounts or systems of control and management's response;

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

8. to report to the Board on that matters pursuant to the terms of reference of the Audit Committee and consider other topics as defined by the Board.

The Board is of the view that the Audit Committee has properly discharged its duties and responsibilities during the Reporting Period and up to the date of this report.

The members of the Audit Committee should meet at least twice a year. Due to the fact that the Company was listed on 7 October 2016, the Audit Committee has only held one meeting from the Listing Date and up to 31 December 2016, with full attendance by all the members of the Audit Committee. The key work done by the committee in respect of that period includes reviewing the unaudited 2016 third quarterly financial statements of the Group and recommending the same to the Board for approval.

The attendance records of the members of the Audit committee are summarized below:

	Number of Attendance/ number of meetings
Mr. Leung Man Chiu, Lawrence *(Chairman)*	1/1
Mr. Yung Kwok Kee, Billy	1/1
Mr. Fan Yan Hok, Philip	1/1

The Audit Committee held a meeting on 20 March 2017 and reviewed with the management and the Company's auditors the Group's financial statements for the year ended 31 December 2016. It also reviewed the internal control and risk management system and all connected transactions entered into by the Company and its subsidiaries during the financial year. The Audit Committee recommended to the Board for its consideration the same and the re-appointment of BDO Limited as the Company's external independent auditor at the forthcoming AGM to be held on 9 May 2017.

Remuneration Committee

The Remuneration Committee was established on 19 September 2016 with written terms of reference in compliance with the Corporate Governance Code. It consists of two independent non-executive Directors and one non-executive Director, namely Mr. Fan Yan Hok, Philip, Mr. Lam, Peter and Mr. Yung Kwok Kee, Billy. Mr. Fan Yan Hok, Philip currently serves as the chairman of the Remuneration Committee.

With reference to the terms of reference of the Remuneration Committee, the primary responsibilities of the Remuneration Committee include, among other things, the following (for the complete terms of references, please refer to the Group's website at *www.pfc-device.com* or the website of the Stock Exchange):

1. to consult the chairman of the Board and/of chief executive about their remuneration proposals for other executive Directors;

2. to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

3. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

4. to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management;

5. to make recommendations to the Board on the remuneration of non-executive Directors;

6. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

7. to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

8. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

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

The members of the Remuneration Committee should meet at least once a year. Due to the fact that the Company was listed on 7 October 2016, no Remuneration Committee meeting has been held from the Listing Date and up to 31 December 2016. Subsequent to the end of the year and up to the date of this report, the first meeting of the Remuneration Committee was held on 20 March 2017 and the Remuneration Committee has, inter alia, reviewed the remuneration packages for individual executive Directors and senior management and made recommendations to the Board.

The emoluments payable to the Directors depend on their respective contractual terms under the service contracts or the appointment letters (as the case may be), and as recommended by the Remuneration Committee. Details of the Directors' emoluments and remuneration payable to senior management are set out in note 14 to the consolidated financial statements.

Nomination Committee

The Nomination Committee was established on 19 September 2016 with written terms of reference in compliance with the Corporate Governance Code. It consists of one non-executive Director and two independent non-executive Directors, namely Mr. Yung Kwok Kee, Billy, Mr. Lam, Peter, Mr. Fan Yan Hok, Philip. Mr. Yung Kwok Kee, Billy currently serves as the chairman of the Nomination Committee.

With reference to the terms of reference of the Nomination Committee, the primary responsibilities of the Nomination Committee include, among other things, the following (for the complete terms of reference, please refer to the Group's website at *www.pfc-device.com* or the website of the Stock Exchange):

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on proposed changes, if any, to the Board to complement the Company's corporate strategy;

2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

3. to assess the independence of INEDs; and

4. to make recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for the Directors, in particular the Chairman and the chief executive.

The members of the Nomination Committee should meet at least once a year. Due to the fact that the Company was listed on 7 October 2016, no Nomination Committee meeting has been held from the Listing Date and up to 31 December 2016. Subsequent to the end of the year and up to the date of this report, the first meeting of the Nomination Committee was held on 20 March 2017, and the Nomination Committee has, inter alia, reviewed the structure, size and composition of the Board, assessed the independence of the INEDs and considered the Directors to retire and re-appoint at the forthcoming annual general meeting.

Auditors' Remuneration

The amount of fees charged by the external auditor generally depends on the scope and volume of the external auditor's work performed.

For the year ended 31 December 2016, the remuneration paid or payable to the external auditors of the Company in respect to the audit services and non-audit services for the Group are as follows:

	Fees paid/ payable for the services rendered US$'000
Annual audit	82
Other audit services *(note)*	202
Non-audit services	
— for Listing	73
— Others	26
	383

Note: for acting as the reporting accountant of the Company for the Listing.

Company Secretary

Mr. Huen Po Wah was appointed as the company secretary of the Company on 30 March 2016. Mr. Huen was not a full time employee of the Group. Mr. Huen has confirmed that he has undertaken no less than 15 hours of relevant professional training in accordance with Rule 5.15 of the GEM Listing Rules during the year. Mr. Huen Po Wah has resigned as the company secretary of the Company as he has reached the retirement age and the Board has appointed Ms. Lee Ka Man as the company secretary of the Company both with effect from 9 November 2016. Ms. Lee is not an employee of our Group and Mr. Chow Kai Chiu, David, our executive Director, is the person whom Ms. Lee can contact for the purpose of code provision F.1.1 of the Code.

During the year, Ms. Lee has undertaken not less than 15 hours of relevant professional training in accordance with Rule 5.15 of the GEM Listing Rules.

Compliance Officer

Mr. Chow Kai Chiu, David, an executive Director, is the compliance officer of the Group. Please refer to the section "Biographical Details of Directors and Senior Management" for his biographical information.

Risk Management and Internal Controls

The Board has overall responsibility for the establishment, maintenance and review of the Group's internal control system to safeguard the assets of the Group and shareholder investments. The internal control system of the Group aims to facilitate effective and efficient operation which in turn minimizes the risks to which the Group is exposed. The system can only provide reasonable but not absolute assurance against misstatement or losses.

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

In preparation of the Listing, the Board engaged an internal control consultant, an independent third party, to undertake a review of the internal control system of the Group. Material issues identified by the internal control consultant had been rectified prior to the Listing. The Board is of the view that the internal control measures in place are adequate and effective to safeguard the Group's assets and the interest of shareholders.

The Company does not have an internal audit function from the Listing Date and up to 31 December 2016. Taking into account the size and complexity of the operations of the Group, the Company considers that the existing organization structure and the close supervision of the management could provide sufficient risk management and internal control for the Group. However, the Board has reviewed the need to set up an internal audit function and an internal auditor has been appointed shortly.

The Group adopts a risk management framework which comprises the following processes:

— Identify significant risk in the Group's operation environment and evaluate the impacts of those risks on the Group's business;

— Develop necessary measures to manage those risks; and

— Monitor and review the effectiveness of such measures.

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

— The Group established an organizational structure with clear operating and reporting procedures, lines of responsibility and delegated authority;

— Each operating subsidiary maintains internal controls and procedures appropriate to its structure whilst complying with the Group's policies, standards and guidelines;

— Relevant executive Directors and senior management have been delegated with specific accountability for monitoring the performance of designated business operating units;

— A systematic review of the financial and business processes in order to provide management on the adequacy and effectiveness of internal controls. Where weaknesses are identified in the system of internal controls, management will evaluate and take necessary measures to ensure that improvements are implemented; and

— Code of ethics are established and adhered to by all employees to ensure high standards of conduct and ethical values in all business practices.

The Board reviewed that the risk management and internal control system adopted by the Group for the year ended 31 December 2016 and considered that it was effective.

Disseminaton of Inside Information

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

Directors' and Auditor's Responsibility for the Consolidated Financial Statements

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Group for the year ended 31 December 2016, which give a true and fair view of the state of affairs, results and cash flows of the Group and are in compliance with the relevant accounting standards and principles, applicable laws and disclosure provisions required by the GEM Listing Rules.

The Directors are of the view that the consolidated financial statements of the Group for the year ended 31 December 2016 has been prepared on this basis.

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

Statement of Company's external auditor's responsibilities in respect of the consolidated financial statements is set out in the independent auditor's report.

General Meetings with Shareholders

The annual general meeting ("AGM") is a forum in which the Board and the shareholders communicate directly and exchange views concerning the affairs and overall performance of the Group, and its future developments, etc.

At the AGM, the Directors (including INEDs) are available to attend to questions raised by the shareholders. The external auditor of the Company is also invited to be present at the AGM to address the queries of the shareholders concerning the audit procedures and the independent auditor's report.

The first AGM of the Company will be held on 9 May 2017, the notice of which shall be sent to the shareholders of the Company in accordance with the Articles, the GEM Listing Rules and other applicable laws and regulations.

Shareholders' Rights

Convening of Extraordinary General Meeting on Requisition by Shareholders

Pursuant to Article 64 of the Articles, the Board may, whenever it thinks fit, convene an extraordinary general meeting ("EGM"). EGMs shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of 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 company secretary of the Company for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within 2 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) themselves may convene a meeting in accordance with the Articles and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Putting Forward Proposals at General Meetings by Shareholders

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

Procedures for Shareholders to Propose a Person for Election as a Director

Pursuant to Article 113 of the Articles, 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, notice in writing by that person of his willingness to be elected and the biographical details of that person as required under Rule 17.50(2) of the GEM Listing Rules for publication by the Company shall have been lodged at the head office and principal place of business in Hong Kong or at the registered office of the Company. The period for lodgment of the notices required under this Article will commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

Detailed procedures for shareholders to propose a person for election as a Director are available on the Company's website at www.pfc-device.com.

Procedures for directing shareholders' enquiries to the Board

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's Hong Kong share registrar (details of which are set out in the section headed "Corporate Information" of this annual report).

Should there be any enquiries and concerns from shareholders, they may send in written enquiries addressed to the head office and principal place of business of the Company in Hong Kong at 1/F., Shell Industrial Building, 12 Lee Chung Street, Chai Wan, Hong Kong by post for the attention of the Board and/or the Company Secretary.

Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

Investor Relations

The Company has established a range of communication channels between itself and its shareholders, and investors. These include answering questions through the annual general meeting, the publication of annual, interim and quarterly reports, notices, announcements and circulars, the Company's website at *www.pfc-device.com* and meetings with investors and shareholders. New update of the Group's business development and operation are also available on the Company's website.

Constitutional Documents

Pursuant to Rule 17.102 of the GEM Listing Rules, the Company has published its memorandum of association and the Articles on the respective websites of the Stock Exchange and the Company. Since the Listing Date and up to 31 December 2016, no amendments were made to the constitutional documents of the Company.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2016.

Principal Activities and Business Review

During the current year, the principal activities of the Group are manufacturing and sales of its own branded power discrete semiconductors namely Schottky and MOSFET. Details of the activities of its principal subsidiaries are set out in note 1 to the consolidated financial statements. There are no significant changes in the nature of the Group's principal activities during the year.

Business review of the Group for the year ended 31 December 2016 as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the Management Discussion and Analysis set out on pages 4 to 7 of this annual report which forms part of this directors' report.

An analysis of the Group's performance for the year by operating and geographical segments is set out in note 6 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of comprehensive income.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016. During the year, no interim dividend was paid.

Share Capital and Share Options

Details of movements during the year in the share capital of the Company and outstanding share options of the Company and its subsidiaries are set out in notes 26 and 28 to the consolidated financial statements respectively.

Reserves

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 27 to the consolidated financial statements respectively.

Pre-emptive Rights

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

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the past three financial years is set out on page 94.

Environmental Policy

An environmental, social and governance report will be published on the websites of the Company and the Stock Exchange on or before 29 June 2017. Please refer to the Management Discussion and Analysis set out on pages 6 of this annual report for a general description of the environmental policy.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the listed shares of the Company from the Listing Date to the year end 31 December 2016.

Directors

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

Executive Directors

Mr. Chow Kai Chiu, David *(appointed on 21 March 2016)*
Mr. Hong James Man-fai *(appointed on 21 March 2016)*

Non-Executive Directors

Mr. Yung Kwok Kee, Billy *(appointed on 2 March 2016)*
Mr. Tang Che Yin *(appointed on 21 March 2016)*

Independent Non-Executive Directors

Mr. Lam, Peter *(appointed on 19 September 2016)*
Mr. Leung Man Chiu, Lawrence *(appointed on 19 September 2016)*
Mr. Fan Yan Hok, Philip *(appointed on 19 September 2016)*

In accordance with the Articles, Mr. Chow Kai Chiu, David, Mr. Hong James Man-fai, Mr. Yung Kwok Kee, Billy, Mr. Tang Che Yin, Mr. Lam, Peter, Mr. Leung Man Chiu, Lawrence and Mr. Fan Yan Hok, Philip shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company still considers such Directors to be independent.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation.)

Each Director is subject to retirement by rotation in accordance with the Articles.

Biographical Details of Directors and Senior Management

Biographical details of Directors and senior management as at the date of this report are set out on page 8 to 9 of this annual report.

Emolument Policy

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

The emoluments of the Directors are recommended by the remuneration committee of the Company, having regard to the Group's operating results, market competitiveness, individual performance and achievement, to the Board for determination.

Remuneration of Directors and Five Individuals with Highest Emoluments

Details of the emoluments of the Directors and the five individuals with the highest emoluments are set out in notes 14 to the consolidated financial statements.

Directors' Service Contracts

Each of the executive Directors and non-executive Directors have entered into a service contract with the Company for an initial term of three years, commencing from the Listing Date. The appointment of the executive Directors may be terminated by either party by giving a least three months' written notice to the other.

Each of the independent non-executive Directors have enter into a letter of appointment with the Company for an initial term of three years, commencing from the Listing Date. The appointment of each of the independent non-executive Directors may be terminated by either party by giving a least one month's written notice to the other.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Management Contracts

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

Directors' Interests in Competing Business

As at 31 December 2016, none of the directors of the Company are considered to be in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Companies and Its Associated Corporations

As at 31 December 2016, the Directors and chief executives of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (which has the same meaning as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules:

Long positions in the shares of the Company:

Name of Director	Capacity/Nature of interest	Number of Shares held/ interested in the Company	Percentage of shareholding
Mr. Yung Kwok Kee, Billy ("Mr. Yung")	Interest in a controlled corporation *(notes 1 and 2)*	1,152,177,939	72.01%
Mr. Hong James Man-fai ("Mr. Hong")	Beneficial interest *(note 3)*	12,531,657	0.8%
Mr. Chow Kai Chiu, David ("Mr. Chow")	Beneficial interest	2,703,838	0.2%

Notes:

1. Mr. Yung is interested in 100% of the issued share capital of Red Dynasty Investments Limited ("Red Dynasty"). Red Dynasty holds 80.5% interest in Shell Electric Holdings Limited ("Shell Electric") . Lotus Atlantic Limited ("Lotus Atlantic") is wholly and beneficially owned by Foremost Pacific Limited ("Foremost Pacific"). Foremost Pacific is wholly and beneficially owned by Sybond Venture Limited ("Sybond Venture"), and Sybond Venture is wholly and beneficially owned by Shell Electric. Mr. Yung is therefore deemed to be interested in 1,117,310,689 Shares held by Lotus Atlantic which is an indirect wholly-owned subsidiary of Shell Electric for the purpose of SFO.

2. 34,867,250 Shares that are charged by the PFC option shareholders (save for Mr. Chow) to Lotus Atlantic pursuant to the share charges. Details of the PFC option shareholders and share charges are set out in the section headed "History, Reorganisation and Corporate Structure" to the Prospectus.

3. Mr. Hong is the beneficial owner of 12,531,657 Shares, in which 9,573,659 Shares are charged in favour of Lotus Atlantic pursuant to the share charge effective on the 7 October 2016 and executed by Mr. Hong.

Save as disclosed above, as at 31 December 2016, none of Directors nor chief executive of the Company and/or any of their respective associates has registered an interest or short positions in the Shares, underlying shares or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules.

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

As at 31 December 2016, the interest and short positions of the person (other than the interest of the Directors or chief executive of the Company as disclosed above) or company which was required to be recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Capacity/nature of interest	Number of Shares held/interested in	Long/short position	Percentage of shareholding
Lotus Atlantic	Beneficial owner	1,152,177,939 *(Notes 1 and 2)*	Long	72.01%
Foremost Pacific	Interest in a controlled corporation	1,152,177,939 *(Notes 1 and 2)*	Long	72.01%
Sybond Venture	Interest in a controlled corporation	1,152,177,939 *(Notes 1 and 2)*	Long	72.01%
Shell Electric	Interest in a controlled corporation	1,152,177,939 *(Notes 1 and 2)*	Long	72.01%
Red Dynasty	Interest in a controlled corporation	1,152,177,939 *(Notes 1 and 2)*	Long	72.01%
Ms. Vivian Hsu	Family interest	1,152,177,939 *(Note 3)*	Long	72.01%

Notes:

1. Red Dynasty holds 80.5% interest in Shell Electric. Lotus Atlantic is wholly and beneficially owned by Foremost Pacific. Foremost Pacific is wholly and beneficially owned by Sybond Venture, and Sybond Venture is wholly and beneficially owned by Shell Electric. Each of these companies is therefore deemed to be interested in 1,117,310,689 Shares owned and held by Lotus Atlantic which is an indirect wholly-owned subsidiary of Shell Electric for the purpose of the SFO.

2. 34,867,250 Shares that are charged by the PFC option shareholders (save for Mr. Chow) to Lotus Atlantic pursuant to the share charges.

3. These Shares represent the interest held by Lotus Atlantic which is a controlled corporation of Mr. Yung. Ms. Vivian Hsu ("Mrs. Yung") is the spouse of Mr. Yung. Under SFO, Mr. Yung is deemed to be interested in all of the Shares in which Lotus Atlantic is interested and Mrs. Yung is deemed to be interested in all the Shares in which Mr. Yung is interested.

Save as disclosed above, as at 31 December 2016 and so far as known to the Directors, no person, other than the Directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register required to be kept by the Company pursuant Section 336 of the SFO.

Share Option Scheme

(a) PFC Device Holdings Ltd. operated a share option scheme (the "PFC Option Plan"). The PFC Option Plan was adopted on 8 December 2014. It was terminated with effect from 19 February 2016 and there were no outstanding option under this plan as at 31 December 2016. Particulars of the PFC Option Plan are set out in note 28 to the consolidated financial statements.

(b) The Company has a share option scheme (the "Share Option Scheme") which was approved and adopted pursuant to the written resolutions on 19 September 2016. The terms of the Share Option Scheme are in accordance with Chapter 23 of the GEM Listing Rules. The following is a summary of the principal terms of the Share Option Scheme :

1. Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is, among others, 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 Board may, at its discretion, offer to grant an option to any person belonging to any of the following classes of participants, to take up options to subscribe for the Shares:

(a) any full-time or part-time employees, executives or officers of the Group;

(b) any directors (including executive Directors, non-executive Directors and independent non-executive Directors) of the Group; and

(c) any suppliers, customers, consultants, agents, advisers and related entities to the Group.

3. Maximum number of Shares

(a) The maximum number of the 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 Company 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 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 Company) 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 which amounts to 160,000,000 Shares (the "General Mandate Limit").

As at the date of this report, the Company had 160,000,000 share options available to be granted under the Share Option Scheme, which represented approximately 10% of the Company's shares in issue as at that date.

4. Maximum entitlement of each participant and connected persons

Unless approved by the Shareholders, the total number of Shares issued and to be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of the Company (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").

5. Minimum period of holding an option and performance target

   The Directors may 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, provided that such terms and conditions are fair and reasonable in the opinion of the Directors and not being inconsistent with the Share Option Scheme and the GEM Listing Rules.

6. Time of acceptance of option

   An option may be accepted by a participant within 30 days from the date of the offer of grant of the option with a payment of HK$1.00 to the Company by way of consideration to the grant.

7. Subscription Price of 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 will not be less than the highest of:

   (a) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;

   (b) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

   (c) the nominal value of a Share.

8. Time for exercising option

   An option may be exercised in accordance with the terms of Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

9. Period of the Share Option Scheme

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

No share option has been granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

Details of the continuing connected transactions of the Group during the year are set out in the section below headed "Continuing Connected Transactions".

Other than as disclosed above, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries, fellow subsidiaries or its parent company was a party and in which a Director or his connected entities had a material interest, whether directly or indirectly, subsisted at the ended of the year or at any time during the year.

Directors' Rights to Acquire Shares or Debentures

At no time during the year was the Company, or any of its subsidiaries a party to any arrangement which enable the Directors and chief executives of the Company (including their respective spouse and children under 18 years of age) to acquire benefits by means of acquisition of shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

Major Customers and Suppliers

During the year, the five largest customers of the Group accounted for approximately 61% (2015: approximately 62%) of the total sales of the Group's turnover, of which 14% (2015: 16%) was attributable to the largest customer.

During the year, the five largest suppliers of the Group accounted for approximately 80% (2015: approximately 79%) of the total purchases of the Group, of which 27% (2015: 24%) was attributable to the largest supplier.

None of the Directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) has an interest in the major customers or suppliers noted above.

Sufficiency of Public Float

Based on information that is publicly available and within the knowledge of the Directors, at least 25% of the Company's issued share capital were held by the public as at the date of this report.

Continuing Connected Transactions

During the year, the Group had entered into the several transactions which constituted continuing connected transactions of the Company (the "CCTs") under Chapter 20 of the GEM Listing Rules and the CCTs are fully exempted from the reporting, annual review, announcement, circular and independent shareholder's approval. The details of the CCTs are set out on pages 182 to 191 of the Prospectus.

None of the related party transactions as disclosed in note 33 to the consolidated financial statements contained in this annual report is a connected transaction which requires annual review, reporting, announcement and independent shareholders approval under the Chapter 20 of the GEM Listing Rules.

Interest of Compliance Advisor

As at 31 December 2016, as notified by the Company's compliance advisor, Messis Capital Limited (the "Compliance Advisor"), except for the compliance advisor agreement entered into between the Company and the Compliance Advisor dated on 29 September 2016, neither the Compliance Advisor nor any of its directors, employees or close associates had any interests in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) or otherwise in relation to the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

Key Relationships with Employees, Customers and Suppliers

The Directors recognize that employees, customers and business partners are the keys to the sustainable development of the Group. The Group is committed to building a close and caring relationship with its employees and business partners, and improving the quality of services and products to its customers. Employees are regarded as the most important and valuable assets of the Group. The Group ensures all staff is reasonably remunerated and regular training is provided for its workers for the operation of different types of machinery, as well as work safety. The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills. The Group also stays connected with its customers and suppliers and has ongoing communication with the customers and suppliers through various channels to obtain their feedback and suggestions.

Compliance of Non-competition Undertaking

All the independent non-executive Directors were delegated with the authority to review on an annual basis the compliance with the non-competition undertaking given by each of Lotus Atlantic, Foremost Pacific, Sybond Venture, Shell Electric, Red Dynasty and Mr. Yung, the controlling shareholders of the Company (collectively, the "Covenantors") in favour of the Company dated 19 September 2016 (the "Non-Competition Deed"). The Covenantors have provided to the Company all information necessary for the annual review by the independent non-executive Directors and the Covenantors have confirmed to the Company that each of the Covenantors and his/its associates have not breached the terms of the undertakings contained in the Non-Competition Deed. All independent non-executive Directors confirmed that they are not aware of any non-compliance with the Non-Competition Deed by the Covenantors since the effective date of the Non-Competition Deed and up to the date of this report.

Details of the Non-Competition Deed have been set out in the section headed "Relationship with Controlling Shareholders" of the Prospectus.

Permitted Indemnity Provision

The Company has maintained appropriate directors and officers liability insurance and such permitted indemnity provision for the benefit of the Directors is currently in place and was in force prior to listing.

Compliance with Laws and Regulations

During the year, the Group was in compliance with all the laws and regulations applicable to the business operations of the Group.

Equity-linked Agreements

Save for the Share Option Scheme, no equity-linked agreements were entered into during the year or subsisted at the end of the year.

Auditors

The consolidated financial statements for the year ended 31 December 2016 have been audited by BDO Limited. A resolution will be submitted to the forthcoming annual general meeting to re-appoint BDO Limited as auditor of the Company.

On behalf of the Board

Mr. Hong James Man-fai
Executive Director

Hong Kong, 20 March 2017

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of PFC Device Inc.
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of PFC Device Inc. (the "Company") and its subsidiaries (the "Group") set out on pages 34 to 93, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Goodwill impairment assessment

(Refer to note 5.1(b) and 18 in the consolidated financial statements)

The Group had goodwill of US$563,000 as at 31 December 2016 relating to acquisition of a subsidiary, PFC Device Corporation in 2010. Goodwill is subject to impairment assessment at least annually. Management has concluded that there is no impairment of the goodwill.

We have identified goodwill impairment assessment as a key audit matter due to the conclusion of the impairment assessment was based on value in use calculations that require significant estimation and judgment by the management with respect to the key assumptions underlying the cash flow projections including future revenue growth and gross profit margin, as well as the adoption of discount rate.

Our procedures in relation to management's impairment assessment included:

— Checking the mathematical accuracy of the value in use calculations;

— Challenging the reasonableness of key assumptions including discount rate based on our knowledge of the business and industry;

— Comparing the current year actual results with the figures included in the prior year forecast to consider whether the key assumptions used by the management had been over-optimistic;

— Reconciling input data to supporting evidence, such as approved budgets and annual sales plan of customers, and considering the reasonableness of this evidence; and

— Performing own sensitivity analyses on key assumptions including revenue growth rate and gross profit margin.

Other Information in the Annual Report

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

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

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

Directors' Responsibilities for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited
Certified Public Accountants
Lee Ming Wai
Practising Certificate no. P05682

Hong Kong, 20 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016 US$'000**	2015 US$'000
Revenue	*7*	**22,840**	18,095
Cost of sales		**(16,310)**	(12,931)
Gross profit		**6,530**	5,164
Other income	*8*	**70**	76
Distribution and selling expenses		**(123)**	(116)
Administrative expenses		**(4,076)**	(3,615)
Other operating expenses			
— Listing expenses		**(1,437)**	(361)
— Others		**(311)**	(206)
Finance costs	*10*	**(93)**	(3)
Other gains and losses	*9*	**(170)**	197
Profit before income tax	*11*	**390**	1,136
Income tax expense	*12*	**(472)**	(449)
(Loss)/Profit for the year		**(82)**	687
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange difference arising from translation of overseas operations		**(637)**	(279)
Reclassification adjustment of translation reserve recycled to profit or loss upon deregistration of a subsidiary		**7**	—
Other comprehensive income for the year		**(630)**	(279)
Total comprehensive income for the year		**(712)**	408
		US Cents	US Cents
(Loss)/Earnings per share	*16*		
— Basic and diluted		**(0.006)**	0.057

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 US$'000	2015 US$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	17	**8,695**	9,323
Goodwill	18	**563**	563
Prepayments for acquisition of property, plant and equipment		**446**	104
Deferred tax assets	25	**26**	–
		9,730	9,990
Current assets			
Inventories	19	**4,249**	2,922
Trade and other receivables, deposits and prepayments	20	**6,363**	5,870
Amount due from a fellow subsidiary	23	**2**	–
Cash and bank balances	21	**11,170**	2,806
		21,784	11,598
Current liabilities			
Trade and other payables	22	**3,935**	1,923
Amount due to ultimate holding company	23	**–**	52
Amounts due to fellow subsidiaries	23	**60**	12,202
Bank borrowings	24	**–**	1,598
Tax payable		**299**	328
		4,294	16,103
Net current assets/(liabilities)		**17,490**	(4,505)
Total assets less current liabilities		**27,220**	5,485
Non-current liabilities			
Bank borrowings	24	**5,000**	–
Deferred tax liabilities	25	**–**	14
		5,000	14
Net assets		**22,220**	5,471

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2016

	Notes	2016 US$'000	2015 US$'000
CAPITAL AND RESERVES			
Share capital	*26(b)*	**2,062**	5,628
Reserves	*27*	**20,158**	(157)
Total equity		**22,220**	5,471

On behalf of the directors

Chow Kai Chiu, David	**Hong James Man-Fai**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital US$'000	**Share premium* US$'000** *note 27(a)*	**Share option reserve* US$'000** *note 27(b)*	**Merger reserve* US$'000** *note 27(c)*	**Capital contribution* US$'000** *note 27(d)*	**Translation reserve* US$'000** *note 27(e)*	**Accumulated losses* US$'000** *note27(f)*	**Total equity US$'000**
At 1 January 2015	5,628	—	—	327	—	(117)	(2,118)	3,720
Profit for the year	—	—	—	—	—	—	687	687
Other comprehensive income for the year								
— Exchange difference arising from translation of overseas operations	—	—	—	—	—	(279)	—	(279)
Total comprehensive income for the year	—	—	—	—	—	(279)	687	408
Capitalisaton of tax recharge on SDMM PFC Division *(note 12)*	—	—	—	—	31	—	—	31
Capitalisation of balances due to fellow subsidiaries *(note 23)*	—	—	—	—	1,216	—	—	1,216
Shared-based payment expenses of PFC Share Options granted in 2015 *(note 28(a))*	—	—	96	—	—	—	—	96
Vested share options forfeited *(note 28(a))*	—	—	(7)	—	—	—	7	—
At 31 December 2015 and 1 January 2016	**5,628**	**–**	**89**	**327**	**1,247**	**(396)**	**(1,424)**	**5,471**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(82)**	**(82)**
Other comprehensive income for the year								
— Exchange difference arising from translation of overseas operations	**–**	**–**	**–**	**–**	**–**	**(637)**	**–**	**(637)**
— Reclassification adjustment of translation reserve recycled to profit or loss upon deregistration of a subsidiary	**–**	**–**	**–**	**–**	**–**	**7**	**–**	**7**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(630)**	**(82)**	**(712)**
Issue of shares upon exercise of PFC Share Options *(notes 26(b)(i) & 28(a))*	**553**	**89**	**(89)**	**–**	**–**	**–**	**–**	**553**
Acceleration of vesting of PFC Share Options *(note 28(a))*	**–**	**–**	**2**	**–**	**–**	**–**	**–**	**2**
Termination of PFC Option Plan *(note 28(a))*	**–**	**–**	**(2)**	**–**	**–**	**–**	**2**	**–**
Recognition of obligation arising from the Share Repurchase Agreements *(notes 26(b)(ii) & 29)*	**(553)**	**–**	**–**	**–**	**–**	**–**	**–**	**(553)**
Issue of shares under a subscription agreement *(notes 2(b)(iv) & 26(b)(iii))*	**7,700**	**–**	**–**	**–**	**–**	**–**	**–**	**7,700**
Derecognition of obligation upon termination of the share repurchase arrangement *(notes 26(b)(ii) & 29)*	**553**	**–**	**–**	**–**	**–**	**–**	**–**	**553**
Share Swap *(note 2(b)(vi) & note 26(b)(iv))*	**(13,864)**	**13,286**	**–**	**578**	**–**	**–**	**–**	**–**
Issue of shares for								
— Placing *(note 26(a)((vi))*	**516**	**9,796**	**–**	**–**	**–**	**–**	**–**	**10,312**
— Capitalisation Issue *(note 26(a)(vii))*	**1,529**	**(1,529)**	**–**	**–**	**–**	**–**	**–**	**–**
Share issuance expenses *(note 26(a)(vi))*	**–**	**(1,106)**	**–**	**–**	**–**	**–**	**–**	**(1,106)**
At 31 December 2016	**2,062**	**20,536**	**–**	**905**	**1,247**	**(1,026)**	**(1,504)**	**22,220**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 **US$'000**	2015 US$'000
Cash flow from operating activities		
Profit before income tax	**390**	1,136
Adjustments for:		
Interest income	**(3)**	(1)
Interest expenses	**93**	3
Depreciation on property, plant and equipment	**1,430**	1,059
Write down of inventories to net realisable value	**138**	74
Write-off of property, plant and equipment	**—**	1
Share-based payment expense	**2**	96
Exchange difference	**44**	64
Operating profit before working capital changes	**2,094**	2,432
Increase in inventories	**(1,588)**	(289)
Increase in trade and other receivables, deposits and prepayments	**(512)**	(3,102)
Increase in amount due from a fellow subsidiary	**(2)**	—
Increase in trade and other payables	**1,990**	442
Cash generated from/(used in) operations	**1,982**	(517)
Tax paid in other jurisdictions	**(542)**	(244)
Net cash from/(used in) operating activities	**1,440**	(761)
Cash flow from investing activities		
Interest received	**3**	1
Decrease in loans receivable	**—**	48
Purchase of property, plant and equipment	**(1,661)**	(3,677)
Net cash used in investing activities	**(1,658)**	(3,628)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2016

	2016 **US$'000**	2015 US$'000
Cash flow from financing activities		
Interest paid	**(94)**	(1)
Increase in bank borrowings	**8,104**	1,598
Repayment of bank borrowings	**(4,702)**	—
(Decrease)/Increase in amount due to ultimate holding company	**(52)**	21
Advances from ultimate holding company	**7,700**	—
(Decrease)/Increase in amounts due to fellow subsidiaries	**(12,142)**	4,644
Proceeds from issue of shares upon exercise of PFC Share Options *(notes 28(a))*	**553**	—
Proceeds from issue of shares *(note 26(a)(vi))*	**10,312**	—
Share issue expenses *(note 26(a)(vi))*	**(1,106)**	—
Net cash from financing activities	**8,573**	6,262
Net increase in cash and cash equivalents	**8,355**	1,873
Cash and cash equivalents at beginning of year	**2,806**	946
Effect of foreign exchange rate change	**9**	(13)
Cash and cash equivalents at end of year	**11,170**	2,806
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	**11,170**	2,806

1. General Information

PFC Device Inc. (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability on 2 March 2016. The shares of the Company were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 7 October 2016 (the "Listing"). The address of its registered office is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. Its principal place of business is located at 1/F, Shell Industrial Building, 12 Lee Chung Street, Chai Wan, Hong Kong.

The Group, comprising the Company and its subsidiaries, is principally engaged in manufacturing and sales of power discrete semiconductors (the "Semiconductor Business").

The Company's parent is Lotus Atlantic Limited, a company incorporated in the British Virgin Islands ("BVI") and the directors of the Company consider its ultimate parent is Shell Electric Holdings Limited ("Shell Electric"), a company incorporated in Bermuda.

Particulars of the Company's subsidiaries as at 31 December 2016 are as follows:

Name of subsidiaries	Place of incorporation/ operation	Issued and paid up capital	Effective interest held by the Company Directly	Indirectly	Principal activities
PFC Device Holdings Limited ("PFC Device Holdings")	BVI/Hong Kong	12,656,153 preference shares of United States dollars ("US$") 13,222,820 658,255 common shares of US$658,255	100%	–	Investment and trade mark holding
PFC Device Corporation *(note (i))*	BVI/Taiwan	4,956,153 preference shares of US$5,522,820 105,000 common shares of US$105,000	–	100%	Research and development and sales of power discrete semiconductors
PFC Device (HK) Limited	Hong Kong	Hong Kong dollars ("HK$")1	–	100%	Sales of power discrete semiconductors
廣東普福斯節能元件有限公司 (Guangdong PFC Device Limited) ("PFC Device (GD)") *(note (ii))*	The People's Republic of China ("PRC")	US$13,000,000	–	100%	Manufacturing and sales of power discrete semiconductors

Notes:

(i) PFC Device Corporation has set up a branch in Taiwan which is principally engaged in research and development, sales and marketing of the Group's products.

(ii) PFC Device (GD) was established in the PRC as a wholly-foreign-owned enterprise and has set up a branch in the PRC for provision of sales support services.

The financial statements for the year ended 31 December 2016 were approved and authorised for issue by the board of directors on 20 March 2017.

2. Basis of Preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

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

The financial statements are presented in US$, which is the same as the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise indicated.

It should be noted that accounting estimates and assumptions are used in the preparation of the financial statements. Although these estimates and assumptions are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where estimates and assumptions are significant to the financial statements, are disclosed in note 5.

(b) Reorganisation

Pursuant to a reorganisation of the Company (the "Reorganisation") in connection with the listing of shares of the Company on the GEM of the Stock Exchange, the Company has become the holding company of its subsidiaries now comprising the Group since 19 September 2016.

The principal steps of the Reorganisation are described below:

(i) On 8 September 2015 and 31 December 2015, PFC Device (GD) 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*) ("Shunde Multi-Media") entered into agreements pursuant to which Shunde Multi-Media transferred to PFC Device (GD) certain assets, including machineries, equipment and inventories relating to the production of power discrete semiconductors, at total consideration of RMB63,047,677 (equivalent to approximately US$9,709,000), (the "Transfer"). Shunde Multi-Media is a fellow subsidiary. Previously the production of power discrete semiconductors was conducted by a division of Shunde Multi-Media, namely the SDMM PFC Division. Upon completion of the Transfer by 31 December 2015, the production of power discrete semiconductors has been undertaken by PFC Device (GD).

(ii) Pursuant to the written resolutions of the directors of PFC Device Holdings dated 8 December 2014, PFC Device Holdings adopted a share option plan (the "PFC Option Plan") in respect of the common shares in the authorised share capital of PFC Device Holdings. On 7 January 2015, PFC Device Holdings granted options (the "PFC Share Options") under the PFC Option Plan to a total of nine grantees to subscribe for an aggregate of 615,755 common shares of PFC Device Holdings (the "PFC Option Shares") at an exercise price of US$1 per PFC Option Share subject to a vesting schedule. On 15 February 2016, PFC Device Holdings served a written notice to inform the eligible grantees that they can exercise the PFC Share Options to subscribe for the PFC Option Shares not later than 19 February 2016. As of 19 February 2016, 553,255 PFC Share Options had been exercised and the eligible grantees had subscribed for an aggregate of 553,255 PFC Option Shares of PFC Device Holdings and became the shareholders of PFC Device Holdings ("PFC Option Shareholders").

2. Basis of Preparation (Continued)

(b) Reorganisation (Continued)

(iii) The Company was incorporated in the Cayman Islands on 2 March 2016. The initial authorised share capital of the Company was HK$380,000 divided into 3,800,000 ordinary shares of HK$0.10 each and initially one share was allotted and issued at par to the initial subscriber and subsequently transferred to Mr. Yung Kwok Kee, Billy ("Mr. Yung"), a non-executive director of the Company and the ultimate beneficial owner of Shell Electric.

On 11 March 2016, each of the issued and unissued shares of the Company of par value of HK$0.10 each was subdivided into ten shares of par value of HK$0.01 each (the "Share Subdivision"). Upon completion of the Share Subdivision, the authorised share capital of the Company has become HK$380,000 divided into 38,000,000 shares of HK$0.01 each. The initial one share of the Company held by Mr. Yung was subdivided into ten shares of HK$0.01 each.

On 19 September 2016, the authorised share capital of the Company was increased from HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each to HK$38,000,000 by the creation of an additional 3,762,000,000 new shares.

(iv) On 14 September 2016, PFC Device Holdings and Shell Electric entered into a subscription agreement. Pursuant to the subscription agreement, PFC Device Holdings allotted and issued to Shell Electric 7,700,000 preference shares at a subscription price of US$1.0 per preference share. The consideration for the subscription was settled by capitalising the amount due by the Group to Shell Electric in the sum of US$7,700,000. Shell Electric nominated its indirect wholly-owned subsidiary to take up the said preference shares. Upon completion of the subscription, PFC Device Holdings is owned as to approximately 94.1% indirectly by Shell Electric, and approximately 5.9% collectively by individual shareholders including the PFC Option Shareholders.

(v) On 14 September 2016, Mr. Yung transferred his ten shares in the Company to the indirect wholly-owned subsidiary at aggregate consideration of HK$0.10, being the nominal value of the ten shares of the Company held by him.

(vi) On 19 September 2016, share swap agreement (the "Share Swap Agreement") was entered into by all the shareholders of PFC Device Holdings as vendors and the Company as purchaser pursuant to which the shareholders of PFC Device Holdings shall transfer the entire issued share capital of PFC Device Holdings to the Company. The consideration was settled by the Company allotting and issuing a total of 13,314,398 new shares to the vendors, credited as fully paid. Upon completion of the share swap (the "Share Swap"), PFC Device Holdings becomes a wholly-owned subsidiary of the Company and the Company is owned as to approximately 94.1% indirectly by Shell Electric and approximately 5.9% collectively by the individual shareholders including the PFC Option Shareholders.

* *for identification purposes only*

2. Basis of Preparation (Continued)

(b) Reorganisation (Continued)

Upon completion of the Share Swap as mentioned in note (vi) above, the results of the subsidiaries are consolidated into the financial statements of the Company (note 4.1). The Group is regarded as a continuing entity resulting from the Share Swap since the insertion of holding company at the top of PFC Device Holdings has not resulted in any change in economic substance. Accordingly, the financial statements have been prepared using merger basis of accounting as if the Share Swap had occurred at the beginning of the financial periods. The consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the years ended 31 December 2016 and 2015 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. The consolidated statements of financial position of the Group as of 31 December 2016 and 2015 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.

SDMM PFC Division was the production arm of the Semiconductor Business before PFC Device (GD) is in operation. SDMM PFC Division constitutes a business under HKFRS 3 (Revised) *Business Combinations* issued by the HKICPA. Due to PFC Device Holdings and Shunde Multi-Media are both owned and controlled by Shell Electric, the Transfer as mentioned in note (i) above constitutes business combination under common control and accordingly, the financial statements of SDMM PFC Division are combined with the consolidated financial statements of the Group by adopting the principles of merger accounting under Accounting Guideline 5 ("AG 5") *Merger Accounting for Common Control Combinations* issued by the HKICPA.

Following the requirements under AG 5, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years ended 31 December 2016 and 2015 include the financial performance, changes in equity and cash flows of the Group and the financial performance, changes in equity and cash flows of SDMM PFC Division. The consolidated statements of financial position as at 31 December 2016 and 2015 include the assets and liabilities of the Group and the assets and liabilities of SDMM PFC Division as at those dates. The financial statements items of SDMM PFC Division have been included in the consolidated financial statements using their existing book values from Shell Electric's perspective when Shunde Multi-Media first came under the control of Shell Electric. There is no difference between the cash consideration for the Transfer of US$9,709,000 and the net carrying value of SDMM PFC Division on the completion date of the Transfer.

2. Basis of Preparation (Continued)

(b) Reorganisation (Continued)

Certain expenses incurred by Shunde Multi-Media and other group companies (collectively the "SMC Multi-Media Group") during the year ended 31 December 2015 which were relevant to the economic activities of the Semiconductor Business have been recharged to SDMM PFC Division and accounted for in its financial statements as follows:

(i) During the year ended 31 December 2015, SDMM PFC Division occupied certain areas of the factory and staff quarter in the PRC which are owned by Shunde Multi-Media and utilised certain of Shunde Multi-Media's office equipment. Such factory related expenses allocated to SDMM PFC Division using floor area of premises occupied as the basis of allocation amounted to US$49,000.

(ii) During the year ended 31 December 2015, Shunde Multi-Media incurred administrative staff costs and other operating expenses in the PRC which were necessary in procuring for the production activities of its divisions including SDMM PFC Division. Such administrative staff costs and other operating expenses allocated to SDMM PFC Division using floor area of factory occupied as the basis of allocation amounted to US$96,000.

(iii) During the year ended 31 December 2015, SMC Multi-Media Group excluding Shunde Multi-Media 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 Electric including the Semiconductor Business. The amount of these administrative staff costs and other operating expenses allocated by SMC Multi-Media Group to SDMM PFC Division using floor area occupied or time as the basis of allocation amounted to US$33,000.

Apart from the above, management has estimated the tax exposure of SDMM PFC Division and SDMM PFC Division was recharged for such exposure. For the year ended 31 December 2015, management estimated that SDMM PFC Division has assessable income and the tax recharge by SMC Multi-Media Group, after offsetting tax losses brought forward from prior years, amounting to approximately US$31,000 has been included as income tax expense for the year ended 31 December 2015. The corresponding amount is recognised as capital contribution in equity.

3. Adoption of New or Revised HKFRSs

(a) Adoption of new or revised HKFRSs — effective 1 January 2016

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the current year:

HKFRSs (Amendments)	Annual Improvements 2012–2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation

Amendments to HKAS 1 Disclosure Initiative

The amendments are designed to encourage entities to use judgment in the application of HKAS 1 when considering the layout and content of their financial statements.

The adoption of the amendments has no significant impact on these financial statements.

Amendments to HKAS 27 Equity Method in Separate Financial Statements

The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are applied retrospectively in accordance with HKAS 8.

The adoption of the amendments has no impact on these financial statements as the Company has not elected to apply the equity method in its separate financial statements.

Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that amortisation based on revenue is not appropriate for intangible assets. This presumption can be rebutted if either the intangible asset is expressed as a measure of revenue or revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendments are applied prospectively.

The adoption of the amendments has no impact on these financial statements as the Group has not previously used revenue-based depreciation methods.

3. Adoption of New or Revised HKFRSs (Continued)

(b) New or revised HKFRSs that have been issued but are not yet effective

The following new or revised HKFRSs potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group:

Amendments to HKAS 7	Disclosure Initiatives[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRS 15	Clarifications to HKFRS 15[2]
HKFRS 16	Leases[3]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019

Amendments to HKAS 7 Disclosure Initiatives

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to HKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured at fair value.

Amendments to HKFRS 2 Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at fair value through other comprehensive income. All other debt and equity instruments are measured at fair value through profit or loss.

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at fair value through profit or loss replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

3. Adoption of New or Revised HKFRSs (Continued)

(b) New or revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 9 Financial Instruments (Continued)

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitive disclosures related to revenue.

Amendments HKFRS 15 Clarifications to HKFRS 15

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

HKFRS 16 Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 *Leases* and related interpretations, 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 classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

3. Adoption of New or Revised HKFRSs (Continued)

(b) New or revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 16 Leases (Continued)

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 directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. The directors of the Company are currently assessing the possible impact of the above new or revised standards on the Group's results and financial position in the first year of application. The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies or financial statements. Other new or revised HKFRSs that have been issued but are not yet effective are unlikely to have material impact on the Group's financial statements upon application.

4. Significant Accounting Policies

The significant accounting policies adopted in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

4.1 Business combination and basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments, in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to the fair value of the contingent consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

4. Significant Accounting Policies (Continued)

4.1 Business combination and basis of consolidation (Continued)

Goodwill arising on business combination is measured according to the policy in note 4.3.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest, and also the cumulative translation differences recorded in equity. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

4.2 Subsidiaries

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

— power over the investee;

— exposure, or rights, to variable returns from the investee; and

— the ability to use its power to affect those variable returns.

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

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

4. Significant Accounting Policies (Continued)

4.3 Goodwill

Goodwill arising from the acquisition of subsidiaries, associates and joint ventures represents the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed including contingent liabilities as at the date of acquisition.

Goodwill arising on acquisition is initially recognised in the consolidated statement of financial position as an asset at cost and subsequently measured at cost less any accumulated impairment losses. In case of associates and joint ventures, goodwill is included in the carrying amount of the interests in associates and joint ventures, respectively, rather than recognised as a separate asset on the consolidated statement of financial position.

Goodwill is reviewed for impairment annually at the end of the reporting period or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may be impaired (note 4.15). On subsequent disposal of a subsidiary, associate or joint venture, the carrying amount of goodwill relating to the entity sold is included in determining the amount of gain or loss on disposal.

4.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis as follows:

Furniture and fixtures	3–10 years
Office equipment	3–5 years
Moulds, tools and machineries	3–10 years
Leasehold improvements	3–8 years

The estimated useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount (note 4.15).

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

4. Significant Accounting Policies (Continued)

4.5 Intangible assets (Other than goodwill)

(i) Acquired intangible assets

Intangible assets acquired separately are recognised initially at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. After initial recognition, intangible assets with finite useful lives are amortised over the economic useful life and assessed for impairment (note 4.15) whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised but reviewed for impairment at least annually (note 4.15) either individually or at cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

(ii) Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

— it is technically feasible to develop the product for it to be sold;

— adequate resources are available to complete the development;

— there is an intention to complete and sell the product;

— the Group is able to sell the product;

— sale of the product will generate future economic benefits; and

— expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

4.6 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee under operating lease

Rentals payable under the operating leases, net of any incentives received or receivable, are charged to profit or loss on a straight-line basis over the lease terms.

4. Significant Accounting Policies (Continued)

4.7 Financial instruments

(i) *Financial assets*

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors) and also incorporated other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) *Impairment loss on financial assets*

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— granting concession to a debtor because of the debtor's financial difficulty; or

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss on loans and receivables is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of loans and receivables is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant loans and receivables.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the loans and receivables exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

4. Significant Accounting Policies (Continued)

4.7 Financial instruments (Continued)

(iii) *Financial liabilities*

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised cost are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, amounts due to related companies and bank borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (note 4.16).

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

(iv) *Effective interest method*

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

(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 determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

(vii) *Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

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

4. Significant Accounting Policies (Continued)

4.8 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.

4.9 Recognition of revenue and other income

Revenue and other income are recognised when it is probable that the economic benefits will flow to the Group and when the income can be measured reliably on the following bases:

(i) Sales of goods are recognised as revenue when goods are delivered and title has been passed, taking into account sales returns and discounts and rebates allowed by the Group.

(ii) Interest income is accrued on a time basis by reference to the principal outstanding and the effective interest rate applicable.

4.10 Income tax

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in subsidiaries, 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.

4.11 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

4. Significant Accounting Policies (Continued)

4.12 Foreign currencies

Foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the rates ruling at the end of the reporting period are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of initial transactions. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined.

The functional currencies of certain entities of the Group are currencies other than US$. For the purpose of preparing the consolidated financial statements, assets and liabilities of these entities at the end of the reporting period are translated into US$ at the exchange rate prevailing at the end of the reporting period. Income and expense items are translated into US$ at the average exchange rate for the period, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating those ruling when the transactions took place are used. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in translation reserve.

On the 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.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognised in the translation reserve.

4.13 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 annual reporting period in which the employees render the related service. Short-term employee benefits are recognised in the year 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.

4. Significant Accounting Policies (Continued)

4.14 Share-based payment transactions

The Group operates equity-settled share-based compensation plans for remuneration of its employees. All employee services received in exchange for the grant of financial instruments are measured at their fair values. The cost of equity-settled share-based compensation is measured by reference to the fair value of the equity instrument at the date on which they are granted. In determining the fair value, no account is taken of any non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based compensation is ultimately recognised as an expense in profit or loss unless it qualifies for recognition as asset with a corresponding increase in equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

In respect of share options, the fair value of the share options granted by the Group to its employees is recognised in profit or loss with a corresponding increase in share option reserve. Upon exercise of the share options, the amount in the share option reserve is transferred to the share premium account. In case the share options lapsed, the amount in the share option reserve is released directly to retained profits.

4.15 Impairment of non-financial assets

The Group's goodwill and property, plant and equipment are subject to impairment testing.

Goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets 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 of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from the synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, 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 the current market assessment of the time value of money and the risk specific to the asset.

4. Significant Accounting Policies (Continued)

4.15 Impairment of non-financial assets (Continued)

Impairment loss recognised for cash-generating units to which goodwill has been allocated are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro-rata to other assets in the cash-generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value-in-use, if determinable.

Impairment loss on goodwill is not reversed in subsequent periods, including impairment loss recognised in an interim period. In respect of other assets, impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's or cash-generating unit's recoverable amount, but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised. A reversal of such impairment is credited to profit or loss in the period in which it arises.

4.16 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.

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. All 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.

4.17 Provisions and contingent liabilities

Provision are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation 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.

4.18 Segment reporting

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

4. Significant Accounting Policies (Continued)

4.19 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 the key management personnel of the entity (or of a parent of the entity); or
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Company's parent.

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

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependents of that person or that person's spouse or domestic partner.

5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, the directors of the Company are required to make judgment, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumption are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

5.1 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 reporting period are as follows:

(a) *Useful lives of property, plant and equipment*

Management determines the estimated useful lives, and related depreciation charges for the Group's property, plant and equipment. The estimates are based on the historical experience of the actual useful lives of those assets of similar nature and functions. Management will increase the depreciation where useful lives are less than previously estimated lives. Management will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore affect the depreciation charges in future periods.

(b) *Impairment of non-financial assets*

The Group reviews at least annually and assesses whether goodwill has suffered any impairment. Other assets including property, plant and equipment with definite useful lives are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit has been determined based on value-in-use calculation, which incorporate a number of key estimates and assumptions about future events and therefore, are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgments, the directors take into consideration assumptions that are mainly based on market conditions existing at the end of the reporting period and appropriate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group. Future changes in the events and conditions underlying the estimates and judgments would affect the estimation of recoverable amounts and result in adjustments to their carrying amounts. Details about the estimates used in assessing impairment for goodwill are set out in note 18.

(c) *Allowance for inventories*

Management carries out inventory review on a product-by-product basis at the end of each reporting period and provides allowance for obsolete items. A considerable amount of judgment and estimates 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. Management reviews the inventory ageing analysis at the end of the reporting period and identifies slow-moving inventories that are no longer suitable for consumption and saleable. Management estimates the net realisable value for such inventories based primarily on the latest invoice price and current market conditions.

5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

5.1 Key sources of estimation uncertainty (Continued)

(d) *Impairment of receivables*

The impairment policy for bad and doubtful debts of the Group is based on management's evaluation of collectability and ageing analysis of receivables and on the specific circumstances for each account. Judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer or debtor. If the financial condition of the customers or debtors was to deteriorate resulting in an impairment of their ability to make payments, additional allowance will be required.

(e) *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 tax authorities.

5.2 Critical judgment in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Accounting for transactions entered into with subcontractors

Certain production processes are outsourced to subcontractors. Terms and arrangements agreed with the subcontractors and the business practice of individual subcontractors are different. The Group has followed the guidance on principal-agent relationship as set out in HKAS 18 *Revenue* to determine the appropriate accounting treatment for the transactions entered into with different subcontractors which is based on an evaluation of the terms and arrangements agreed with different subcontractors and the business practice of individual subcontractors.

6. Segment Information

Operating segment information

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

Sales of power discrete semiconductors	—	This segment engages in manufacturing and sales of power discrete semiconductors
Trading of raw materials	—	This segment engages in sales of raw materials, mainly Epitaxy

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 sales to external customers and there were no inter-segment sales between different segments during the year and in prior year. Reporting segment profit or loss excludes corporate income and expenses from the Group's profit or loss before income tax. Corporate income and expenses are income and expenses incurred by corporate headquarters which are not allocated to the operating segments. Each of the operating segments is managed separately as the resources requirement of each of them is different.

6. Segment Information (Continued)

Operating segment information (Continued)

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

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

	Sales of power discrete semiconductors US$'000	Trading of raw materials US$'000	Total US$'000
Year ended 31 December 2016			
Reportable segment revenue	**20,220**	**2,620**	**22,840**
Reportable segment profit	**5,478**	**1,052**	**6,530**
Corporate and unallocated income			**70**
Corporate and unallocated expenses			
— Listing expenses			**(1,437)**
— Employee costs			**(2,962)**
— Rental and related expenses			**(263)**
— Finance costs			**(93)**
— Others*			**(1,455)**
Profit before income tax			**390**

	Sales of power discrete semiconductors US$'000	Trading of raw materials US$'000	Corporate/ Unallocated US$'000	Consolidated US$'000
Year ended 31 December 2016				
Depreciation	**1,173**	**–**	**257**	**1,430**
Write down of inventories to net realisable value	**138**	**–**	**–**	**138**
Additions to specified non-current assets#	**1,658**	**–**	**–**	**1,658**

6. Segment Information (Continued)

Operating segment information (Continued)

	Sales of power discrete semiconductors US$'000	Trading of raw materials US$'000	Total US$'000
Year ended 31 December 2015			
Reportable segment revenue	16,694	1,401	18,095
Reportable segment profit	4,606	558	5,164
Corporate and unallocated income			274
Corporate and unallocated expenses			
— Listing expenses			(361)
— Employee costs			(2,574)
— Rental and related expenses			(187)
— Finance costs			(3)
— Others*			(1,177)
Profit before income tax			1,136

	Sales of power discrete semiconductors US$'000	Trading of raw materials US$'000	Corporate/ Unallocated US$'000	Consolidated US$'000
Year ended 31 December 2015				
Depreciation	942	—	117	1,059
Write down of inventories to net realisable value	74	—	—	74
Write-off of property, plant and equipment	1	—	—	1
Additions to specified non-current assets#	3,677	—	—	3,677

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

* Mainly comprise legal and professional fees, depreciation, travelling expenses and other office expenses

Certain comparative figures in the segment information for the year ended 31 December 2015 have been reclassified. For the year ended 31 December 2016, listing expenses, employee costs, rental and related expenses and finance costs which were incurred at corporate level are presented separately under corporate and unallocated expenses for better presentation. The comparative figures of these expenses have been reclassified to conform to current year's presentation.

6. Segment Information (Continued)

Geographical segment information

The following table provides analysis of the Group's revenue from external customers, determined based on location of the customers:

	2016 **US$'000**	2015 US$'000
Hong Kong	**–**	–
Other regions of the PRC	**13,323**	9,662
Taiwan	**8,282**	7,649
Asia, other than the PRC	**1,235**	784
	22,840	18,095

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

	2016 **US$'000**	2015 US$'000
Hong Kong	**1**	1
Other regions of the PRC	**8,347**	9,043
Taiwan	**1,356**	946
	9,704	9,990

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:

	2016 **US$'000**	2015 US$'000
Customer A	**3,243**	N/A
Customer B	**2,855**	2,975
Customer C	**2,649**	1,965
Customer D	**2,620**	N/A
Customer E	**2,591**	2,696
Customer F	**2,370**	N/A
Customer G	**N/A**	1,943

N/A: not applicable as revenue generated by the respective customers is less than 10% of the Group's revenue for the respective years.

7. Revenue

The Group is principally engaged in manufacturing and sales of power discrete semiconductors. Revenue represented the net invoiced value of goods sold during the year as follows:

	2016 US$'000	2015 US$'000
Sales of power discrete semiconductors	**20,220**	16,694
Trading of raw materials	**2,620**	1,401
	22,840	18,095

8. Other Income

	2016 US$'000	2015 US$'000
Bank interest income	**3**	1
Sundry	**67**	75
	70	76

9. Other Gains and Losses

	2016 US$'000	2015 US$'000
Exchange (loss)/gain, net	**(170)**	198
Write-off of property, plant and equipment	**–**	(1)
	(170)	197

10. Finance Costs

	2016 **US$'000**	2015 US$'000
Interest charges on bank borrowings	**93**	3

11. Profit Before Income Tax

	2016 **US$'000**	2015 US$'000
Profit before income tax is arrived at after charging:		
Auditors' remuneration:		
Current year	**85**	29
Carrying amount of inventories sold	**16,172**	12,857
Write down of inventories to net realisable value	**138**	74
Research and development cost*^	**292**	186
Write-off of property, plant and equipment	**–**	1
Depreciation of property, plant and equipment#	**1,430**	1,059
Employee benefit expenses (including directors' emoluments) *(note 13)*	**3,772**	3,150
Operating lease charges in respect of land and buildings	**318**	175

* included in other operating expenses

^ exclude staff costs and depreciation of property, plant and equipment

\# exclude depreciation incurred by Shunde Multi-Media during the year ended 31 December 2015 which had been allocated to SDMM PFC Division as mentioned in note 2(b)

12. Income Tax Expense

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

	2016 **US$'000**	2015 US$'000
Current tax		
— Hong Kong profits tax	**—**	—
— Other regions of the PRC — Enterprise Income Tax ("EIT")	**186**	31
— Taiwan	**326**	404
	512	435
Deferred tax *(note 25)*	**(40)**	14
Income tax expense	**472**	449

Hong Kong profits tax is calculated at 16.5% (2015: 16.5%) on the estimated assessable profits derived from Hong Kong for the year. Profit tax arising from operations in Taiwan is calculated at 17% (2015: 17%) on the assessable profit for the year.

EIT arising from other regions of the PRC is calculated at 25% (2015: 25%) on the estimated assessable income for the year. EIT incurred for the year ended 31 December 2015 amounting to US$31,000 represented the tax recharge by SMC Multi-Media Group as mentioned in note 2(b).

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

	2016 **US$'000**	2015 US$'000
Profit before income tax	**390**	1,136
Tax on profit at the rates applicable to profits in the jurisdictions concerned	**124**	245
Tax effect of revenue not taxable for tax purpose	**—**	(2)
Tax effect of expenses not deductible for tax purpose	**342**	231
Utilisation of tax losses previously not recognised	**(24)**	(169)
Tax effect of tax losses not recognised	**1**	92
Tax effect of other temporary differences not recognised	**28**	34
Others	**1**	18
Income tax expense	**472**	449

13. Employee Benefit Expenses

Employee costs (including directors) comprise:

	2016 US$'000	2015 US$'000
Salaries, wages and other benefits*	**3,579**	2,898
Contribution to defined contribution retirement plans#	**191**	156
Equity-settled share-based payment expense *(note 28)*	**2**	96
	3,772	3,150

* include staff costs incurred by SMC Multi-Media Group during the year ended 31 December 2015 which had been allocated to SDMM PFC Division amounting to US$73,000 as mentioned in note 2(b)

\# no contribution is available for reducing the Group's existing level of contribution in the future

14. Directors' Emoluments, Five Highest Paid Individuals and Senior Management's Emoluments

(a) Directors' emoluments

Directors' emoluments are disclosed as follows:

	Fees US$'000	**Salaries, allowances and other benefits US$'000**	**Discretionary bonus US$'000**	**Share-based payment expense US$'000** *(note (i))*	**Pension scheme contribution US$'000**	**Total US$'000**
Year ended 31 December 2016						
Executive Directors						
Mr. Hong James Man-fai ("Mr. Hong")	**1**	**146**	**42**	**1**	**2**	**192**
Mr. Chow Kai Chiu, David ("Mr. Chow")	**1**	**–**	**–**	**–**	**–**	**1**
Non-Executive Directors						
Mr. Yung Kwok Kee, Billy ("Mr. Yung")	**1**	**–**	**–**	**–**	**–**	**1**
Mr. Tang Che Yin ("Mr. Tang")	**1**	**–**	**–**	**–**	**–**	**1**
Independence Non-Executive Directors						
Mr. Lam, Peter ("Mr. Lam") *(note (ii))*	**5**	**–**	**–**	**–**	**–**	**5**
Mr. Leung Man Chiu, Lawrence ("Mr. Leung") *(note (ii))*	**5**	**–**	**–**	**–**	**–**	**5**
Mr. Fan Yan Hok, Philip ("Mr. Fan") *(note (ii))*	**5**	**–**	**–**	**–**	**–**	**5**
Total	**19**	**146**	**42**	**1**	**2**	**210**

14. Directors' Emoluments, Five Highest Paid Individuals and Senior Management's Emoluments (Continued)

(a) Directors' emoluments (Continued)

	Fees US$'000	Salaries, allowances and other benefits US$'000	Discretionary bonus US$'000	Share-based payment expense US$'000	Pension scheme contribution US$'000	Total US$'000
				(note (i))		
Year ended 31 December 2015						
Executive Directors						
Mr. Hong	—	139	33	17	2	191
Mr. Chow	—	—	—	5	—	5
Non-Executive Directors						
Mr. Yung	—	—	—	—	—	—
Mr. Tang	—	7	3	—	1	11
Total	—	146	36	22	3	207

Notes:

(i) These amounts represent the estimated value of share options granted to the relevant Directors under the PFC Option Plan (note 28(a)). The value of these share options was measured according to the accounting policies for share-based payments as set out in note 4.14. Further details of the options granted are set out in note 28(a).

(ii) Mr. Lam, Mr. Leung and Mr. Fan were appointed as independent non-executive Directors of the Company on 19 September 2016.

No emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office for the year ended 31 December 2016 (2015: nil). In addition, none of the Directors waived or agreed to waive any emoluments for the year ended 31 December 2016 (2015: nil).

14. Directors' Emoluments, Five Highest Paid Individuals and Senior Management's Emoluments (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included one (2015: one) director whose emoluments are reflected in the analysis presented in (a) above. The emoluments payable to the remaining four (2015: four) highest paid individuals are as follows:

	2016 **US$'000**	2015 US$'000
Salaries, allowances and other benefits	**356**	349
Discretionary bonus	**103**	60
Share-based payment expense	**1**	19
Contribution to pension scheme	**12**	13
	472	441

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

	2016 **Number of** **individuals**	2015 Number of individuals
Nil to HK$1,000,000	**3**	3
HK$1,000,001 to HK$1,500,000	**1**	1

No emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2015: nil).

(c) Senior management's emoluments

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

	2016 **Number of** **individuals**	2015 Number of individuals
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**1**	1

15. Dividend

No dividend was paid or proposed during the year ended 31 December 2016, nor has any dividend been proposed since the end of the reporting period (2015: nil).

16. (Loss)/Earnings Per Share

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

	2016	2015
	US$'000	US$'000
(Loss)/Earnings		
(Loss)/Profit for the year attributable to owners of the Company	**(82)**	687

	2016	2015
	'000	'000
Number of shares		
Weighted average number of ordinary shares in issue during the year	**1,294,247**	1,200,000

The weighted average number of ordinary shares used for the purposes of calculating basic (loss)/earnings per share represents the weighted number of shares in issue during the year, after giving effect of the Capitalisation Issue as further described in note 26(a)(vii), as if the Capitalisation Issue had occurred on 1 January 2015.

Diluted (loss)/earnings per share is the same as the basic (loss)/earnings per share as the Group had no potentially dilutive ordinary shares in issue.

17. Property, Plant and Equipment

	Furniture and fixtures US$'000	Office equipment US$'000	Moulds, tools and machineries US$'000	Leasehold improvements US$'000	Total US$'000
COST					
At 1 January 2015	38	68	8,387	73	8,566
Translation adjustment	(1)	(3)	(471)	(3)	(478)
Additions	–	24	3,242	1,075	4,341
Write-off	–	(10)	–	–	(10)
At 31 December 2015 and 1 January 2016	**37**	**79**	**11,158**	**1,145**	**12,419**
Translation adjustment	**(2)**	**1**	**(644)**	**(68)**	**(713)**
Additions	**1**	**238**	**1,054**	**23**	**1,316**
At 31 December 2016	**36**	**318**	**11,568**	**1,100**	**13,022**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2015	16	45	2,138	7	2,206
Translation adjustment	–	(3)	(156)	(1)	(160)
Depreciation provided	4	12	1,013	30	1,059
Write-off	–	(9)	–	–	(9)
At 31 December 2015 and 1 January 2016	**20**	**45**	**2,995**	**36**	**3,096**
Translation adjustment	**(1)**	**–**	**(193)**	**(5)**	**(199)**
Depreciation provided	**4**	**21**	**1,261**	**144**	**1,430**
At 31 December 2016	**23**	**66**	**4,063**	**175**	**4,327**
NET CARRYING AMOUNT					
At 31 December 2016	**13**	**252**	**7,505**	**925**	**8,695**
At 31 December 2015	17	34	8,163	1,109	9,323

18. Goodwill

	2016	2015
	US$'000	US$'000
Carrying amount at 1 January and 31 December	**563**	563

For the purpose of impairment assessment, goodwill is allocated to the cash-generating unit of manufacturing and sales of power discrete semiconductors within the operating segment of "Sales of power discrete semiconductors" and is tested for impairment, together with other assets, by the management as at the end of each reporting period by estimating the recoverable amount of this cash-generating unit based on value-in-use calculations. The calculations comprise cash flow projections based on the financial budgets approved by the management. The period covered by the financial budgets is three years. Cash flows beyond the three-year period are extrapolated using an estimated growth rate of 3%. Based on the results of the impairment testing, management determines that there is no impairment in respect of this cash- generating unit.

Key assumptions used by the management in the value-in-use calculations of this cash-generating unit include:

	2016	2015
Discount rate (pre-tax)	**16%**	20%
Gross profit margin	**27%–28%**	28%–29%

These assumptions have been determined based on past performance and management's expectations in respect of the market conditions and economy which have impact on the Semiconductor Business. Sales are forecasted with reference to the annual sale plan provided by customers. Gross profit margin is forecasted based on the gross profit margin achieved in prior year adjusted for the expected change in market conditions and taking into account the annual sale plan of customers. The pre-tax discount rate used reflects the specific risks relating to the business and industry in which this cash-generating unit is engaged.

19. Inventories

	2016	2015
	US$'000	US$'000
Raw materials	**1,563**	1,315
Work-in-progress	**2,086**	1,428
Finished goods	**600**	179
	4,249	2,922

20. Trade and Other Receivables, Deposits and Prepayments

	2016 **US$'000**	2015 US$'000
Trade receivables		
Trade receivables	**5,015**	4,184
Less: Provision for impairment	**–**	–
Trade receivables	**5,015**	4,184
Other receivables	**1,221**	1,506
Deposits and prepayments	**127**	180
	6,363	5,870

The Group normally allows a credit period of 30 to 60 days after the month of delivery to its trade customers.

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

	2016 **US$'000**	2015 US$'000
0 to 30 days	**2,201**	1,868
31 to 60 days	**1,828**	1,723
61 to 90 days	**779**	449
Over 90 days	**207**	144
	5,015	4,184

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

	2016 **US$'000**	2015 US$'000
Neither past due nor impaired	**4,730**	3,961
Past due but not impaired:		
Past due for 30 days or below	**285**	106
Past due for 31 to 60 days	**–**	107
Past due for 61 to 90 days	**–**	10
	285	223
	5,015	4,184

20. Trade and Other Receivables, Deposits and Prepayments (Continued)

At the end of the reporting period, management reviews receivables for evidence of impairment on both individual and collective basis.

As at 31 December 2016, trade receivables of US$4,730,000 (2015: US$3,961,000) were neither past due nor impaired. These balances relate to a number of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have good payment record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

21. Cash and Bank Balances

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

22. Trade and Other Payables

	2016 **US$'000**	2015 US$'000
Trade payables	**2,760**	1,272
Other payables and accruals	**1,175**	651
	3,935	1,923

The credit period granted by suppliers is normally 30 to 60 days after the month of delivery.

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

	2016 **US$'000**	2015 US$'000
0 to 30 days	**1,426**	860
31 to 60 days	**1,234**	412
61 to 90 days	**94**	—
Over 90 days	**6**	—
	2,760	1,272

23. Amounts Due from/to Ultimate Holding Company/Fellow Subsidiaries

The amounts due are unsecured, interest-free and repayable on demand.

As of 31 December 2015, there were balances due to fellow subsidiaries amounting to US$1,216,000 which mainly arose from SMC Multi-Media Products Company Limited ("SMC Multi-Media Products"), a fellow subsidiary, providing financing for the operations of SDMM PFC Division. Such amount was reclassified as capital contribution in light of SMC Multi-Media Products confirming its intention not to seek repayment from SDMM PFC Division following the instruction of its ultimate holding company, Shell Electric. Such transaction was a non-cash transaction for the consolidated statement of cash flows for the year ended 31 December 2015.

As mentioned in note 2(b) (Reorganisation step (iv)), PFC Device Holdings issued 7,700,000 preference shares to Shell Electric at a subscription price of US$1.0 per preference share. The consideration was settled by capitalising the amount due by the Group to Shell Electric in the sum of US$7,700,000. Such transaction was a non-cash transaction for the consolidated statement of cash flows for the year ended 31 December 2016.

24. Bank Borrowings

	2016 **US$'000**	2015 US$'000
Current		
Bank loans subject to repayment on demand clause and due for repayment within one year *(note)*	**–**	1,598
Non-current		
Bank loan due for repayment after one year	**5,000**	–
	5,000	1,598

Note: These bank loans are scheduled for repayment within one year after the end of the reporting period. In addition, the related facilities agreement contains a clause that provides the bank with an unconditional right to demand repayment at any time at its own discretion. Accordingly, these bank loans are classified as current liabilities in the consolidated statement of financial position as at 31 December 2015.

The bank loan classified as non-current liabilities as at 31 December 2016 represents a bank loan with principal amount of US$5,000,000 scheduled for repayment in March 2018. The related facilities agreement contains a clause that provides the bank with overriding right to demand repayment at any time after the committed period. The committed period will end in January 2018 and accordingly, this bank loan is classified as non-current liabilities in the consolidated statement of financial position as at 31 December 2016.

The bank loans are denominated in US$ and bearing interest at Hong Kong Inter-Bank Offered Rate or London Inter-Bank Offered Rate adjusted by certain percentage per annum. The annual interest rates of the Group's bank loans as at 31 December 2016 is 1.99% (2015: ranged from approximately 1.52% to 1.62%).

The bank loans as at 31 December 2015 are secured by corporate guarantee from Shell Electric and personal guarantee from Mr. Yung. The bank loan as at 31 December 2016 is secured by the corporate guarantee executed by the Company.

25. Deferred Tax

Details of the Group's deferred tax (assets)/liabilities recognised in respect of temporary differences arising from allowance for inventories and unrealised exchange differences and their movements during the year are as follows:

	Temporary differences US$'000
At 1 January 2015	—
Charged to profit or loss *(note 12)*	14
At 31 December 2015 and 1 January 2016	**14**
Credited to profit or loss *(note 12)*	**(40)**
At 31 December 2016	**(26)**

Represented by:

	2016 US$'000	2015 US$'000
Deferred tax assets	**(26)**	—
Deferred tax liabilities	**–**	14
	(26)	14

As at 31 December 2016, the Group had unused tax losses of approximately US$676,000 (2015: US$1,208,000) available for offset against future profits. No deferred tax assets in respect of these tax losses has been recognised in the financial statements due to the unpredictability of future profit streams.

The tax losses of the subsidiaries incorporated and operating in Hong Kong may be carried forward indefinitely. The tax losses of the subsidiaries established and operating in other regions of the PRC may be carried forward for five years from the financial year when the corresponding loss was incurred.

Deferred tax liabilities of approximately US$10,000 (2015: nil) have not been established for the withholding taxation that would be payable on the unremitted earnings of a PRC subsidiary as at 31 December 2016 as, in the opinion of the directors, it is not probable that this subsidiary will distribute such earnings in the foreseeable future. Such unremitted earnings amounted to approximately US$191,000 as at 31 December 2016 (2015: nil).

26. Share Capital

(a) Share capital in the statement of financial position as at 31 December 2016

The movements in the authorised and issued and fully paid share capital of the Company during the period from 2 March 2016 (date of incorporation) to 31 December 2016 are summarised as follows:

	Par value HK$	Number of ordinary shares	Amount HK$'000
Authorised			
Upon incorporation *(note (i))*	**0.10**	**3,800,000**	**380**
Share Subdivision *(note (iii))*		**34,200,000**	**–**
Increase in authorised share capital *(note (iv))*	**0.01**	**3,762,000,000**	**37,620**
At 31 December 2016	**0.01**	**3,800,000,000**	**38,000**
Issued and fully paid			
Issue of shares upon incorporation *(note (ii))*	**0.10**	**1**	**–**
Share Subdivision *(note (iii))*		**9**	**–**
Issue of shares under Share Swap Agreement *(note (v))*	**0.01**	**13,314,398**	**133**
Placing *(note (vi))*	**0.01**	**400,000,000**	**4,000**
Capitalisation issue *(note (vii))*	**0.01**	**1,186,685,592**	**11,867**
At 31 December 2016	**0.01**	**1,600,000,000**	**16,000**
			US$'000
Presented in the financial statements in US$			**2,062**

Notes:

(i) The Company was incorporated on 2 March 2016 with an authorised share capital of HK$380,000 divided into 3,800,000 ordinary shares of HK$0.10 each.

(ii) Upon incorporation, one share was allotted and issued at par to the initial subscriber and was subsequently transferred to Mr. Yung.

(iii) On 11 March 2016, each of the issued and unissued shares of the Company of par value of HK$0.10 each was subdivided into ten shares of par value of HK$0.01 each. Upon completion of the Share Subdivision, the authorised share capital of the Company has become HK$380,000 divided into 38,000,000 shares of HK$0.01 each. The initial one share of the Company held by Mr. Yung was subdivided into ten shares of HK$0.01 each.

(iv) Pursuant to the resolution passed by the shareholders of the Company on 19 September 2016, the authorised share capital of the Company was increased from HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each to HK$38,000,000 by the creation of an additional 3,762,000,000 new shares.

(v) Pursuant to the Share Swap Agreement as mentioned in note 2(b) (Reorganisation step (vi)), the Company issued a total of 13,314,398 new shares at par, totalling HK$133,000 (equivalent to US$17,000) to the shareholders of PFC Device Holdings in return for their interest in the entire issued share capital of PFC Device Holdings.

26. Share Capital (Continued)

(a) Share capital in the statement of financial position as at 31 December 2016 (Continued)

Notes: (Continued)

(vi) On 7 October 2016, 400,000,000 ordinary shares of the Company at the placing price of HK$0.20 per placing share were allotted and issued (the "Placing"). Among the gross proceeds from the Placing of HK$80,000,000, HK$4,000,000 (equivalent to approximately US$516,000) representing the aggregate par value of shares issued was credited to share capital whereas the remaining balance of HK$76,000,000 (equivalent to approximately US$9,796,000) was credited to share premium account. The share issue expenses which amounted to US$1,106,000 were deducted from share premium account.

(vii) Upon completion of the Placing, the issue of 1,186,685,592 ordinary shares of the Company at par to the Company's shareholders in proportion to their respective shareholdings by way of capitalising an amount of approximately HK$11,867,000 (equivalent to approximately US$1,529,000) from the share premium account of the Company which was approved by the shareholders of the Company on 19 September 2016 has become unconditional (the "Capitalisation Issue").

(b) Share capital in the consolidated statement of financial position

The share capital in the consolidated statement of financial position as at 1 January 2016 and 31 December 2016 amounting to US$5,628,00 and US$2,062,000 respectively represented the issued share capital of PFC Device Holdings. The movements of the balance during the year ended 31 December 2016 comprise the followings:

(i) As mentioned in note 2(b) (Reorganisation step (ii)), 553,255 PFC Share Options were exercised and PFC Device Holdings had issued an aggregate of 553,255 PFC Option Shares at par, totalling US$553,000. Further details about the exercise of the PFC Share Options are set out in note 28(a).

(ii) PFC Device Holdings recognised a financial liability of US$553,000 pursuant to the Share Repurchase Agreements dated 19 February 2016 as detailed in note 29. The corresponding amount was debited to share capital account. Such financial liability was subsequently reversed with the corresponding amount being credited to share capital account. Further details about the share repurchase arrangement are set out in note 29.

(iii) As mentioned in note 2(b) (Reorganisation step (iv)), PFC Device Holdings allotted and issued 7,700,000 preference shares to Shell Electric at par of US$1.0 per preference share pursuant to the subscription agreement dated 14 September 2016.

(iv) As a result of the Share Swap as mentioned in note (a)(v) above, the difference between the share capital of PFC Device Holdings and the Company amounting to US$13,864,000 was transferred as to US$13,286,000 to the share premium account and US$578,000 to the merger reserve.

(v) In connection with the Placing and Capitalisation Issue as mentioned in note (a)(vi) and (vii) above, the Company issued a total of 1,586,685,592 new shares with aggregate per value of US$2,045,000.

27. Reserves

The Group

The following describes the nature and purpose of reserves within owner's equity.

(a) Share premium

Share premium is the excess of the proceeds received over the nominal value of the shares issued at a premium, less expenses incurred in connection with the issue of the shares.

(b) Share option reserve

Share option reserve comprises the cumulated expenses recognised on granting of share options over the vesting period and is dealt with in accordance with the accounting policy in note 4.14.

(c) Merger reserve

Merger reserve arose from combining the financial statements of the companies now comprising the Group following the basis of accounting as described in note 2(b).

(d) Capital contribution

Capital contribution as at 31 December 2016 and 2015 amounting to US$1,247,000 arose from (i) capitalisation of tax recharge by SMC Multi-Media Group on SDMM PFC Division amounting to US$31,000 as set out in note 12; and (ii) capitalisation of balances due to fellow subsidiaries amounting to US$1,216,000 as set out in note 23.

(e) Translation reserve

Translation reserve comprises all foreign exchange difference arising from the translation of the financial statements of foreign operations in accordance with the accounting policy in note 4.12.

(f) Accumulated losses

Accumulated losses are the cumulative net gains and losses recognised in profit or loss.

The Company

Details of the movements in the Company's reserves during the period from 2 March 2016 (date of incorporation) to 31 December 2016 are as follows:

	Share premium US$'000	**Accumulated losses US$'000**	**Total US$'000**
Loss and total comprehensive income for the year	**–**	**(2,651)**	**(2,651)**
Share Swap	**13,375**	**–**	**13,375**
Issue of shares for			
— Placing *(note 26(a)(vi))*	**9,796**	**–**	**9,796**
— Capitalisation Issue *(note 26(a)(vii))*	**(1,529)**	**–**	**(1,529)**
Share issuance expenses *(note 26(a)(vi))*	**(1,106)**	**–**	**(1,106)**
At 31 December 2016	**20,536**	**(2,651)**	**17,885**

The difference between the investment cost of PFC Device Holdings amounting to US$13,392,000 and the shares issued by the Company for the Share Swap at par totaling HK$133,000 (equivalent to US$17,000) which amounted to US$13,375,000 is credited to the share premium account of the Company.

28. Share-Based Payment Arrangements

(a) Share option scheme of PFC Device Holdings

PFC Device Holdings operated a share option scheme, that is, PFC Option Plan, for the purpose of providing incentives and rewards to eligible participants who have contributed and continue to contribute to the success of its operations. Eligible participants of the PFC Option Plan include the directors, employees and consultants of PFC Device Holdings and any of its parents or subsidiaries. The PFC Option Plan was adopted on 8 December 2014 and shall continue in effect for a term of 10 years from the later of (a) the effective date of PFC Option Plan, or (b) the earlier of the most recent approval from the board or shareholder of an increase in the number of shares reserved for issuance under PFC Option Plan.

The maximum number of common shares of PFC Device Holdings that may be subject to the grant of options under the PFC Option Plan is 4,895,000 common shares. The exercise price per subscription share is determined by the administrator of the PFC Option Plan (the "Administrator") when options are granted.

The exercise period, the vesting schedule and the vesting commencement date of the options are determined by the Administrator. On 7 January 2015, an aggregate of 615,755 PFC Share Options were granted which shall vest based on the following mechanism: 25% on the 1st anniversary of the vesting commencement date, and one forty-eight (1/48th) shall vest each month thereafter, subject to the participants continuing to be a service provider through each such date. In effect, 25% of PFC Share Options shall vest by the end of the 1st year after the vesting commencement date, and 25% shall vest by the end of the 2nd year, the 3rd year and the 4th year respectively. Due to the vesting commencement date of most of the staff had commenced before the grant date of the PFC Share Options, following the vesting mechanism as set out above, majority of the PFC Share Options were vested on the grant date.

The fair value of the options granted on 7 January 2015 was US$99,000, of which US$96,000 was charged to profit or loss for the year ended 31 December 2015 as employee benefit expenses (note 13). Such fair value was estimated at the date of grant using Black Scholes Model taking into account the terms and conditions of the options granted. The following table shows the significant inputs used in the model:

	Lot 1	**Lot 2**
Dividend yield	0%	0%
Historical volatility	30.913%	38.331%
Risk-free interest rate	0.2566%	1.2226%
Expected life of option	1.12 years	3.73 years

The historical volatility of a combination of companies of similar nature were used to estimate the historical volatility of the shares of PFC Device Holdings.

28. Share-Based Payment Arrangements (Continued)

(a) Share option scheme of PFC Device Holdings (Continued)

The movements of the share options granted under PFC Option Plan during the years ended 31 December 2016 and 2015 are as follows:

				Number of options				
		Date of grant	**Exercise price**	**As at 1 January 2016**	**Granted during the year**	**Exercised during the year**	**Cancelled during the year**	**As at 31 December 2016**
Directors								
Mr. Chow	Executive director	7 January 2015	US$1	**30,000**	**–**	**(30,000)**	**–**	**–**
Mr. Hong	Executive director	7 January 2015	US$1	**114,556**	**–**	**(106,223)**	**(8,333)**	**–**
Employees		7 January 2015	US$1	**421,199**	**–**	**(417,032)**	**(4,167)**	**–**
				565,755	**–**	**(553,255)**	**(12,500)**	**–**

				Number of options				
		Date of grant	Exercise price	As at 1 January 2015	Granted during the year	Exercised during the year	Forfeited during the year	As at 31 December 2015
Directors								
Mr. Chow	Executive director	7 January 2015	US$1	–	30,000	–	–	30,000
Mr. Hong	Executive director	7 January 2015	US$1	–	114,556	–	–	114,556
Employees		7 January 2015	US$1	–	471,199	–	(50,000)	421,199
				–	615,755	–	(50,000)	565,755

28. Share-Based Payment Arrangements (Continued)

(a) Share option scheme of PFC Device Holdings (Continued)

The exercise price of the options outstanding as at 31 December 2015 was US$1 and their weighted average remaining contractual life was 9 years. Out of the total number of options outstanding as at 31 December 2015, 552,630 options were vested and exercisable (i) upon a change of control or an initial public offering, including such period of time prior to or following either event as determined by the Administrator in its sole discretion, or (ii) at such other times as the Administrator shall determine in its discretion.

On 15 February 2016, PFC Device Holdings served a written notice to inform the eligible grantees to exercise the PFC Share Options not later than 19 February 2016. As of 19 February 2016, 553,255 vested PFC Share Options had been exercised and the eligible grantees had subscribed for an aggregate of 553,255 PFC Option Shares. The gross proceeds of US$553,000 was credited to the share capital account of PFC Device Holdings whereas the fair value attributable to those exercised PFC Share Options at the date of grant which has been recognised in the share option reserve amounting to US$89,000 was transferred to the share premium account.

The incremental fair value of the share-based payment arrangements in respect of the PFC Share Options as a result of the share buyback as mentioned in note 29 is trivial and such incremental fair value is determined using basis consistent with that adopted on the date of grant of the PFC Share Options.

Pursuant to the written resolutions passed by the board of directors of PFC Device Holdings dated 15 March 2016, the PFC Option Plan has been terminated with effect from 19 February 2016 and those options remained unexercised on 19 February 2016 were cancelled and the recognition of share-based payment expense for those cancelled options amounting to US$2,000 was accelerated in profit or loss for the year ended 31 December 2016 with the corresponding amount being recognised in share option reserve. Upon termination of the PFC Option Plan, the balance of share option reserve amounting to US$2,000 was transferred to accumulated losses.

As at 31 December 2015, there were 565,755 outstanding options under the PFC Option Plan. The exercise in full of these outstanding share options would result in issue of additional 565,755 common shares of PFC Device Holdings. The PFC Option Plan was terminated on 19 February 2016 and accordingly, there was no outstanding option under this plan as at 31 December 2016.

(b) Share option scheme of the Company

Pursuant to resolutions passed by the shareholder of the Company on 19 September 2016, the adoption of the share option scheme of the Company was approved. The share option scheme of the Company enables the Company to grant options to eligible persons as incentives or rewards for their contributions or potential contribution to the Group.

The share option scheme of the Company will be valid and effective for a period of 10 years commencing from 19 September 2016. No share option has been granted under the share option scheme of the Company since its adoption.

29. Share Repurchase

On 19 February 2016, PFC Device Holdings entered into share repurchase agreements ("Share Repurchase Agreements") with certain shareholders who had exercised on the same date the PFC Share Options. Pursuant to the Share Repurchase Agreements, subject to certain conditions including the Listing, PFC Device Holdings shall repurchase the shares issued to those parties, that are the PFC Option Shares, as a result of exercising their PFC Share Options. The Share Repurchase Agreements create an obligation on PFC Device Holdings and accordingly, the Group has recognised a financial liability of US$553,000 in the financial statements. Such financial liability has been de-recognised subsequently in light of the listing of the Company's shares on GEM has become successful on 7 October 2016. The PFC Option Shares were subsequently swapped with the shares of the Company under the Share Swap as mentioned in note 2(b) (Reorganisation step (vi)).

30. Holding Company Statement of Financial Position

	Notes	**2016** **US$'000**
ASSETS AND LIABILITIES		
Non-current assets		
Investment in a subsidiary		**13,392**
Current assets		
Other receivables, prepayments and deposits		**24**
Cash and bank balances		**7,738**
		7,762
Current liabilities		
Other payables and accruals		**98**
Amounts due to subsidiaries		**1,109**
		1,207
Net current assets		**6,555**
Net assets		**19,947**
CAPITAL AND RESERVES		
Share capital	*26(a)*	**2,062**
Reserves	*27*	**17,885**
Total equity		**19,947**

On behalf of the directors

Chow Kai Chiu, David	**Hong James Man-Fai**
Director	*Director*

31. Operating Lease Commitments

Operating leases commitments — The Group as lessee

The Group leases factory, office premises and staff quarters under operating lease arrangement with leases negotiated for initial period ranging from one to two years (2015: one to five years). The total future minimum lease payments under these leases are due as follows:

	2016 **US$'000**	2015 US$'000
Within one year	**258**	321
Later than one year and not later than five years	**19**	410
	277	731

32. Capital Commitments

	2016 **US$'000**	2015 US$'000
Commitments for acquisition of property, plant and equipment		
— Contracted for but not provided	**118**	49

33. Related Party Transactions

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

(a) During the year, the Group entered into the followings significant transactions with related parties:

Name	Related party relationship	Type of transaction	Transaction amount 2016 US$'000	Transaction amount 2015 US$'000
Shell Electric *(note (i))*	Ultimate holding company	Rental and building management fee charged by the related party for office premises	**27**	–
SMC Multi-Media Group *(note (ii))*	Fellow subsidiaries	Recharge of factory related expenses by related parties *(note 2(b) & note (v))*	**–**	49
SMC Multi-Media Group *(note (ii))*	Fellow subsidiaries	Recharge of administrative staff costs and other operating expenses by related parties *(note 2(b))*	**–**	129
SMC Multi-Media Group *(note (ii))*	Fellow subsidiaries	Sales of finished goods to related party	**13**	16
Shunde Multi-Media *(note (ii))*	Fellow subsidiary	Purchase of machineries, equipment and inventories from related party *(note (iv))*	**–**	9,709
Shunde Multi-Media *(note (ii))*	Fellow subsidiary	Rental and building management fee charged by the related party for production workshop with office facilities and staff dormitory *(note (v))*	**148**	33
Shunde Multi-Media *(note (ii))*	Fellow subsidiary	Fee charged by the related party for provision of catering services	**5**	–
業盈置業(深圳)有限公司 (Ye Ying Property (Shenzhen) Company Limited*) *(note (iii))*	Fellow subsidiary	Rental charged by the related party for office premises	**38**	43
迅速資產管理(深圳)有限公司 (Xun Su Asset Management (Shenzhen) Limited*) *(note (iii)*	Fellow subsidiary	Rental charged by the related party for office premises	**23**	–
Amei Technology Corporation *(note (vi))*	A key management and shareholder have equity interest	Consultancy fee to related party	**–**	140

33. Related Party Transactions (Continued)

(a) (Continued)

* *for identification purposes only*

Notes:

(i) Shell Electric is the ultimate holding company of the Group. Mr. Yung, a non-executive director of the Company, is the ultimate beneficial owner of Shell Electric.

(ii) SMC Multi-Media Group comprises SMC Multi-Media Products and its subsidiaries, including Shunde Multi-Media which are subsidiaries of Shell Electric.

(iii) Ye Ying Property (Shenzhen) Company Limited and Xun Su Asset Management (Shenzhen) Company Limited are an indirect wholly-owned subsidiaries of Shell Electric.

(iv) As mentioned in note 2(b) (Reorganisation step (i)), on 8 September 2015 and on 31 December 2015, Shunde Multi-Media entered into agreements with PFC Device (GD) for the transfer of the machineries, equipment and inventories as recorded in the books of SDMM PFC Division to PFC Device (GD) at aggregate consideration of RMB63,047,677 (equivalent to approximately US$9,709,000). The consideration for the Transfer was determined with reference to the net carrying values of these assets at the date of transfer.

(v) As mentioned in note (iv) above, upon completion of the Transfer by 31 December 2015, the production of power discrete semiconductors is conducted by PFC Device (GD) instead of SDMM PFC Division. In connection to this, on 30 September 2015, PFC Device (GD) entered into agreements with Shunde Multi-Media for leasing of production workshop with office facilities. Accordingly, SMC Multi-Media Group has no longer allocated factory related expenses to the Semiconductor Business starting from 1 January 2016. In addition, the Group incurred capital expenditure on leasehold improvements on the production workshop of Shunde Multi-Media, part of which is not occupied by the Group. The rental charged by Shunde Multi-Media has been determined taking into account the capital expenditure.

(vi) Mr. Chang Chung Chen, Paul, key management and a shareholder of the Company, have equity interest in Amei Technology Corporation.

The transactions were conducted on mutually agreed terms.

(b) For the year ended 31 December 2015, certain subsidiaries of Shell Electric, including the subsidiaries engaging in the Semiconductor Business, shared the banking facilities (the "Shared Facilities") granted by a bank. The Shared Facilities are subject to a corporate guarantee provided by Shell Electric and a personal guarantee provided by Mr. Yung.

During the year ended 31 December 2016, the Shared Facilities were terminated and separate banking facilities have been granted to the Group (the "PFC Facilities"). The PFC Facilities are secured by corporate guarantees provided by the Company.

33. Related Party Transactions (Continued)

(c) Compensation of key management personnel:

The remuneration of directors and other members of key management were as follows:

	2016 **US$'000**	2015 US$'000
Salaries, allowances and other benefits	**544**	502
Share-based payment expense	**2**	85
Contributions to defined contribution retirement plan	**12**	13
	558	600

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 and to maintain an optimal capital structure to reduce the cost of capital and to support the Group's financial stability and growth.

The Group monitors its capital structure on the basis of gearing ratio that is, net debt to equity. Net debt includes borrowings and advances from group companies except for those which would subsequently be capitalised, less cash and bank balances. Equity represents total equity of the Group.

The directors of the Company actively and regularly reviews and manages 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 dividend payment to shareholders, issue new shares, return capital to shareholders, raise new debts or sells assets to reduce debt.

34. Capital Management (Continued)

The gearing ratios as at the end of the reporting period are as follows:

	2016 US$'000	2015 US$'000
Bank borrowings	**5,000**	1,598
Amounts due to fellow subsidiaries	**60**	12,202
Less: cash and bank balances	**(11,170)**	(2,806)
Net debt	**N/A**	10,994
Total equity	**22,220**	5,471
Gearing ratio	**N/A**	2.01

The Group strives to reduce gearing ratio and targets to maintain a gearing 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 year.

35. Summary of Financial Assets and Financial Liabilities by Category

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

	2016 US$'000	2015 US$'000
Financial assets		
Loans and receivables		
— Trade and other receivables	**5,015**	4,202
— Amount due from a fellow subsidiary	**2**	—
— Cash and bank balances	**11,170**	2,806
	16,187	7,008
Financial liabilities		
Financial liabilities at amortised cost		
— Trade and other payables	**3,899**	1,912
— Amount due to ultimate holding company	**—**	52
— Amounts due to fellow subsidiaries	**60**	12,202
— Bank borrowings	**5,000**	1,598
	8,959	15,764

35. Summary of Financial Assets and Financial Liabilities by Category (Continued)

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and other receivables, cash and bank balances, trade and other payables, bank borrowings and balances with related companies. Due to their short-term nature, the carrying values of these financial instruments except for the non-current bank borrowings approximates their fair values.

The fair value of the non-current bank borrowings for disclosure purposes has been determined using discounted cash flow model and is classified as level 3 in the fair value hierarchy. Significant inputs include the discount rate used to reflect the credit risk of the Group. In the opinion of the directors, the carrying value of non-current bank borrowings approximates its fair value.

(b) Financial instruments measured at fair value

As at 31 December, 2015 and 2016, the Group did not have any financial instruments measured at fair value and accordingly, no analysis on fair value hierarchy is presented.

36. Financial Risk Management

The Group's activities expose it to a variety of financial risks which comprise market risk (including currency risk and interest rate risk, credit 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 the key management under the policies approved by the board of directors. The Group does not have written risk management policies. However, the directors of the Company 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) Currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in Hong Kong, the PRC and Taiwan. The functional currency of the Company and its subsidiaries are mainly US$, RMB and Taiwan dollars ("TWD") with certain of their business transactions being settled in US$, RMB and HK$. The Group is thus exposed to currency risk arising from fluctuations on foreign currencies, primarily US$, RMB and HK$, against the functional currency of the Company and the relevant group entities. Currently the Group does not have foreign currency hedging policy but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group continues to conduct its sales mainly in US$ and TWD and make payments either in US$, HK$, RMB or TWD. The directors closely monitor the volatility of the exchange rates of US$ against RMB and TWD, to which the Group has major exposure. All in all, the Group's risk exposure to foreign exchange rate fluctuations remains not material.

36. Financial Risk Management (Continued)

(a) Currency risk (Continued)

The overall exposure in respect of the carrying amounts of the Group's foreign currency denominated financial assets and liabilities in net position as at the end of the reporting period were as follows:

	2016 **US$'000**	2015 US$'000
Net monetary assets denominated in foreign currency		
US$	**4,460**	3,090

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 balances denominated in HK$ or US$ are excluded from the Group's net position in the above table. 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 US$ against the functional currencies of RMB and TWD on the Group's net asset position denominated in US$ as at the end of the reporting period (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material):

	Decrease in loss/Increase in profit for the year and decrease in accumulated losses	
	2016 **US$'000**	2015 US$'000
US$ appreciated by 5% (2015: 5%)	**184**	131

The changes in the exchange rates do not affect the Group's other components of equity. The same percentage depreciation in US$ against the functional currencies of the respective group companies would have the same magnitude on the result of the Group but of opposite effect.

(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 income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk mainly arises from bank borrowings and bank deposits.

Bank borrowings arranged at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. All of the Group's bank borrowings at the end of the reporting period bore interest at variable rates. The interest rates and repayment terms of the bank borrowings outstanding at the end of the reporting period are disclosed in note 24.

36. Financial Risk Management (Continued)

(b) Interest rate risk (Continued)

The Group's bank balances also expose it to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on the bank balances. The directors of the Company consider the Group's exposure to interest rate risk in respect of bank balances is not significant as interest-bearing bank deposits are within short maturity periods in general.

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

	2016 **US$'000**
(Increase)/Decrease in loss for the year and accumulated losses	
+50 basis point ("bp")	**(25)**
−10 bp	**5**

	2015 US$'000
(Decrease)/Increase in profit for the year and (increase)/decrease in accumulated losses	
+50 bp	(8)
−10 bp	2

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. The assumed changes in 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.

36. Financial Risk Management (Continued)

(c) 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 exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and from its investing activities.

The Group limits its exposure to credit risk by rigorously selecting the counterparties and to deal with creditworthy counterparties. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Credit terms are granted to new customers after creditworthiness assessment. The Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually and collectively at the end of each reporting period to ensure that adequate impairment provision is made for irrecoverable amounts.

Credit risk on bank balances is mitigated as cash is deposited in reputable banks.

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

(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 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 liquidity policies have been followed by the Group since prior years and are considered to have been effective in managing liquidity risk.

The following table below analyses the remaining contractual maturities of the Group's financial liabilities at the end of the reporting period which are based on contractual undiscounted cash flows (interest payments computed using contractual rates or, if floating, based on rate current at the end of reporting period) at the earliest date the Group may 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 loans with immediate effect. The maturity analysis for other financial liabilities is prepared based on the scheduled repayment dates.

36. Financial Risk Management (Continued)

(d) Liquidity risk (Continued)

	Within one year or on demand US$'000	**One to Two years US$'000**	**Total contractual undiscounted cash flows US$'000**	**Carrying amount US$'000**
As at 31 December 2016				
Trade and other payables	**3,899**	**–**	**3,899**	**3,899**
Amount due to a fellow subsidiary	**60**	**–**	**60**	**60**
Bank loans	**101**	**5,020**	**5,121**	**5,000**
	4,060	**5,020**	**9,080**	**8,959**
As at 31 December 2015				
Trade and other payables	1,912	–	1,912	1,912
Amount due to ultimate holding company	52	–	52	52
Amounts due to fellow subsidiaries	12,202	–	12,202	12,202
Bank loans subject to repayment on demand clause	1,598	–	1,598	1,598
	15,764	–	15,764	15,764

The following table summaries the maturity analysis of bank loans with repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. Taking into account the Group's financial position, the directors do not consider that it is probable that the banks 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.

	Within one year or on demand US$'000	**Total contractual undiscounted cash flows US$'000**	**Carrying amount US$'000**
As at 31 December 2015			
Bank loans	1,601	1,601	1,598

As at 31 December 2016, none of the Group's borrowings are subject to repayment on demand clause.

FINANCIAL SUMMARY

For the year ended 31 December 2016

A summary of results and of assets and liabilities of the Group for the last three financial years, as extracted from the audited financial statements in this annual report and the prospectus of the Company, is as follows:

Results

	For the year ended 31 December		
	2016	2015	2014
	US$'000	US$'000	US$'000
Revenue	**22,840**	18,095	16,221
Profit before income tax	**390**	1,136	1,739
Income tax expense	**(472)**	(449)	(183)
(Loss)/Profit for the year	**(82)**	687	1,556

Assets and Liabilities

	As at 31 December		
	2016	2015	2014
	US$'000	US$'000	US$'000
Total assets	**31,514**	21,588	14,456
Total liabilities	**(9,294)**	(16,117)	(10,736)
Net assets	**22,220**	5,471	3,720