You should read the following discussion and analysis of the financial condition and results of operations together with the combined financial statements as at and for each of the years ended 31 December 2008, 2009 and 2010, and in the six months ended 30 June 2011 and the accompanying notes included in the accountants' report set out in Appendix I to this prospectus. The accountants' report has been prepared in accordance with HKFRS. Potential investors should read the whole of the accountants' report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk factors" in this prospectus.

OVERVIEW

The Group is an electronics manufacturer of video graphics cards for desktop PCs. The Group is principally engaged in the design, development and manufacture of video graphics cards. Video graphics cards are the core product and revenue driver of the Group during the Track Record Period. The Group also provides EMS as well as manufactures other PC related products.

The Group manufactures video graphics cards for AMD on OEM basis, for Sapphire on both OEM and ODM bases and for other computer products manufacturers, such as Hon Hai Precision on both OEM and ODM bases. In addition, the Group also manufactures or sells video graphics cards under its own ZOTAC, Inno3D and Manli brands.

The Group provides EMS to some of the world's brand owners, among which, the Group manufactures computer base units of POS and ATM systems for a POS and ATM provider and flash memory modules for a flash memory modules provider. The Group also manufactures Internet Media Tablets and other electronic products for its customers.

The Group manufactures and sells other PC related products such as mini-PCs and motherboards under its own ZOTAC and/or Manli brands as well as deriving revenue from trading of other PC related products and components.

The Directors believe that the success of the Group's business is attributable to the high quality products manufactured by the Group, which are testimonial to the product design, product development and engineering skills possessed by the Group's research and development team. The Group's relationships with NVIDIA and AMD, the two dominating suppliers of discrete GPUs in the world, have enabled the Group to develop high performance and cost-competitive products and solutions to serve its customers.

The Group is headquartered in Hong Kong, and operates two factories in Dongguan, the PRC, with SMT, COB and A&T production lines installed with advanced machinery and equipment. More details of how the Group manages the production are set forth in the section headed "Business — Production Process" of this prospectus. As at 31 October 2011, the Group employed 5,339 staff in Dongguan.

Recent economic conditions

The Group's sales in the European markets has shown a declining trend from 1 July 2011 to 31 October 2011, based on the Group's unaudited management accounts. The cause may be due to the recent economical condition in the European Union countries. On the other hand, the US market continued to show growth in the period from 1 July 2011 to 31 October 2011, based on the Group's unaudited management accounts.

The recent financial uncertainties in the US and the European Union countries, the fluctuation in exchange rates in the money market, the availability of credits in the global lending markets and a general deterioration in economic confidence may increase costs for the Group, which is operating a low margin business and have an adverse impact on the Group's operations and financial performance.

Based on the Group's unaudited management accounts, the Group's monthly average sales revenue derived from the European Union countries from 1 July 2011 to 31 October 2011 experienced a decrease compared to that in the first six months of 2011; while the monthly average sales revenue in the US from 1 July 2011 to 31 October 2011 recorded an increase as compared with that in the first six months of 2011. The Group is selling and distributing products globally. The Group's monthly average sales revenue for the four months ended 31 October 2011 is slightly lower than the monthly average sales revenue in the first six months of 2011, based on the Group's unaudited management accounts. Accordingly, the increase in sales revenue from other geographic areas over the same period has to a large extent offset the said decrease in the sales revenue from the European Union countries.

Almost all of the Group's sales are denominated in the US dollar, which is pegged to the Hong Kong dollar, the exchange rate risks between the US dollar and Hong Kong dollar is minimal. Continuous appreciation of the RMB would have adverse impact on the Group's costs of production in the PRC. The increased costs may not be fully passed onto customers through price increases. The Company is working to streamline the operational processes and planned to upgrade the ERP system to increase the operational efficiency and to achieve savings.

The Group has not experienced any reduction in its banking facilities provided. Since Hong Kong is the treasury hub for the Group and the Group has no borrowing in other countries such as the PRC, the US, and the European Union countries. The tightening of credit in the PRC, the US, and the European Union countries would have an indirect impact to the Group since both its customers and suppliers may rely on borrowings from these countries and regions. Corporate failures of suppliers would adversely affect the Group's operations. The Group has alternative supplies of the majority of the materials and components so as to reduce the risk in the event of corporate failures of suppliers. Corporate failures of customers would adversely affect the Group's financial performance. The Group has taken out credit insurance to cover 57%, 49%, 48% and 56% of outstanding trade receivables as at 31 December 2008, 2009, 2010, and 30 June 2011, respectively. The Group is closely monitoring the credit risk and exercising tight credit control to minimise the credit risk which could adversely affect the Company's financial performance.

A general deterioration in economic confidence may also have an adverse impact on the Group's operation and financial performance especially in the peak season of PC Partner (the most important subsidiary of the Group in terms of sales and revenue) in the fourth quarter of 2011. For the years ended 31 December 2009 and 2010, sales in the fourth quarter represented 31% and 32% of total annual sales revenue for the respective years. The general deterioration in economic confidence may have an adverse impact on the traditional peak season of PC Partner in the fourth quarter of 2011, which may in turn have an adverse impact on the operations and financial performance of the Group.

Absence of new GPU launches by AMD would adversely affect the Group's operations and financial performance. For the six months ended 30 June 2010 and 2011, sales revenue and sales volume in respect of AMD and Sapphire in aggregate has declined by 19.6% and 21.8%, respectively. The Group is able to reduce the risk on reliance of one single GPU provider since sales decline in AMD and Sapphire due to lack of new product launch could be offset by increasing the business of its own brands of video graphics cards. For the six months ended 30 June 2011, sales revenue and sales volume in respect the Group's own brands of video graphics cards has increased by approximately 19.2% and 15.1%, respectively over the same period in 2010.

The Group's negative cashflow from operating activities for the six months ended 30 June 2011 was resulted from, firstly, short credit terms offered by new suppliers in respect of the EMS manufacturing of Internet Media Tablets and, secondly, the settlement of import loans for the period. The Directors believe the Group would not move in a way that would adversely affect the Group's working capital requirements and the Group is taking steps to negotiate with the said new suppliers to provide longer credit terms in order to improve its cashflow on the operations.

The Group is managing its cash and capital on the basis of capital efficiency and effective risk management to support the dividend policy and earnings per share growth. The Group seeks to maintain sufficient financial strength to support both the operation's needs and new business development, and being able to satisfy the requirements of the bank covenants for granting its subsidiaries with banking facilities. The Group has set a target on maintaining the gearing ratio at below 100% and has taken steps to optimise the debt to equity structure to enhance the returns to shareholders. The Group retained financial flexibility by maintaining the gearing ratio below 100% and also retained a certain level of head-room in banking facilities to support future business growth. The Group will continue to improve the capital efficiency and earnings to service its indebtedness and maintain sufficient cash on hand as future cash requirement. During the Track Record Period, the Group complied with the said target. Please refer to the section headed "Financial information — Debt to equity ratio" in this prospectus for further information.

BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 1 April 2010 with limited liability. Upon the completion of the Reorganisation, the Company became the holding company of the subsidiaries now comprising the Group. The Reorganisation involved business combinations of entities under common control before and immediately after the Reorganisation. Consequently, immediately after the Reorganisation, there was a continuation of the risks and benefits to the controlling parties that existed prior to the Reorganisation. The Group is regarded and accounted for as a continuing group resulting from the Reorganisation since all of the entities which took part in the Reorganisation were under common control in a manner similar to pooling of interests. Accordingly, the combined financial information of the Group has been prepared on a combined basis by applying the principles of merger accounting in accordance with the Accounting Guideline No. 5 ("AG5"), "Merger Accounting for Common Control Combination" issued by the Hong Kong Institute of Certified Public Accountants.

The combined financial information has been prepared in accordance with HKFRSs.

The combined financial information has been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values. The combined financial information is presented in Hong Kong dollars, which is the same as the functional currency of the Company. The principal accounting policies of the Group have been consistently applied throughout the Track Record Period.

FACTORS AFFECTING RESULTS OF OPERATIONS

The Group believes that its financial condition, results of operations and the period to period comparability of its financial results are principally affected by a number of factors, which includes the following:

Acquisition of the Businesses of ASK Technology and Manli Technology

As part of the Group's business strategy to expand its business channels to develop its own branded products, the Group set up two subsidiaries, ASK Group and Manli Group in April 2008, to acquire the businesses of ASK Technology and Manli Technology. As a result of this strategic move, its results of operations starting from April 2008 are directly affected by the performance and profitability of ASK Group and Manli Group.

Other than sales of own branded products, ASK Group and Manli Group also engage in the ODM/OEM contract manufacturing business, which contributed about 29% of their total revenue during the Track Record Period.

As the Group's target customers for its Manli video graphics cards is the mainstream segment, Inno3D video graphics cards is the performance segment, the performance and profitability of ASK Group and Manli Group are influenced by several factors that include: the market demand for these products, which are determined by the prices of these products, the fluctuation in prices of the raw materials required for production, which mainly consist of the fluctuating prices of GPUs and RAM, and the margin between the prices of its products and the cost of procurement of the raw materials.

For the years ended 31 December 2008, 2009, 2010 and for the six months ended 30 June 2011, revenue generated by ASK Group and Manli Group represented 15%, 20%, 14% and 12% the Group's total revenue respectively, which contributed significant portion of the Group's turnover. Therefore, performance of these two subsidiaries have material impact on the overall sales performance of the Group.

Introduction of its ZOTAC Brand

As part of the Group's strategy to expand its business channels into developing, producing and distributing its own branded products, the Group developed and launched the ZOTAC brand in the second quarter of 2007. Other than serving the customers in China and APAC region by the Group's existing network, the Group set up two new subsidiaries: Zotac Nevada, which serves the target market in the NALA region and Zotac Macao, which serves the target markets mainly in EMEAI regions in late 2007 and late 2006. As a result of this strategic move, its results of operations during the Track Record Period were directly affected by the performances and profitability of its ZOTAC products. Likewise, its performance influenced by the market demand of its ZOTAC products, the volatility in prices of the raw materials required for production, which mainly include the fluctuating prices of GPUs and RAM, and the margin between the prices of its products and the cost of procurement of the raw materials. As such, the Group conducts weekly internal meetings to review market prices and inventory levels of RAM to determine the necessary adjustments to prices of ZOTAC finished goods.

For the years ended 31 December 2008, 2009, 2010 and for the six months ended 30 June 2011, revenue from sales of ZOTAC products represented 17%, 23%, 27% and 29% of the Group's total revenue, respectively. The increase in concentration percentage of total revenue from sales of ZOTAC products underlines the increasing importance and influence ZOTAC products have on the overall sales performance of the Group.

Production volume of its products

With the increasing expansion of the Group's new business into selling and distributing of its own branded products, the Group has seen an overall significant increment in total production units of its products, mainly video graphics cards. During the three years ended 31 December 2010, production volumes were increased from approximately 8.9 million units in 2008 to approximately 11.0 million units in 2009, and then to approximately 12.2 million units in 2010. The production volumes were approximately 5.4 million units for the six months ended 30 June 2011.

As a result of increase in production volume and thus improving economies of scale of the Group from 2008 to 2010, the gross profit margin of the Group's core business, namely, the ODM/OEM contract manufacturing business, was increased accordingly.

Investment in Sapphire Global Holdings Limited

During the Track Record Period, Sapphire allotted new shares to its shareholders. As aligned with the Group's strategy to further expand its business channels and focus its resources to the selling and distribution of its own branded products, the Group decided not to pursue the maintenance of the same percentage equity interest in Sapphire. As a result, its equity interest in Sapphire was diluted from 40% in 2007 to 18.18% in January 2008, and further diluted to 4.95% in August 2010.

Dividends from Sapphire contributed to the results of the Group's operations and profitability.

After the dilution of its equity interest and loss of its significant influence in Sapphire in January 2008, the Group's equity interest in Sapphire accounted for as available-for-sale investments. As a result, the Group no longer account for share of associates profits from Sapphire that was previously attainable at the end of each financial year since 2008, and will only enjoy returns from Sapphire upon receipt of dividends.

For the years ended 31 December 2008, 2009, 2010 and for the six months ended 30 June 2011, the Group recorded approximately HK$1.3 million, HK$Nil, HK$31 million and HK$Nil of dividends from Sapphire, respectively.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of the Group's operating results and financial condition are based on the combined financial information, which has been prepared in accordance with HKFRSs. The Group's operating results and financial condition are sensitive to the accounting methods, assumptions and estimates. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of other policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the combined financial information. The significant accounting policies are summarized in note 4 in "Appendix I — Accountants' Report" in this prospectus. The Group believes that the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the combined financial statements.

Impairment of property, plant and equipment

The Group tests annually whether property, plant and equipment have suffered any impairment. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to profit or loss.

Useful lives of property, plant and equipment and intangible assets

The Group's management determines the estimated useful lives, and related depreciation and amortisation charges for its property, plant and equipment and intangible assets. The estimates are based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. Management will increase the depreciation and amortisation charges where useful lives are less than previously estimated lives. It will write off or writedown 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 and amortisation lives and therefore affect the depreciation and amortisation charges in future periods.

Impairment of available-for-sale investments

The Directors review available-for-sale investments at the end of each reporting period to assess whether they are impaired. The Group records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the directors evaluate, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

Provision for obsolete inventories

The management estimates the net realisable value of inventories based primarily on the latest market prices and current market conditions. The Group carries out an inventory review at the end of each period and makes allowance on obsolete and slow moving items to write off or write down inventories to their net realisable values. Where the expectation on the net realisable value is lower than the cost, an impairment may arise.

Impairment of trade receivables

Recoverability of the trade receivable are reviewed by management based on the receivables' aging characteristics, management evaluation of the current creditworthiness and past collection history of each customer. Judgement is required in assessing the ultimate realisation of these receivables, and the financial conditions of the debtors may undergo adverse changes since the last management evaluation. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional provision may be required in future accounting periods.

Warranty and returns provisions

Under the terms of the Group's certain sales agreements, the Group will rectify any product defects arising within three years from the date of sale. The Group also has a policy allowing the customers to return any defected products within two years after the delivery of products.

Provision is therefore made for the best estimate of the expected settlement of warranty under sales agreements and sales returns policy in respect of sales made during the Track Record Period. The amount of provision for warranty takes into account the Group's recent claim experience and is only made where a warranty claim is probable whilst the amount of provision for sales returns is estimated by management with reference to the past experience and other relevant factors.

The Group makes provisions under the warranties and returns it gives on sale of its electrical products taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

Impairment of intangible assets

Determining whether intangible asset is impaired requires an estimation of the value in use of the cash-generating units to which intangible asset has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

The Group mainly derives its revenue from the design, development, manufacture and sales of video graphics cards for PCs. The Group also manufactures video graphics cards and other PC related products for its own brands ZOTAC, Inno3D and Manli. The Group's product range also includes computer base unit of POS and ATM systems, flash memory modules, Internet Media Tablets and other electronics products and PC-related products. Products of the Group are categorised into three principal segments: video graphics cards, EMS and other PC-related products and components.

The following table sets forth the revenue in each of the Group's product segment as a percentage of the total revenue for the period indicated.

	Years ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	HK$'000	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*
Video graphics cards	3,598,181	82%	3,920,091	83%	4,339,639	78%	2,039,958	82%	1,920,332	66%
EMS	622,012	14%	430,623	9%	753,944	13%	238,927	10%	677,627	23%
Other PC related products and components	169,123	4%	358,488	8%	491,799	9%	204,804	8%	307,825	11%
Total revenue	**4,389,316**	**100%**	**4,709,202**	**100%**	**5,585,382**	**100%**	**2,483,689**	**100%**	**2,905,784**	**100%**

The overall increase in the Group's revenue in 2009 was primarily due to increase in revenue from sales of video graphics cards, which contributed to nearly all of the Group's increase in revenue. The overall increase in the Group's revenue in 2010 was primarily due to increase in revenue from sales of video graphics cards and EMS, which contributed to approximately 47% and 37% of the Group's total increase in revenue respectively. The overall increase in the Group's revenue in the six months ended 30 June 2011 compared with the six months ended 30 June 2010 was primarily due to increase in revenue from EMS and was partially offset by the decrease in revenue from sales of video graphics cards.

Increase in sales of other PC related products and components during the Track Record Period was mainly due to increase in sales of its own ZOTAC branded products. Increase in sales of PC related products and components for six months ended 30 June 2011 compared to that for the six months ended 30 June 2010 was mainly due to the increase in sales of Zotac brand PC products and sales of components.

Based on the unaudited accounts for the three months ended 30 September 2011, and the audited accounts for the six months ended 30 June 2011 the total sales revenue recorded by the Group increased by approximately 14% when compared with the Group's unaudited total sales revenue for the nine months ended 30 September 2010. There is no adverse change in the sales revenue trend in the three months ended 30 September 2011.

Video graphics cards

The Group manufactures video graphics cards for its customers on an ODM/OEM basis and also manufactures and sells video graphics cards under its own brands (ZOTAC, Inno3D and Manli brands).

The following table sets forth the revenue in these two business segment of video graphics cards as a percentage of the Group's total revenue for the period indicated.

	Years ended 31 December												Six months ended 30 June							
	2008				2009				2010				2010				2011			
	Revenue		Quantities	Average selling price	Revenue		Quantities	Average selling price	Revenue		Quantities	Average selling price	Revenue		Quantities	Average selling price	Revenue		Quantities	Average selling price
	HK$'000	*% of total*	*'000*	*HK$*	*HK$'000*	*% of total*	*'000*	*HK$*	*HK$'000*	*% of total*	*'000*	*HK$*	*HK$'000*	*% of total*	*'000*	*HK$*	*HK$'000*	*% of total*	*'000*	*HK$*
Video graphics cards																				
ODM/OEM contract manufacturing	2,507,491	57%	7,615	329	2,453,802	52%	9,105	270	2,653,702	48%	9,147	290	1,305,653	52%	4,801	272	1,044,714	36%	3,979	263
The Group's own branded products	1,090,690	25%	1,935	564	1,466,289	31%	3,051	481	1,685,937	30%	3,198	527	734,305	30%	1,466	501	875,618	30%	1,689	519
Total	3,598,181	82%	9,550	377	3,920,091	83%	12,156	322	4,339,639	78%	12,345	352	2,039,958	82%	6,267	325	1,920,332	66%	5,668	339

Increase in sales of video graphics cards by 9% in 2009 was the net result of continuous increase in sales of its own ZOTAC, Inno3D and Manli brands, and decrease in sales of other video graphics cards as a result of the financial crisis. Increase in sales of video graphics cards by 11% in 2010 was mainly due to the continuous increase in sales of its own ZOTAC brands, and increase in ODM/OEM contract manufacturing of video graphics cards as a result of recovery of the financial crisis. Decline in sales of video graphics cards by 6% for the six months ended 30 June 2011 compared to the six months ended 30 June 2010 was the net result of decrease in sales of ODM/OEM contract manufacturing, and increase in sales of own brands video graphics cards.

EMS

The Group is also an EMS provider, which manufactures electronic products to its customers. The Group's EMS products include computer base unit of POS and ATM systems, flash memory modules, Internet Media Tablets and other electronics products.

The following table sets forth the revenue in these four business segment of EMS as a percentage of the Group's total revenue for the period indicated.

	Years ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	HK$'000	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*
EMS										
POS and ATM systems	322,739	7%	208,969	4%	242,440	4%	102,849	4%	120,574	4%
Flash memory modules	225,765	5%	124,354	3%	100,566	2%	34,131	1%	39,956	1%
Internet Media Tablets	29,935	1%	50,979	1%	332,219	6%	88,336	4%	465,244	16%
Others	43,573	1%	46,321	1%	78,719	1%	13,611	1%	51,853	2%
Total	622,012	14%	430,623	9%	753,944	13%	238,927	10%	677,627	23%

Revenue from EMS business dropped significantly by 31% in 2009 was primarily due to the effect of the financial crisis. Significant increase in revenue from the EMS business by 75% in 2010 was mainly due to increase in sales orders from an Internet Media Tablets provider, which is an EMS customer of the Group, as a result of strong market demand for these products and the said customer opted for turnkey manufacturing. Sales orders from this customer for Internet Media Tablets continued in the first half of 2011, up 427% from approximately HK$88 million for the six months ended 30 June 2010 to approximately HK$465 million for the six months ended 30 June 2011, resulting in an overall increase in the revenue of the Group's EMS business from approximately HK$238.9 million for the six months ended 30 June 2010 to approximately HK$677.6 million for the six months ended 30 June 2011, representing an increase of 184%. To provide turnkey manufacturing service to its customers, the Group requires higher levels of working capital as the Group is required to finance the purchase of raw materials in addition to the manufacturing cost of the products. Cost incurred by the Group in relation to the handling of inventories, storage, insurance and financing are built into the pricing and passed through to the customer. The value of inventories carried by the Group in respect of the internet media tablets production, which included materials, work-in-progress and finish goods amounted to HK$6 million, HK$11 million, HK$97 million and HK$143 million, accounting for approximately 0.1%, 0.15%, 9.96% and 14.6% of the Group's total inventories as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively. In terms of trade receivables, the amounts due from the said customer amounted to HK$13.8 million, HK$4.3 million, HK$87.3 million and HK$117.5 million, accounting for 2.3%, 0.6%, 9.7% and 15.3% of the Group's total trade receivables as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively.

Generally, except for the materials and components provided by EMS contract manufacturing customers to the Group, costs of other materials sourced and supplied by the Group to EMS customers are updated and reflected in the costs of the bill-of-materials and passed on to the customers directly. Quotation prices are based on the most current costs of the bill-of-materials, plus the value-added costs and profit margin. Value-added costs are comprised of pre-manufacturing costs, equipment usage, production and testing services, packaging, logistics, selling and administration overheads. This pricing policy provides a profit incentive to maximise efficiency and procurement power. The following table provides the estimated average assembly fees charged by the Group to its EMS customers during the Track Record Period.

(HK$)	Year ended 31 December			6 months ended 30 June
	2008	2009	2010	2011
ATM and POS system	41	40	47	51
Flash memory modules	7	5	4	5
Internet Media Tablets	58	92	94	99
Other EMS products	5	8	13	13

Geographical Segment

The following table sets forth the revenue in each of the Group's geographical segment as a percentage of the total revenue for the period indicated.

	Year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010 (unaudited)		2011	
	HK$'000	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*
APAC	2,458,149	56%	2,413,666	51%	2,660,392	48%	1,301,287	52%	1,185,991	41%
EMEAI	1,305,936	30%	1,303,012	28%	1,542,048	27%	553,251	22%	959,006	33%
NALA	362,309	8%	463,551	10%	516,419	9%	239,050	10%	283,707	10%
PRC	262,922	6%	528,973	11%	866,523	16%	390,101	16%	477,080	16%
Total	**4,389,316**	**100%**	**4,709,202**	**100%**	**5,585,382**	**100%**	**2,483,689**	**100%**	**2,905,784**	**100%**

APAC is the largest market of the Group, which contributed to over 40% of total revenue of the Group during the Track Record Period, as most of the key customers of the ODM/OEM contract manufacturing business engaged the Group through their APAC entities. EMEAI is the second most important market of the Group, which contributed to over 20% of total revenue of the Group during the Track Record Period, as this is the largest market of its own ZOTAC, Inno3D and Manli brands. Slightly decrease in APAC and EMEAI in 2009 was the net result of continuous increase in sales of the Group's own branded products, and decrease in sales as a result of the financial crisis. Increase in APAC and EMEAI in 2010 was mainly due to the continuous increase in sales of its own ZOTAC brand, and overall increase in sales as a result of recovery of the financial crisis. APAC remains to be the largest market of the Group, which contributed to over 40% of total revenue of the Group for the six months ended 30 June 2011. Decrease in APAC sales for the six months ended 30 June 2011 was mainly due to the decrease of sales from OEM/ODM customers, because lack of new launcheds of GPU from AMD since majority of the Group's OEM/ODM customers for video graphics cards use AMD based GPU, including both AMD and Sapphire. Increase in EMEAI for the six months ended 30 June 2011 was mainly due to the increase in sales of Internet Media Tablet under EMS businesses.

Continuous increase in NALA and the PRC during the Track Record Period was mainly contributed by the continuous increase in sales of its own ZOTAC branded products after the establishment of a US subsidiary in late 2007 and appointment of the sole PRC distributor in January 2008. NALA and PRC have achieved growth of 18.7% and 22.3% for the six months ended 30 June 2011, respectively. These were mainly contributed by increase in sales of the Group's own ZOTAC branded products and engaging in EMS business in NALA.

For further discussion of period-by-period comparison of revenue, please refer to "Results of Operations" in this section of this prospectus.

Cost of sales

Cost of sales primarily consists of cost of material (raw materials and parts), direct labor cost, depreciation and subcontracting charges.

The following table sets forth the principal components of cost of sales and as a percentage of total cost of sales for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	HK$'000	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*
Changes in inventories	(12,191)	(0.3%)	(217,444)	(5.1%)	(214,788)	(4.2%)	(138,078)	(6.0%)	(36,216)	(1.3%)
Purchase of raw materials and parts	3,783,913	94.0%	4,200,195	98.3%	5,036,250	98.3%	2,279,816	99.9%	2,569,352	95.4%
Adjusted material cost	**3,771,722**	**93.7%**	**3,982,751**	**93.2%**	**4,821,462**	**94.1%**	**2,141,738**	**93.9%**	**2,533,136**	**94.1%**
Direct Labor	97,138	2.4%	105,021	2.5%	134,550	2.6%	62,007	2.7%	78,111	2.9%
Depreciation	39,887	1.0%	38,692	0.9%	39,882	0.8%	20,299	0.9%	19,808	0.7%
Subcontracting charges	37,115	0.9%	64,115	1.5%	59,255	1.2%	26,323	1.2%	12,621	0.5%
Others *(Note)*	79,487	2.0%	83,283	1.9%	69,610	1.3%	31,610	1.3%	47,378	1.8%
Total	**4,025,349**	**100%**	**4,273,862**	**100%**	**5,124,759**	**100%**	**2,281,977**	**100%**	**2,691,054**	**100%**

Note: "Others" mainly include rental expenses, utilities charges, royalty charges, repair and maintenance expenses and packing cost.

Material cost constituted the main component of cost of sales. For the three years ended 31 December 2010 and for the six months ended 30 June 2011, material cost represented 93.7%, 93.2%, 94.1% and 94.1% of total cost of sales, respectively. Raw materials mainly include ASIC (including GPU), RAM, PCBs and heatsink.

During the Track Record Period, contribution of direct labor to total cost of sales increased from 2.4% in 2008 to 2.6% in 2010 was mainly due to increase of regulatory minimum wage in Dongguan and appreciation of Renminbi in 2010. As depreciation cost remained stable during the Track Record Period, its contribution to total cost of sales dropped from 1.0% in 2008 to 0.8% in 2010. Increase in subcontracting charges in 2009 was resulted from the Group's business expansion since 2008 (acquisitions of businesses of ASK Technology and Manli Technology in April 2008, and development of its own ZOTAC brand). In 2010, the Group reconfigured the SMT lines and at the same time increased its productivity, thus resulted in a decrease in subcontracting charges. Due to decline in OEM/ODM contract manufacturing of video graphics cards, the Group has sufficient in-house SMT production capacity to reduce the demand on outsourcing, which resulted in further decline in subcontracting charges.

The following table sets forth the material cost in each of the Group's product segment as a percentage of the total cost of sales for the period indicated.

	Year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010 (unaudited)		2011	
	HK$'000	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*
Video graphics cards	3,143,427	78.1%	3,365,554	78.8%	3,801,005	74.1%	1,778,362	77.9%	1,679,840	62.4%
EMS	461,930	11.5%	316,930	7.4%	607,454	11.9%	188,710	8.3%	583,713	21.7%
Other PC related products and components	166,365	4.1%	300,267	7.0%	413,003	8.1%	174,666	7.7%	269,583	10.0%
Total	**3,771,722**	**93.7%**	**3,982,751**	**93.2%**	**4,821,462**	**94.1%**	**2,141,738**	**93.9%**	**2,533,136**	**94.1%**

The fluctuations of material cost in each of the Group's product segment during the Track Record Period were in line with that of revenue.

Key Costs Components

Such computer products manufacturers may choose to consign certain components and materials to the Group and the customer retained title over such consigned components. The customers may require the Group to procure all or any remaining components and materials necessary for the assembly of video graphics cards and such components would be accounted for as purchases of the Group and expensed as cost of sales. The exact requirements may vary from time to time.

For the three years ended 31 December 2010 and in the six months ended 30 June 2011, ODM/OEM contract manufacturing customers of the Group provided approximately 4.4 million pieces, 5.0 million pieces, 5.2 million pieces, and 2.1 million pieces of GPUs to the Group, respectively on a consignment basis for use in assembly of video graphics cards. This represented 46%, 41%, 42%, and 36%, respectively of all the GPUs utilised by the Group to assembly video graphics cards for the same period.

Of all the components required to manufacture a video graphics card, GPU is the most expensive component. During the Track Record Period, the price, which the Group purchased GPUs ranged from approximately US$5.0 to US$300.0. Purchase of GPU accounted for approximately 35%, 38%, 34% and 36% for the Group's total materials purchases for the three years ended 31 December 2010 and for the six months ended 30 June 2011, respectively.

Relative to the other components, RAM is considered to be slightly more expensive. During the Track Record Period, the price, which the Group purchased RAM ranged from approximately US$0.8 to US$6.0 per unit. Purchase of RAM accounted for 9%, 14%, 20% and 17% of the Group's total raw material purchases for the three years ended 31 December 2010 and for the six months ended 30 June 2011, respectively. Similar to GPU, the top five manufacturers RAM together produced approximately 90% of the world's output.

As a common industry practice, the proportion of the consigned materials and components may change from time to time, which is dependent on the requirement of the ODM/OEM contract manufacturing customers of the Group. For the three years ended 31 December 2010 and in the six months ended 30 June 2011, the Group procured all the components and materials (such practice is known as "turnkey") out of approximately 42%, 38%, 36%, and 34% of the video graphics cards assembled by the Group, respectively. It is not operationally practical and not an industry practice for ODM/OEM contract manufacturing customers to provide the Group with all the components and materials required in the assembly process of video graphics cards.

For the three years ended 31 December 2010 and in the six months ended 30 June 2011, the gross profit after material costs as a percentage of revenue in cases where the Group procured all the components and materials for the assembly of video graphics cards were approximately 12%, 12%, 11%, and 12%, respectively. For the three years ended 31 December 2010 and in the six months ended 30 June 2011, the gross profit after material costs as a percentage of revenue in cases where the ODM/OEM contract manufacturing customers provided certain proportion of materials and components to the Company on a consignment basis was approximately 20%, 23%, 23%, and 21%, respectively.

Because of the relatively short life cycle of video graphics cards, the price of all the key underlying materials are subject to volatile fluctuations especially at times when imbalance between supply and demand occurs.

With the Group's ODM/OEM contract manufacturing changes in material prices can be passed on to its customers generally and as such the impact on the Group's profit margins would be minimal. This would not be the case for the Group's own brands products when there is an unexpected increase in the price of any of the key components and yet the Group may not be able to readily raise the selling price of its products in the retail market. Any significant fluctuation in the price of the key components could adversely impact on the Group's profit margin.

During the Track Record Period, the prices of the key components were considered to be relatively stable.

Gross profit and gross profit margin

Gross profit equals to revenue less cost of sales. Gross profit margin equals to gross profit divided by revenue.

The Directors have prepared the combined financial statements of the Group for the Track Record Period in accordance with HKFRSs issued by the HKICPA. The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions. The Group principally operates in one business segment, which is the design, manufacturing and sale of electronics and personal computer parts and accessories (see note 6 to the Accountants' Report set out in Appendix I to this prospectus). The material costs as a percentage of total cost of sales amounted to approximately 93.7%, 93.2%, 94.1% and 94.1% for the three years ended 31 December 2008, 2009, 2010 and in the six months ended 30 June 2011, respectively. The management therefore only desired to capture the underlying data sufficient to allocate material costs against production (and not other cost of sales, which ranged from approximately only 6% to 7% of the total cost of sales during the Track Record Period) for decision making purposes. The management intends to take steps to capture the underlying data to allocate the total cost of sales against production in the future.

The following table sets forth gross profit after material cost in each of the Group's product segments.

	Year ended 31 December						Six months ended 30 June			
Video graphics cards	2008	*Material costs as a percentage of revenue*	2009	*Material costs as a percentage of revenue*	2010	*Material costs as a percentage of revenue*	2010	*Material costs as a percentage of revenue*	2011	*Material costs as a percentage of revenue*
	HK$('000)		*HK$('000)*		*HK$('000)*		*HK$('000)*		*HK$('000)*	
— ODM/OEM contract manufacturing										
Revenue	2,507,491		2,453,802		2,653,702		1,305,653		1,044,714	
Material Cost	2,118,417	84.5%	2,055,848	83.8%	2,242,962	84.5%	1,092,612	83.7%	891,158	85.3%
Gross profit after material costs	**389,074**		**397,954**		**410,740**		**213,041**		**153,556**	
— Own brands										
Revenue	1,090,690		1,466,289		1,685,937		734,305		875,618	
Material Cost	1,025,010	94.0%	1,309,706	89.3%	1,558,043	92.4%	685,750	93.4%	788,682	90.1%
Gross profit after material costs	**65,680**		**156,583**		**127,894**		**48,555**		**86,936**	
Total for video graphics cards										
Gross profit after material costs	**454,754**		**554,537**		**538,634**		**261,596**		**240,492**	
EMS										
Revenue	622,012		430,623		753,944		238,927		677,627	
Material Cost	461,930	74.3%	316,930	73.6%	607,454	80.6%	188,710	79.0%	583,713	86.1%
Gross profit after material costs	**160,082**		**113,693**		**146,490**		**50,217**		**93,914**	
Other PC related products and components										
Revenue	169,123		358,488		491,799		204,804		307,825	
Material Cost	166,365	98.4%	300,267	83.8%	413,003	84.0%	174,666	85.3%	269,583	87.6%
Gross profit after material costs	**2,758**		**58,221**		**78,796**		**30,138**		**38,242**	
Total sales revenue	4,389,316		4,709,202		5,585,382		2,483,689		2,905,784	
Total cost of materials	3,771,722	85.9%	3,982,751	84.6%	4,821,462	86.3%	2,141,738	86.2%	2,533,136	87.2%
Gross profit after material costs	**617,594**		**726,451**		**763,920**		**341,951**		**372,648**	

ODM/OEM contract manufacturing of video graphics cards

The Group carries out contract manufacturing on OEM basis for AMD. AMD always would provide GPUs to the Group on consignment basis. AMD retained title over such consigned GPUs. Certain a components and materials such as RAM may be provided by AMD on a consignment basis from time to time. The Group always procured fansinks and PCBs on behalf of AMD and such components would be accounted for as purchases of the Group and expensed as cost of sales. The Group would procure any remaining components and materials necessary for the assembly of MBA video graphics cards. Most of the components and materials are sourced from AMD approved vendors, as required.

The Group carries out contract manufacturing OEM or ODM basis for Sapphire. Sapphire always would provide GPUs to the Group on a consignment basis. Sapphire retains title over such consigned GPUs. Sapphire may choose to consign certain other components and materials to the Group and require the Group to procure any remaining components and materials necessary for the assembly of video graphics cards and such components would be accounted for as purchases of the Group and expensed as cost of sales. The exact requirements vary from time to time.

The Group carries out contract manufacturing on OEM or ODM bases for computer products manufacturers such as Hon Hai Precision. Such computer products manufacturers usually require the Group to procure all the components and materials necessary for the assembly of video graphics cards and such components would be accounted for as purchases of the Group and expensed as cost of sales. The exact requirements varied from time to time.

In the ODM/OEM contract manufacturing of video graphics cards, material costs as a percentage for revenue were 84.5%, 83.8%, 84.5% and 85.3% for the three years ended 31 December 2010 and in the six months ended 30 June 2011, respectively. With reference to the section headed "Business — Pricing policy" in the Prospectus, the material costs are passed through to the customer. The "gross profit after material costs" represents the "value-added" costs (comprising costs elements such as pre-manufacturing costs, equipment usage, production and testing services, packaging, logistics and administration overheads) and a reasonable profit margin determined by the management. The Group may be required by the customers to procure all or only part of the materials and components required to assemble the video graphics cards to a varying extent.

The Group's own brands video graphics cards

In respect of the Group's own brands video graphics cards, material costs as a percentage for revenue were 94.0%, 89.3%, 92.4% and 90.1% for the three years ended 31 December 2010 and in the six months ended 30 June 2011, respectively. Being the Group's own brands products, the Group accounted for the components and materials purchased required for the assembly of such video graphics cards and such components and materials are expensed as cost of sales.

Due to the varying extent of components and materials content in ODM/OEM manufacturing of video graphics cards and the Group's own brands video graphics cards, the material costs as a percentage of revenue, which could also be interpreted as "gross profit margin after material costs" are not directly comparable.

The following table sets forth gross profit after material cost in each of the Group's product segment as well as gross profit margin for the period indicated.

	Year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	HK$'000	*% of its revenue*	*HK$'000*	*% of its revenue*	*HK$'000*	*% of its revenue*	*HK$'000*	*% of its revenue*	*HK$'000*	*% of its revenue*
Revenue less material cost										
Video graphics cards										
— ODM/OEM contract manufacturing	389,074	15.5%	397,954	16.2%	410,740	15.5%	213,041	16.3%	153,556	14.7%
— The Group's own branded products	65,680	6.0%	156,583	10.7%	127,894	7.6%	48,555	6.6%	86,936	9.9%
	454,754	12.6%	554,537	14.1%	538,634	12.4%	261,596	12.8%	240,492	12.5%
EMS	160,082	25.7%	113,693	26.4%	146,490	19.4%	50,217	21.0%	93,914	13.9%
Other PC related products and components	2,758	1.6%	58,221	16.2%	78,796	16.0%	30,138	14.7%	38,242	12.4%
Gross profit after material cost	**617,594**	**14.1%**	**726,451**	**15.4%**	**763,920**	**13.6%**	**341,951**	**13.8%**	**372,648**	**12.8%**
Other cost of sales										
Direct Labor	(97,138)	(2.2%)	(105,021)	(2.2%)	(134,550)	(2.4%)	(62,007)	(2.5%)	(78,111)	(2.7%)
Depreciation	(39,887)	(0.9%)	(38,692)	(0.8%)	(39,882)	(0.7%)	(20,299)	(0.8%)	(19,808)	(0.7%)
Subcontracting charges	(37,115)	(0.9%)	(64,115)	(1.4%)	(59,255)	(1.1%)	(26,323)	(1.1%)	(12,621)	(0.4%)
Others *(Note)*	(79,487)	(1.8%)	(83,283)	(1.8%)	(69,610)	(1.2%)	(31,610)	(1.3%)	(47,378)	(1.6%)
	(253,627)	**(5.8%)**	**(291,111)**	**(6.2%)**	**(303,297)**	**(5.4%)**	**(140,239)**	**(5.7%)**	**(157,918)**	**(5.4%)**
Gross Profit	**363,967**	**8.3%**	**435,340**	**9.2%**	**460,623**	**8.2%**	**201,712**	**8.1%**	**214,730**	**7.4%**

Note: "Others" mainly include rental expenses, utilities charges, royalty charges, repair and maintenance expenses and packing cost.

The overall increase in the Group's gross profit in 2009 was primarily due to increase in gross profit from sales of video graphics cards and other PC related products and components as the net result of continuous increase in sales of the Group's own branded products and decrease in sales of EMS products as a result of the financial crisis.

The overall increase in the Group's gross profit in 2010 was primarily due to increase in gross profit from sales from EMS and other PC related products and components.

The overall increase in the Group's gross profit in the six months ended 30 June 2011 was due to increase in gross profit after material costs from sales from EMS and other PC related products and components, and was partially offset by decrease in gross profit from sales of video graphics cards mainly as a result of decrease in gross profit from AMD and other ODM/OEM manufacturer, because no new AMD based GPU was launched in first half year of 2011 and lost some orders.

For an analysis of variations in gross profit and gross profit margin over the Track Record Period, please refer to "Results of Operations" in this section of this prospectus.

Other revenue

Other sources of income and gains mainly comprised of interest income, dividend income, net exchange gains or losses and sundry income. The lower amount of other revenue, amounting to approximately HK$0.7 million, for the year ended 31 December 2008 was mainly due to HK$6.6 million of net exchange loss incurred during that year. The higher amount of other revenue, amounting to approximately HK$38.0 million, for the year ended 31 December 2010 was mainly attributable to approximately HK$31 million of dividend income received from Sapphire during that year. For the half year ended June 2011, sources of income and gains mainly comprised of net exchange gains or losses, net gains or losses on derivative financial instruments and sundry income. The higher amount of other revenue for the six months ended 30 June 2011 compared to the six months ended 30 June 2010 was mainly contributed by gain on derivative financial instrument and gain on exchange differences.

Selling and distribution expenses

Selling and distribution expenses consist primarily of sales commission, freight and transportation cost, advertising, promotion and marketing expense, and cost relating to finished goods exported from the PRC. Selling and distribution expenses were approximately HK$85 million, HK$96 million, HK$104 million and HK$48 million, constituting approximately 1.9%, 2.0%, 1.9% and 1.7% of turnover for the three years ended 31 December 2010 and for the six months ended 30 June 2011, respectively. Selling and distribution expenses as a percentage of turnover were reminded stable during the Track Record Period.

Administrative expenses

Administrative expenses consist primarily of staff costs, rent and utilities, insurance together with other general administrative expenses. Staff costs constituted the main component of administrative expenses, which accounted for over 40% of administrative expenses during the Track Record Period. Administrative expenses were continuously increasing during the Track Record Period as a result of the Group's business expansion during the periods.

Finance costs

Finance costs consist mainly of interest expense on bank borrowings.

Income tax expense

Income tax expense consists primarily of current tax provision of the Hong Kong profits tax and PRC enterprise income tax, and recognisation of deferred tax assets for temporary difference.

The amounts of taxation in the combined statements of comprehensive income represent:

	Year ended 31 December			Six months ended 30 June	
	2008	**2009**	**2010**	**2010 (unaudited)**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current tax — Hong Kong profits tax					
— Provision for the year/period	7,560	14,828	17,374	8,065	4,365
— Under provision in respect of prior year/period	542	—	748	748	—
Current tax — PRC					
— Provision for the year/period	2,448	2,088	597	113	838
Current tax — United States and Korea					
— Provision for the year/period	245	6	830	—	—
— (Over)/under provision in respect of prior year/period	—	(132)	—	—	2
	10,795	16,790	19,549	8,926	5,205

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010 (unaudited)	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax					
— origination and reversal of temporary differences	351	(1,910)	(3,811)	(4,105)	(684)
— attributable to change in tax rate	(248)	—	—	—	—
	103	(1,910)	(3,811)	(4,105)	(684)
Income tax expense	10,898	14,880	15,738	4,821	4,521

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

Zotac Macao was incorporated in Macau and is exempted from Macau Complimentary Tax pursuant to Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999.

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2010 and 2011.

Provision for PRC enterprise income tax is based on a statutory rate of 25% of the assessable profits of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC for the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2010 and 2011.

Other overseas tax is calculated at the rates applicable in the respective jurisdictions.

Recognised deferred tax assets was mainly contributed by temporary difference between depreciation rates applied for financial reporting purposes and for tax purposes.

The income tax expense for the Track Record Period can be reconciled to the profit per the combined statements of comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010 (unaudited)	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit before income tax expense	65,009	115,533	133,106	34,286	40,604
Tax on profit before income tax, calculated at Hong Kong profits tax rate	10,726	19,063	21,963	5,657	6,700
Effect of different tax rates of subsidiaries operating in other jurisdictions	(18)	9	(2,136)	(1,225)	(455)
Effect of tax exemption granted to a subsidiary *(Note a)*	(288)	(1,694)	(4,267)	(851)	(2,269)
Tax effect of non-taxable net income relating to offshore operation *(Note b)*	(4,196)	(7,579)	(10,471)	(4,571)	(3,212)
Tax effect of expenses not deductible for tax purposes *(Note c)*	2,807	4,166	6,143	4,574	2,754
Tax effect of revenue not taxable for tax purposes *(Note d)*	(1,470)	(362)	(4,753)	(1,100)	(1,641)
Tax effect of tax losses and deductible temporary differences not recognised *(Note e)*	3,752	1,542	8,475	1,627	2,893
Utilisation of tax losses previously not recognised	(300)	(87)	(83)	(38)	(251)
Under provision in prior year	—	—	853	748	2
Others	(115)	(178)	14	—	—
Income tax expense	10,898	14,880	15,738	4,821	4,521

Notes:

(a) This amount represents the tax effect of profit of the Group's Macau subsidiary, Zotac Macao.

In accordance with Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999 ("Article 12"), all offshore institutions (including commercial offshore institutions) can benefit from various taxes exemptions including profits and commercial taxes when the income is generated through the engagement in offshore business. Zotac Macao carries out overseas selling activities in Macau which is qualified and registered as a Macau Commercial Offshore institution as it engages in economic activity dedicated to foreign markets, to be pursued exclusively with non-residents and by means of transactions in currencies other than the pataca. Accordingly, Zotac Macao is exempted from Macau Complementary Tax pursuant to Article 12.

(b) This amount represents the tax effect of the 50% of assessable profit of PC Partner during the Track Record Period which were exempted under Departmental Interpretation of Practice Notes 21 ("DIPN 21") issued by the Inland Revenue Department of Hong Kong (the "IRD").

Under Section 14 of the Inland Revenue Ordinance, a company carrying on business in Hong Kong is subject to Hong Kong profits tax in respect of its profits arising in or derived from Hong Kong from such business. Pursuant to DIPN 21, the IRD is prepared to concede that, in cases where a Hong Kong manufacturing business enters into a processing arrangement with a PRC entity where the production processes are carried out at the processing factory situated in the PRC and the Hong Kong manufacturing business is heavily involved in the manufacturing activities in the PRC, profits from the sale of goods that were manufactured by such PRC entity can be apportioned on a 50:50 basis and 50% of the chargeable profits so apportioned can be treated as non-taxable in Hong Kong. The Directors consider that the Group's mode of manufacturing operations by PC Partner under the processing agreements as disclosed in the subsections headed "History and development of the Group's operations in the PRC — Baineng Factory" and "History and development of the Group's operations in the PRC — Dongguan Baineng" in the section headed "History and Development" of this prospectus is within the scope under DIPN 21 described above.

(c) Tax effect of expenses not deductible mainly related to the Group's exchange losses, amortisation of intangible asset, expenses cut-off, Social Insurance provision and GAAP differences mainly related to depreciable amount of property, plant and equipment as a result of different estimation of their residual values and useful lives. Continuously increase of these expenses mainly contributed by Social Insurance provision and GAAP difference.

(d) Tax effect of revenue not taxable mainly related to the Group's dividend income and interest income.

(e) This amount represents the tax effect of tax loss of a US subsidiary and PRC subsidiaries of the Group.

For the three years ended 31 December 2010 and for the six months ended 30 June 2010 and 2011, the effective tax rates of the Group were 17%, 13%, 12%, 14% and 11% respectively. Significant drop in effective tax rate in 2009 was mainly due to (i) significant reduction of net loss incurred by the Group's US subsidiary which had no impact on income tax expenses, and (ii) significant improvement of off-shore profit by its Macau subsidiary in 2009.

RESULTS OF OPERATIONS

The following table sets forth results of operations for the periods indicated.

	Year ended 31 December			Six months ended 30 June	
	2008	**2009**	**2010**	**2010 (unaudited)**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	4,389,316	4,709,202	5,585,382	2,483,689	2,905,784
Cost of sales	(4,025,349)	(4,273,862)	(5,124,759)	(2,281,977)	(2,691,054)
Gross profit	363,967	435,340	460,623	201,712	214,730
Other revenue and other gains and losses	661	5,881	38,007	3,553	5,834
Selling and distribution expenses	(85,250)	(96,171)	(104,192)	(47,424)	(48,078)
Administrative expenses	(195,082)	(219,037)	(249,562)	(118,133)	(126,069)
Finance costs	(19,287)	(10,480)	(11,770)	(5,422)	(5,813)
Profit before income tax expense	65,009	115,533	133,106	34,286	40,604
Income tax expense	(10,898)	(14,880)	(15,738)	(4,821)	(4,521)
Profit for the year/period	54,111	100,653	117,368	29,465	36,083
Other comprehensive income, after tax					
Exchange differences on translating foreign operations	12	—	37	110	(73)
Total comprehensive income for the year/period	54,123	100,653	117,405	29,575	36,010
Profit attributable to:					
— Owners of the Company	51,558	88,827	110,295	24,644	35,171
— Non-controlling interests	2,553	11,826	7,073	4,821	912
	54,111	100,653	117,368	29,465	36,083

Manufacturing of video graphics cards is a low margin business. During the Track Record Period, the net profit margins recorded by the Group were 1.23%, 2.14%, 2.10% and 1.24% for the years ended 31 December 2008, 2009, 2010 and in the six months ended 30 June

2011, respectively. Any increase in the costs of labour, electricity, rent, taxation, raw materials and so forth, which the Group could not pass onto its customers would adversely impact the Group's profitability.

COMPARISON OF RESULTS OF OPERATIONS

Comparison of the six months ended 30 June 2011 and 2010

Revenue

Total revenue increased by approximately HK$422 million, or approximately 17%, from approximately HK$2,484 million in the six months ended 30 June 2010 to approximately HK$2,906 million in the six months ended 30 June 2011, was due to increase in sales in EMS business and other PC related products and components by approximately HK$439 million and HK$103 million respectively and was partially offset by the decrease in sales of video graphics cards by approximately HK$120 million.

Sales of video graphics cards decreased by approximately HK$120 million, or approximately 6%, from approximately HK$2,040 million for the six months ended 30 June 2010 to approximately HK$1,920 million for the six months ended 30 June 2011. The decrease was mainly contributed by the decrease in sales of ODM/OEM contract manufacturing businesses and was partially offset by the increase in sales of its own ZOTAC brands.

As results of lack of new product launched in AMD based video graphics cards as well as losing a few OEM/ODM based customers, sales from OEM/ODM video graphics cards businesses decreased by approximately HK$261 million, or 20%, from approximately HK$1,306 million for the six months ended 30 June 2010 to approximately HK$1,045 million for the six months ended 30 June 2011. Since the NVIDIA launched a number of new GPUs towards the end of 2010 and in 2011, sales from the Group's own brands video graphics cards, which are based on NVIDIA GPUs, increased by approximately HK$142 million, or 19%, from approximately HK$734 million for the six months ended 30 June 2010 to approximately HK$876 million for the six months ended 30 June 2011.

Revenue from EMS business increased by approximately HK$439 million, or approximately 184%, from approximately HK$239 million in the six months ended 30 June 2010 to approximately HK$678 million in the six months ended 30 June 2011. Such significant growth was primarily due to an increase in sales of Internet Media Tablet products by HK$377 million , or approximately 427%, which was mainly due to a strong market demand of these products as well as a change of manufacturing model to turnkey manufacturing by a EMS customer from the second half year of 2010.

Sales of other PC related products and components was increased by approximately HK$103 million, or approximately 50%, from approximately HK$205 million for the six months ended 30 June 2010 to approximately HK$308 million for the six months ended 30 June 2011. Such increase was mainly due to the continuous increase in sales of its own ZOTAC brands by HK$62 million and increased components sales by HK$43 million for the six months ended 30 June 2011.

The recent economy conditions and difficulties in the credit and financial markets in the United States and Europe did not appear to have significant impact on the Group's sales performance.

Revenue from the EMEAI region grew by approximately HK$406 million from approximately HK$553 million in the six months ended 30 June 2010 to approximately HK$959 million in the six months ended 30 June 2011, representing an increase of approximately 73%.

The growth in the EMEAI region was due to substantial increase in sales orders by an Internet Media Tablets provider, which is an EMS customer of the Group. The revenue from the said customer grew by approximately HK$377 million from approximately HK$88 million in the six months ended 30 June 2010 to approximately HK$465 million in the six months periods ended 30 June 2011, representing an increase of approximately 426%. Excluding the increase of sales to this Internet Media Tablet provider, revenue from the EMEAI region grew by approximately HK$29 million in the six months period ended 30 June 2010 from approximately HK$465 million to approximately HK$494 million in the six months periods ended 30 June 2011, representing an increase of 6%.

Within the EMEAI geographical segment, the European countries accounted for a substantial percentage of the revenue of this segment. During the Track Record Period, revenue contribution from Europe represented approximately 78%, 72%, 70% and 82%, respectively of the total revenue of the EMEAI segment.

Revenue from the NALA region grew by approximately HK$45 million or approximately 19% from HK$239 million in the six months period ended 30 June 2010 to approximately HK$284 million in the six months period ended 30 June 2011.

Based on the unaudited accounts for the three months ended 30 September 2011, and the audited accounts for the six months ended 30 June 2011 the total sales revenue recorded by the Group increased by approximately 14% when compared with the Group's audited total sales revenue for the nine months ended 30 September 2010. There is no adverse change in the sales revenue trend in the three months ended 30 September 2011.

Cost of Sales

Cost of sales was increased by approximately HK$409 million, or approximately 17.9%, from approximately HK$2,282 million in the six months ended 30 June 2010 to approximately HK$2,691 million in the six months ended 30 June 2011. The rate of increase in cost of sales was slightly higher than the rate of increase of revenue in the same period, which was mainly due to increase in material cost and labor cost and was partially offset by the decrease in subcontracting charges.

Percentage of material cost to revenue was increased from 86.2% for the six months ended 30 June 2010 to 87.2% for the six months ended 30 June 2011 as a result of different product mix between the periods and change from consignment to turnkey model for a major EMS customer for Internet Media Tablet.

As a result of increase of regulatory monthly minimum wage in Dongguan from RMB770 to RMB920 per head in May 2010 and then to RMB1,100 in March 2011, appreciation of the Renminbi and increase in sales as a result of the Group's business expansion, the Group's direct labour cost increase by approximately HK$16 million, or approximately 26%, from approximately HK$62 million for the six months ended 30 June 2010 to approximately HK$78 million for the six months ended 30 June 2011.

The outsourcing subcontracting charges reduced by approximately HK$13.7 million, or approximately 52%, from approximately HK$26.3 million for the six months ended 30 June 2010 to approximately HK$12.6 million for the six months ended 30 June 2011, which was mainly due to a decrease in video graphics cards order and the increasing capacity for in-house production.

Gross Profit and Gross Profit Margin

Gross profit was increased by approximately HK$13 million, or approximately 6.4%, from approximately HK$202 million in the six months of 30 June 2010 to approximately HK$215 million in the six months of 30 June 2011. This increase was mainly a net result of an increase in sales of EMS, own brands video graphics cards, and other PC related products and components, and a decrease in sales of OEM/ODM video graphics cards due to no new AMD based GPU was launched in the first six month 2011.

Gross profit margin from sale of video graphics cards after material cost decreased from approximately 12.8% in the six months ended 30 June 2010 to approximately 12.5% in the six months ended 30 June 2011. This was the net effect of a decline in the OEM/ODM gross profit margin after material costs from 16.3% for six months ended 30 June 2010 to 14.7% for six months ended 30 June 2011, and an increase in gross profit margin after material costs in own brands video graphics cards from 6.6% for six months ended 30 June 2010 to 9.9% for six months ended 30 June 2011. Gross profit margin from EMS after material cost was decreased from approximately 21.0% in the six months ended 30 June

2010 to approximately 13.9% in the six months ended 30 June 2011. This was mainly due to the Internet Media Tablet customer opting for turnkey manufacturing from second half year in 2010. Gross profit margin from sale of other PC related products and components after material costs decreased from approximately 14.7% in the six months ended 30 June 2010 to approximately 12.4% in the six months ended 30 June 2011 was mainly the net effect of the decrease in Zotac PC related products gross profit margin as a result of strong price competition and increased in gross profit margin of components sales.

As a result of the above and increase in material costs and labour costs stated in the cost of sales section, the Group's gross profit margin dropped from approximately 8.1% in the six months ended 30 June 2010 to approximately 7.4% in the six months ended 30 June 2011.

Other Revenue

Other revenue was increased by approximately HK$2.2 million, or approximately 61%, from approximately HK$3.6 million in the six months ended 30 June 2010 to approximately HK$5.8 million in the six months ended 30 June 2011. Such increase was mainly attributable to net exchange gain by HK$0.4 million and net gains on derivative financial instruments by approximately HK$1.0 million during the period.

Selling and Distribution expenses

Selling and distribution expenses were increased by approximately HK$0.7 million, or approximately 1%, from approximately HK$47.4 million in the six months ended 30 June 2010 to approximately HK$48.1 million in the six months ended 30 June 2011. The increase was slightly lower than that of revenue mainly due to reduction of commission paid in Europe on video graphics cards brand business.

Administrative Expenses

Administrative expenses was increased by approximately HK$7.9 million, or approximately 6.7%, from approximately HK$118.1 million in the six months ended 30 June 2010 to approximately HK$126.0 million in the six months ended 30 June 2011. The increase was mainly due to increased staff costs by approximately HK$8.0 million to support the growth.

Finance Costs

Finance costs was increased by approximately HK$0.4 million, or approximately 7%, from approximately HK$5.4 million in the six months ended 30 June 2010 to approximately HK$5.8 million in the six months ended 30 June 2011. The increase was mainly due to increased bank borrowings and loans for the periods.

Income Tax Expense

Income tax expense was decreased by approximately HK$0.3 million, or approximately 6.2%, from approximately HK$4.8 million in the six months ended 30 June 2010 to approximately HK$4.5 million in the six months ended 30 June 2011. This decrease was mainly due to significant improvement of off-shore profits by a Macau subsidiary for the six months ended 30 June 2011, which is tax-free. The Group's effective tax rate was at approximately 11% in the six months ended 30 June 2011.

Profit for the period

As a result of the foregoing, the profit for the six months ended 30 June 2011 was increased by approximately HK$6.6 million, or approximately 22%, from approximately HK$29.5 million in the six months ended 30 June 2010 to approximately HK$36.1 million in the six months ended 30 June 2011.

This increase in profit in the six months ended 30 June 2011 was mainly due to increase in gross profit by approximately HK$13 million, in other revenue by approximately HK$2 million, and partially offset by net increase of other expenses by approximately HK$9 million.

Profit attributable to the owners of the Company

As a result of the foregoing and after decrease of share of net profit of the Group by its non-controlling shareholders by approximately HK$3.9 million, the profit attributable to the owners of the Company was increased by approximately HK$10.5 million, or approximately 43%, from approximately HK$24.7 million in the six months ended 30 June 2010 to approximately HK$35.2 million in six months ended 30 June 2011.

Comparison of the year ended 31 December 2010 and 2009

Revenue

Total revenue increased by approximately HK$876 million, or approximately 19%, from approximately HK$4,709 million in 2009 to approximately HK$5,585 million in 2010, was due to increase of sales of video graphics cards, EMS business and other PC related products and components by approximately HK$420 million, HK$323 million and HK$133 million respectively.

Sales of video graphics cards was increased by approximately HK$420 million, or approximately 11%, from approximately HK$3,920 million in 2009 to approximately HK$4,340 million in 2010. The increase was mainly contributed by continuous increase in sales of its own ZOTAC brands and an increase in sales from the ODM/OEM contract manufacturing business as a result of recovery of the financial crisis.

As results of recovery of the financial crisis and continuous development of ZOTAC products with effect partially offset by the delay in launching new GPUs by NVIDIA in 2010, quantities sold in the Group's ODM/OEM contract manufacturing business and under the Group's own branded products were only increased by 0.5% and 4.8%, respectively. In addition, due to recovery of the financial crisis and launching of new GPUs with higher specifications in 2010, the average selling price of the Group's ODM/OEM contract manufacturing products and the Group's own branded products were increased by 7% and 9%, respectively. As a result of the foregoing, revenue from sale of video graphics cards of the Group's ODM/OEM contract manufacturing business and the Group's own branded products increased by 8% and 15% in 2010, respectively.

Revenue from EMS business increased by approximately HK$323 million, or approximately 75%, from approximately HK$431 million in 2009 to approximately HK$754 million in 2010. Such significant increase was primarily due to an increase in sales of Internet Media Tablets to a consumer electronics company of approximately HK$281 million as result of strong market demand of these products and the said French electronics company opted for turnkey manufacturing by this customer during the year.

Sales of other PC related products and components was increased by approximately HK$133 million, or approximately 37%, from approximately HK$358 million in 2009 to approximately HK$491 million in 2010. Such increase was mainly due to continuous increase in sales of its own ZOTAC branded products by approximately HK$107 million in 2010.

Cost of Sales

Cost of sales was increased by approximately HK$851 million, or approximately 20%, from approximately HK$4,273 million in 2009 to approximately HK$5,124 million in 2010. The increase in cost of sales was slightly higher than the increase of the revenue was mainly due to increase in material cost and labor cost which partially offset by decrease in subcontracting charges.

Percentage of material cost to revenue was increased from 84.6% in 2009 to 86.3% in 2010, was mainly due to higher material cost for products in 2010 as a result of launching of new GPUs with higher specifications and change of manufacturing model to turnkey manufacturing by one of the Group's EMS customer.

As a result of increase of regulatory minimum wage in Dongguan from RMB770 to RMB920 per head in May 2010, appreciation of Renminbi and increase in sales as a result of the Group's business expansion, the Group's direct labor cost increase by approximately HK$29 million, or approximately 28%, from approximately HK$105 million in 2009 to approximately HK$134 million in 2010.

In 2010, the Group reconfigured the SMT lines and at the same time increased its productivity, thus resulted in a decrease in subcontracting charges by approximately HK$5 million, or approximately 8%, from approximately HK$64 million in 2009 to approximately HK$59 million in 2010.

Gross Profit and Gross Profit Margin

Gross profit was increased by approximately HK$25 million, or approximately 5.8%, from approximately HK$435 million in 2009 to approximately HK$460 million in 2010. This increase was mainly resulted from increase of gross profit from sales of EMS and other PC related products and components which partially offset by decrease of gross profit from sales of video graphics cards as higher material cost for products in 2010 due to launching of new GPUs with higher specifications.

Gross profit margin from sale of video graphics cards after material cost was decreased from 14.1% in 2009 to 12.4% in 2010 as higher material cost for products in 2010 due to launching of new GPUs with higher specifications. EMS's gross profit margin after material cost was decreased from 26.4% in 2009 to 19.4% in 2010, was mainly due to change of manufacturing model to turnkey manufacturing by the Group's Internet Media Tablet customer and change of product mix with more lower price products ordered by the Group's key flash memory customer. Gross profit margin from sale of other PC related products and components after material cost was reminded stable at approximately 16%.

As a result of the above and increase in director labor cost stated in cost of sales section, the Group's gross profit margin dropped from approximately 9.2% in 2009 to approximately 8.2% in 2010.

Other Revenue

Other revenue was increased by approximately HK$32.1 million, or approximately 540%, from approximately HK$5.9 million in 2009 to approximately HK$38.0 million in 2010. Such significant increase was mainly attributable to approximately HK$31 million of dividend income received from Sapphire during that year.

The equity interest in Sapphire is the only investment of the Group under the category of "unlisted-available-for-sale investment". The Group has no influence over Sapphire on its dividends declaration. Dividends income under such category is dependent on whether Sapphire declares dividends.

The income of HK$1.5 million recognised from the waiver of long outstanding trade payables is a non-recurring item. HK$1.1 million of the said amount recognised was goods-received-not-invoiced recorded in 2006. HK$0.4 million of the said amount recognised was goods-received-not-invoiced recorded in 2008. The said amounts were never invoiced and never reported on any supplier statements. The Group decided to recognise such income after a detailed review and in agreement with the Reporting Accountant on such treatment.

Selling and Distribution Expenses

Selling and distribution expenses was increased by approximately HK$8 million, or approximately 8%, from approximately HK$96 million in 2009 to approximately HK$104 million in 2010. The increase was consistent with the increase of the revenue.

Administrative Expenses

Administrative expenses was increased by approximately HK$30 million, or approximately 14%, from approximately HK$219 million in 2009 to approximately HK$249 million in 2010. The increase was mainly due to increased staff costs by approximately HK$17 million to support the growth.

Finance Costs

Finance costs was increased by approximately HK$1.3 million, or approximately 12%, from approximately HK$10.4 million in 2009 to approximately HK$11.7 million in 2010. The increase was mainly due to higher amount of bank borrowings in 2010.

Income Tax Expense

Income tax expense was increased by approximately HK$0.9 million, or approximately 6%, from approximately HK$14.8 million in 2009 to approximately HK$15.7 million in 2010. This increase was in line with the increase of the profit before income tax expense. The Group's effective tax rate is reminded stable at approximately 12% in 2010.

Profit for the year

As a result of the foregoing, the profit for the year was increased by approximately HK$17 million, or approximately 17%, from approximately HK$100 million in 2009 to approximately HK$117 million in 2010.

This increase of profit for the year was mainly due to approximately HK$31 million of dividend income received from Sapphire during the year.

Profit attributable to the owners of the Company

As a result of the foregoing and after decrease of share of net profit of the Group by its minority shareholders by approximately HK$5 million, the profit attributable to the owners of the Company was increased by approximately HK$22 million, or approximately 25%, from approximately HK$88 million in 2009 to approximately HK$110 million in 2010.

Comparison of the years ended 31 December 2009 and 2008

Revenue

Total revenue increased by approximately HK$320 million, or approximately 7%, from approximately HK$4,389 million in 2008 to approximately HK$4,709 million in 2009, was the net result of (i) increase of sales of video graphics cards and other PC related products and components by approximately HK$322 million and HK$189 million respectively, and (ii) decrease of revenue from EMS business by approximately HK$191 million.

Sales of video graphics cards was increased by approximately HK$322 million, or approximately 9%, from approximately HK$3,598 million in other 2008 to approximately HK$3,920 million in 2009. The increase was the net result of continuous increase in sales of its own ZOTAC, Inno3D and Manli brands, and decrease in other sales of other video graphics cards as a result of the financial crisis. As net result of the financial crisis and the Group's business expansion since 2008 (acquisitions of businesses of ASK Technology and Manli Technology in April 2008, and development of its own ZOTAC brand), quantities sold in the Group's ODM/OEM contract manufacturing business and under the Group's own branded products were increased by 19% and 57%, respectively. However, due to financial crisis, the average selling price of the Group's ODM/OEM contract manufacturing products and the Group's own branded products were dropped by 18% and 14%, respectively. As a result of the foregoing, revenue from sale of video graphics cards of the Group's ODM/OEM contract manufacturing business slightly dropped by 2% while that of the Group's own branded products increased by 34% in 2009.

Revenue from EMS business dropped by approximately HK$191 million, or approximately 31%, from approximately HK$622 million in 2008 to approximately HK$431 million in 2009. Such significant drop was primarily due to the effect of the financial crisis.

Sales of other PC related products and components was increased by approximately HK$189 million, or approximately 112%, from approximately HK$169 million in 2008 to approximately HK$358 million in 2009. Such increase was mainly due to increase in sales of its own ZOTAC branded products as the Group commenced this business in late 2007. Sales of ZOTAC branded PC related products was increased by approximately HK$148 million, or approximately 890%, from approximately HK$17 million in 2008 to approximately HK$165 million in 2009.

Cost of Sales

Cost of sales was increased by approximately HK$248 million, or approximately 6%, from approximately HK$4,025 million in 2008 to approximately HK$4,273 million in 2009. The increase in material cost and direct labor cost was consistent with the increase of the revenue. In 2009, the Group incurred more subcontracting charges to capture the increase of production requirement as a result of the Group's business expansion.

Gross Profit and Gross Profit Margin

Gross profit was increased by approximately HK$71 million, or approximately 20%, from approximately HK$364 million in 2008 to approximately HK$435 million in 2009. This increase was consistent with the increase of the revenue and cost of sales, and mainly contributed by increase in gross profit from sales of video graphics cards and other PC related products and components.

Gross profit margin from sale of video graphics cards, EMS and other PC related products and components after material cost was increased from 12.6% , 25.7% and 1.6% in 2008 to 14.1%, 26.4% and 16.2% in 2009, respectively. The Group's overall gross profit margin was improved from approximately 8.3% in 2008 to approximately 9.2% in 2009. Such improvement was mainly due to (i) continuous increase of gross profit margin of the Group's core business, i.e. the ODM/OEM contract manufacturing business, due to increase in production volume and thus improving economies of scale of the Group; (ii) increase of gross profit margin from sales of ZOTAC products in all regions, including NALA, which recorded a gross profit margin in 2009 instead of a gross loss margin in 2008; and (iii) a significant improvement in the gross profit margins of the businesses of ASK Group and Manli Group after their amalgamation into the Group, which benefited from the economies of scale partly explained by the enlarged procurement volume of the Group.

Other Revenue

Other revenue was increased by approximately HK$5.2 million, or approximately 789%, from approximately HK$0.7 million in 2008 to approximately HK$5.9 million in 2009. Such significant increase was mainly attributable to decrease in net exchange loss by approximately HK$6.6 million and increase in net fair value gains on derivative financial instruments by approximately HK$0.9 million.

Selling and Distribution Expenses

Selling and distribution expenses was increased by approximately HK$11 million, or approximately 12%, from approximately HK$85 million in 2008 to approximately HK$96 million in 2009. The increase was consistent with the increase of the revenue, especially for the increase of sales under its own brands, which require more contribution in overall selling and distribution expenses.

Administrative Expenses

Administrative expenses was increased by approximately HK$24 million, or approximately 12%, from approximately HK$195 million in 2008 to approximately HK$219 million in 2009. The increase was mainly due to increased staff costs by approximately HK$26 million in line with overall better performance of the Group in 2009.

Finance Costs

Finance costs was decreased by approximately HK$8.8 million, or approximately 45%, from approximately HK$19.2 million in 2008 to approximately HK$10.4 million in 2009. The decrease was the net result of higher amount of bank borrowings and substantial reduction in interest rates in 2009.

Income Tax Expense

Income tax expense was increased by approximately HK$4.0 million, or approximately 36%, from approximately HK$10.8 million in 2008 to approximately HK$14.8 million in 2009. This increase was less than the increase of the profit before income tax expense, which was mainly due to (i) significant reduction of net loss incurred by its US subsidiary (for ZOTAC business in NALA) had no impact on income tax expense; and (ii) significant improvement of net profit by its Macau subsidiary (for ZOTAC business in EMEAI) had no impact on income tax expense too as it was exempted from Macau Complimentary Tax. As a result, the effective tax rates of the Group was dropped from 17% in 2008 to 13% in 2009.

Profit for the year

As a result of the foregoing, the profit for the year was increased by approximately HK$46 million, or approximately 86%, from approximately HK$54 million in 2008 to approximately HK$100 million in 2009.

Such huge increase of profit for the year was mainly caused by continuous increase of gross profit since the Group's business expansion in 2008, and was also due to significant reduction of net loss of the US subsidiary by approximately HK$16 million in 2009.

Profit attributable to the owners of the Company

As a result of the foregoing and after significant increase of share of net profit of the Group by its minority shareholders by approximately HK$9 million, the profit attributable to the owners of the Company was increased by approximately HK$37 million, or approximately 72%, from approximately HK$51 million in 2008 to approximately HK$88 million in 2009.

SELECTED BALANCE SHEET ITEMS

Property, plant and equipment

As at 31 December 2008, 2009, 2010 and 30 June 2011, the net book value of the Group's property, plant and equipment were HK$101 million, HK$93 million, HK$94 million and HK$78 million, respectively. This represented a decrease of 8.3% and an increase of 0.6% on a year on year basis between 2008 and 2010 and a decrease of 16.8% between 31 December 2010 and 30 June 2011. These decreases principally related to depreciation charges and the varying annual capital expenditure plans under the categories of plant and machinery and office and testing equipment. Capital expenditure for the year of 2011 on the said categories took place after the Track Record Period.

Property, plant and equipment principally comprises leasehold improvement, plant and machinery and office and testing equipment located in the PRC and used in the Group's factory operations. Please refer to the section headed "Accountants' Report — Note 16 — Property, plant and equipment" for further information.

Inventories

During the Track Record Period, inventories were one of the principal components of the Group's current assets. The value of inventories accounted for approximately 34%, 34%, 37% and 45% of the Group's total current assets as at 31 December 2008, 2009, 2010 and 30 June 2011.

The following table sets forth a summary of inventories and average inventory turnover days as at the dates indicated.

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	386,385	538,284	584,263	640,388
Work-in-progress	5,228	11,883	18,363	10,393
Finished goods	164,804	224,277	368,627	355,183
	556,417	774,444	971,253	1,005,964
Less: Provision for obsolete inventories	(44,791)	(45,374)	(27,395)	(25,890)
Total	511,626	729,070	943,858	980,074
Average inventory turnover days *(Note)*	46	53	60	65

Note: Average inventory turnover days equals average of the beginning and ending balance of inventories for the period divided by cost of sales for the period, and multiplied by 365 days (for each of the years ended 31 December 2008, 2009 and 2010) or 181 days (for six months ended 30 June 2011).

Total inventories increased from approximately HK$511 million as at 31 December 2008 to approximately HK$729 million as at 31 December 2009, primarily due to restoration of the Group's normal inventory management policy to maintain sufficient level of inventory to match with the Group's increased scale of operations at the end of 2009 in response to the recovery of the global economy. As a result, average inventory turnover days increased from 46 days in 2008 to 53 days in 2009.

Total inventories increased from approximately HK$729 million as at 31 December 2009 to approximately HK$943 million as at 31 December 2010. The increase was mainly due to (i) increase of inventories level by approximately HK$85 million for production of Internet Media Tablets for a consumer electronics company which increased sales order due to strong market demand of these products and opted for turnkey manufacturing during the year; and (ii) increase of inventories level of ZOTAC products by approximately HK$75 million to meet the customers' requirement as a result of continuous development by the Group for these own branded products.

Total inventories increased from approximately HK$943 million as at 31 December 2010 to approximately HK$980 million as at 30 June 2011. The increase was mainly due to further increase in inventories level for EMS production of Internet Media Tablets for a reputable consumer electronics company, which increased sales order.

Up to 31 October 2011, subsequent sales and usage of inventories as at 30 June 2011 totalled approximately HK$781 million, representing 80% of the outstanding balance.

Change in inventory (31 December 2010 to 30 June 2011):

Inventory increased by HK$36 million from HK$944 million as at 31 December 2010 to HK$980 million as at 30 June 2011 or by 3.8% was mainly due to the increase in materials requirements to satisfy the increase in orders of Internet Media Tablets by an EMS customer. The sales revenue from the said customer grew from HK$88 million to HK$465 million for the six months ended 30 June 2010 and for the six months ended 30 June 2011, respectively.

Trade and other receivables

The table sets forth trade and other receivables as at the dates indicated.

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	608,242	702,003	912,467	777,122
Less: Accumulated impairment losses	(11,888)	(11,915)	(8,345)	(9,750)
	596,354	690,088	904,122	767,372
Amounts due from non-controlling interests	10,342	8,295	1,342	—
Amounts due from related companies	39,945	7,945	—	—
Other receivables	19,684	19,817	13,771	12,191
Deposits and prepayments	8,642	10,724	22,714	26,289
Dividend receivable	1,376	1,376	—	—
Total	676,343	738,245	941,949	805,852

The amounts due from non-controlling interests as at 31 December 2008 and 2009 mainly represented outstanding capital contribution from minority shareholders of ASK Group and Manli Group, which were fully settled in 2010. The amounts due from non-controlling interests as at 31 December 2010 have been fully settled in January 2011.

The amounts due from related companies as at 31 December 2008 mainly represented the amount due from a related company of ASK Group, acquired as a result of the acquisition of business of ASK Technology which was fully settled in 2009.

Other receivables mainly represented value added tax receivables, rebate receivables and the Group's shareholder funding contributed to its investments as their working capital. Deposits and prepayments mainly represented rental and utilities deposits, prepayments and deposits for purchasing materials, equipment and machinery and for construction works, and prepayments of cargo, staff and other insurance, and professional fee for the Listing. Significant increase in deposits and prepayments as at 31 December 2010 was mainly due to prepayment of approximately HK$8.6 million of professional fee for the Listing.

Prepayment of professional fee has been further increased by HK$5.4 million to approximately HK$14.0 million as at 30 June 2011.

Trade Receivables

During the Track Record Period, trade receivables were one of the principal components of the Group's current assets. The value of trade receivables accounted for approximately 40%, 32%, 35% and 36% of the Group's total current assets as at 31 December 2008, 2009, 2010 and 30 June 2011.

Trade receivables represented receivables for sales of the products to the Group's customers. In general, during the Track Record Period, credit periods of 30 to 60 days were granted to the customers.

The following table sets forth an ageing analysis of trade receivables (net of impairment losses) and average trade receivables turnover days as at the dates indicated.

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 month	316,077	429,802	606,499	484,015
1 to 3 months	265,576	242,909	246,152	246,863
More than 3 months but within 1 year	13,721	14,218	48,979	32,116
Over 1 year	980	3,159	2,492	4,378
Total	596,354	690,088	904,122	767,372
Average trade receivables turnover days *(Note)*	50	50	52	52

Note: Average trade receivables turnover days equals average of the beginning and ending balance of trade receivables for the period divided by turnover for the period, and multiplied by 365 days (for each of the years ended 31 December 2008, 2009 and 2010) or 181 days (for six months ended 30 June 2011).

Continuous increase of trade receivables from 2008 to 2010 was in line with the increase in the Group's sales. Decrease in trade receivables within 1 month as at 30 June 2011 was due to the seasonality effect of the Group's business. Average trade receivables turnover days kept stable at around 50 days for the three years ended 31 December 2010 and for the six months ended 30 June 2011.

The Group has a credit policy in place and the exposures to credit risks are monitored on an ongoing basis. In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit. Ongoing evaluations are performed on the financial condition of trade customers. Debtors with balances that are more than 3 months overdue, further credit will only be granted under management's approval, otherwise, debtors are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

However the Group has purchased credit insurance for the Group's trade receivables. Credit insurance companies assess the creditability of the Group's customers individually, and fix the insured credit limits of each customer. Credit insurance companies charge certain percentage of total insurable turnover as annual premium and compensate the Group for proven uncollectable trade receivables within insured credit limits. Annual maximum liability of credit insurance companies is ranging from 24 to 75 times of actual premium paid by each group company of the Group. Total premium paid were approximately HK$3.7 million, HK$5.8 million, HK$6.9 million and HK$4.1 million respectively for the years ended 31 December 2008, 2009, 2010 and in the six months ended 30 June 2011. Total insured trade receivables accounted for approximately 57%, 49%, 48% and 56% of the Group's total trade receivables as at 31 December 2008, 2009, 2010 and 30 June 2011. In this regard, the Directors consider the Group credit risk to be significantly reduced.

During the Track Record Period, the trade receivables turnover days were approximately 50, 50, 52 and 52 as at 31 December 2008, 2009, 2010, and 30 June 2011, respectively. According to the unaudited management accounts of the Group, the trade receivables turnover days as at 31 October 2011 was similar to the Track Record Period.

Up to 31 October 2011, subsequent settlement of trade receivables as at 30 June 2011 totalled approximately HK$748 million, representing 97% of the outstanding balance.

Trade and other payables

The following table sets forth trade and other payables as at the dates indicated.

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	658,959	873,283	1,026,663	663,629
Other payables and accruals	116,947	114,814	156,058	147,526
Amounts due to non-controlling interests	16,110	31,027	—	—
Amounts due to related companies	19,938	20,691	—	—
	811,954	1,039,815	1,182,721	811,155

Other payables and accruals mainly represent salary and wages payables, and accrued selling and operating expenses. The higher amount of other payables and accruals as at 31 December 2010 mainly contributed to (i) increase of other creditors by approximately HK$11 million; (ii) increase of deposits received from customers of approximately HK$9 million; (iii) increase of provision for Social Insurance by approximately HK$10 million and (iv) increase of value added tax payable by approximately HK$9 million.

Other payables and accruals have been reduced by approximately HK$8 million to approximately HK$148 million as at 30 June 2011.

The amounts due to non-controlling interests as at 31 December 2008 represented compensation loss payables to minority shareholders of ASK Group and Manli Group in accordance with the acquisition agreements and payment by minority shareholder on behalf of ASK Group in 2008. The significant increase in the amounts as at 31 December 2009 compared with that as at 31 December 2008 was due to net payment of approximately HK$15 million by minority shareholder on behalf of ASK Group in 2009. All compensation loss payables and minority shareholders' payment on behalf were fully settled by the Group in 2010.

The amounts due to related companies as at 31 December 2008 and 2009 mainly represented amount due to a related company of ASK Group, which provided sub-contracting services to ASK Group during the Track Record Period.

Trade Payables

During the Track Record Period, trade payables were the most important component of the Group's current liabilities. The value of trade payables accounted for approximately 54%, 49%, 48% and 40% of the Group's total current liabilities as at 31 December 2008, 2009, 2010 and 30 June 2011.

Trade payables represented payables for purchases of the materials to the Group's suppliers. In general, during the Track Record Period, credit periods of 30 to 90 days were granted by the suppliers.

The following table sets forth an ageing analysis of trade payables and average trade payables turnover days as at the dates indicated.

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 month	175,153	409,464	348,173	243,356
Over 1 month but within 3 months	311,210	332,651	524,389	346,427
Over 3 month but within 1 year	171,340	129,552	153,873	73,274
Over 1 year	1,256	1,616	228	572
Total	658,959	873,283	1,026,663	663,629
Average trade payables turnover days *(Note)*	58	65	68	57

Note: Average trade payables turnover days equals average of the beginning and ending balance of trade payables for the period divided by cost of sales for the period, and multiplied by 365 days (for each of the years ended 31 December 2008, 2009 and 2010) or 181 days (for six months ended 30 June 2011).

Total trade payables increased from approximately HK$658 million as at 31 December 2008 to approximately HK$873 million as at 31 December 2009, primarily due to relaxation of credit control by the Group's suppliers after the recovery of the global economy in 2009. Accordingly, average trade payables turnover days was back to the normal level of 65 days in 2009.

Total trade payables continuously increased from approximately HK$873 million as at 31 December 2009 to approximately HK$1,027 million as at 31 December 2010, which was in line with the increase in the Group's operation and cost of sales. Average trade payables turnover days kept at 68 days, which was comparable with those in 2009.

Total trade payables decreased from approximately HK$1,027 million as at 31 December 2010 to approximately HK$664 million as at 30 June 2011, and average trade payables turnover days was reduced to 57 days as at 30 June 2011. Purchases by PC Partner, the major procurement arm of the Group, represented 90%, 92%, 95%, and 95% of the total purchases of the Group for the three years ended 31 December 2010 and the six months ended 30 June 2011. The purchasing values of PC Partner in the second quarter of 2010 and in the forth quarter of 2010 were HK$998 million and HK$1,241 million, respectively, representing a difference of 24.3%. The purchasing value of PC Partner in the second quarter of 2011 was HK$1,092 million, which followed a similar seasonal pattern. As a result, the trade payables balance of PC Partner of HK$641 million as at 30 June 2011 (HK$753 million as at 30 June 2010) was lower than that of HK$984 million as at 31 December 2011.

During the first six months of 2011, the Internet Media Tablets EMS customer of the Group specified the use of some new suppliers, which offered less favourable terms of trade to the Group, such as requiring advanced payment or cash-on-delivery. Total payments to the suppliers under advanced payment or cash-on-delivery terms in the six months ended 30 June 2010 and in the six months ended 30 June 2011 were HK$5.8 million and HK$125.6 million, respectively on increase of approximately 22 fold. The less favourable terms of trade with the said new suppliers in the first six months of 2011 resulted in a reduction in average trade payable days.

Other payables and accruals reduced by approximately HK$9 million from HK$156 million as at 31 December 2010 to HK$147 million as at 30 June 2011. The reduction in the trade and other payable balance as at 30 June 2011 is reflected in the reduction in the cash and cash equivalent balance as at 30 June 2011 as compared with the respective balances as at 31 December 2010.

The Group’s inventory increased by approximately HK$36 million from approximately HK$944 million as at 31 December 2010 to approximately HK$980 million as at 30 June 2011, representing increase of approximately 4%. The purchases of PC Partner in the fourth quarter of 2010 and the second quarter of 2011 were approximately HK$1,241 million and HK$1,092 million, respectively, representing a decrease of approximately 12%. As illustrated above, trade payables of PC Partner decreased by approximately 34.8% from 31 December 2010 to as 30 June 2011. The slight increase in the Group’s inventory by approximately 4% despite the decrease in purchasing and trade payables of PC Partner was due to the increase in the use of suppliers, which required the Group to procure on cash-on-delivery or advanced payment basis and well as parts and components yet to be utilised in the Group’s production processes.

Change in cash and cash equivalents (31 December 2010 to 30 June 2011):

Cash and cash equivalents declined by approximately HK$324 million from HK$685 million as at 31 December 2010 to HK$361 million as at 30 June 2011. The said reduction was mainly due to a net reduction in trade and other payables and import loans on or before 30 June 2011.

Up to 31 October 2011, subsequent payment of trade payables as at 30 June 2011 totalled approximately HK$659 million, representing 99% of the outstanding balance.

Other payables and accruals reduced by approximately HK$9 million from HK$156 million as at 31 December 2010 to HK$147 million as at 30 June 2011. The reduction in the trade and other payable balance as at 30 June 2011 is reflected in the reduction in the cash and cash equivalent balance as at 30 June 2011 as compared with the respective balances as at 31 December 2010.

Net current assets

The following table sets forth net current assets as at the dates indicated.

	As at 31 December			As at 30 June	As at 31 October
	2008	**2009**	**2010**	**2011**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Current assets					
Inventories	511,626	729,070	943,858	980,074	851,584
Trade and other receivables	670,073	738,245	941,949	805,852	861,342
Derivative financial assets	—	1,101	412	652	652
Current tax recoverable	76	71	2,315	1,816	2,274
Pledged time deposits	3,627	7,124	7,142	7,142	7,142
Cash and cash equivalents	305,816	681,272	685,240	360,741	390,368
	1,491,218	2,156,883	2,580,916	2,156,277	2,113,362
Current liabilities					
Trade and other payables	811,954	1,039,815	1,182,721	811,155	921,569
Borrowings	388,174	714,680	934,891	829,599	684,521
Provisions	13,006	12,155	11,216	10,027	10,687
Obligations under finance leases	14	14	14	10	16
Derivative financial liabilities	—	143	162	103	103
Current tax liabilities	6,247	19,973	7,395	8,964	8,715
	1,219,395	1,786,780	2,136,399	1,659,858	1,625,611
Net current assets	271,823	370,103	444,517	496,419	487,751

Other than inventories, trade and other receivables, and trade and other payables, cash and cash equivalents and import loans under borrowings were also key components of the Group's net current assets.

As one of usual business strategies and treasury measurement to capture rapid growth, the Group financed certain of its purchase of raw materials by import loans during the Track Record Period, which are normally due within 3 to 4 months after the settlement by the banks. The import loans bear interest at floating effective interest rates ranging from 1.40% to 4.40%.

The Group's treasury policy is to regularly monitor its position of cash and cash equivalents to meet its working capital requirements. As a result of the Group's continuous expansion during the Track Record Period, higher level of working capital is maintained. Therefore, there was an overall increase in all working capital items (i.e. cash and cash equivalents, inventories, trade and other receivables, trade and other payables, and import loans) during the Track Record Period. The Group maintains cash and cash equivalent at a level sufficient to cover accounts payable due, import loans due, less accounts receivable due.

The Group historically has financed in part of its working capital through import loans, accounts payable and accounts receivable. The creditor turnover days for the three years ended 31 December 2010 and in the six months ended 30 June 2011 were 58 days, 65 days, 68 days and 57 days, respectively. The debtor turnover days for the three years ended 31 December 2010 and in the six months ended 30 June 2011 were 50 days, 50 days, 52 days and 52 days, respectively. The Directors intend to continue to finance in part of its working capital in the same manner in the future and do not expect to have implication on the Group's dividend policy.

Net current assets position continuously increased from approximately HK$271 million as at 31 December 2008 to approximately HK$496 million as at 30 June 2011 primarily due to the increase in retained profits after distribution of dividends to shareholders during the Track Record Period.

CERTAIN FINANCIAL RATIOS

The following table sets forth certain financial ratios as at the dates indicated.

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
Current ratio(1)	1.2	1.2	1.2	1.3
Quick ratio(2)	0.8	0.8	0.8	0.7
Debt to equity ratio(3)	20%	7%	44%	77%
Returns on assets(4)	3.3%	5.1%	4.7%	N/A
Net returns on equity(5)	13.6%	20.5%	21.7%	N/A

Notes:

(1) Current ratio is calculated by dividing the total current assets by the total current liabilities.

(2) Quick ratio is calculated by dividing the total current assets minus inventory by the total current liabilities.

(3) Debt to equity ratio is calculated by dividing the net debt by the total equity. Net debts are defined to include all borrowings and payable incurred not in the ordinary course of business net of cash and cash equivalents.

(4) Return on assets equals profits for the year/period divided by the average of the beginning and ending balance of total assets for the full financial year/period.

(5) Net return on equity equals profit attributable to the owners of the Company for the year/period divided by the average of the beginning and ending balance of equity attributable to the owners of the Company for the year/period.

Current Ratio and Quick Ratio

During the Track Record Period, current ratio and quick ratio remained stable at approximately 1.2 and 0.8 respectively. Current ratio and quick ratio is 1.3 and 0.7 as at 30 June 2011, respectively.

Debt to Equity Ratio

The substantial decrease in debt to equity ratio from 20% as at 31 December 2008 to 7% as at 31 December 2009 was primarily contributed by (i) an increase in cash and cash equivalents of 123% due to net profit for the year, (ii) an increase in borrowings of 84% due to relaxation of credit control by the Group's bankers after the recovery of global economy, and (iii) an increase in total equity of 20% as a result of net profit for the year.

The substantial increase in debt to equity ratio from 7% as at 31 December 2009 to 44% as at 31 December 2010 was primarily contributed by (i) an increase in borrowings of 31% as a net result of increase of inventory level to meet the customers' higher demand and increase of trade receivables and trade payables due to increase in the Group's operation, and (ii) an increase in total equity of 16% as a result of net profit and dividends distributed to the owners for the year.

The debt to equity ratio as at 30 June 2011 has been further increased to 77% since the cash and cash equivalent has declined by 47% from approximately HK$685 million as at 31 December 2010 to approximately HK$361 million as at 30 June 2011 to settle both trade payables and bank loans.

Return on Assets

The significant increase in return on assets from 3.3% in 2008 to 5.1% in 2009 was primarily due to an increase in profit for the year and average balance of total assets of 86% and 20% respectively. The average balance of total assets continuously increased as a result of the Group's increasing scale of operations. The significant increase in growth rate in profit for the year in 2009 was mainly due to continuous increase of net profit since the Group's business expansion in 2008 and a significant reduction of loss of the US subsidiary in 2009.

The decrease in return on assets from 5.1% in 2009 to 4.7% in 2010 was primarily due to an increase in profit for the year and average balance of total assets of 17% and 27% respectively. The average balance of total assets and net profit for the year continuously increased as a result of the Group's increasing scale of operations. The higher growth rate in total assets in 2010 was mainly caused by continuously increased in inventory level as detailed in subsection headed "Inventories" in this financial information above.

Net Return on Equity

The significant increase in net return on equity from 13.6% in 2008 to 20.5% in 2009 was primarily due to an increase in profit attributable to the owners of the Company and average balance of equity attributable to the owners of the Company of 72% and 14% respectively. The average balance of equity attributable to the owners of the Company continuously increased as a result of the Group's increasing scale of operations. The significant increase in growth rate in profit attributable to the owners of the Company in 2009 was mainly due to continuous increase of net profit since the Group's business expansion in 2008 and a significant reduction of loss of the US subsidiary in 2009.

Further increase in net return on equity from 20.5% in 2009 to 21.7% in 2010 was primarily due to an increase in profit attributable to the owners of the Company and average balance of equity attributable to the owners of the Company of 24% and 17% respectively.

INDEBTEDNESS

Borrowings

The table below sets forth details of borrowings as at the dates indicated.

	As at 31 December			As at 30 June	As at 31 October
	2008	**2009**	**2010**	**2011**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Bank loans — secured	80,702	107,774	117,898	70,660	58,879
Import loans — secured	296,722	591,960	811,047	745,072	580,628
Discounted bills and factoring	10,750	14,946	5,946	13,867	45,014
	388,174	714,680	934,891	829,599	684,521

The repayment schedules of the above borrowings based on the agreed terms of repayment granted by banks are as follows:

	As at 31 December			As at 30 June	As at 31 October
	2008	**2009**	**2010**	**2011**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
On demand or within one year	361,113	666,149	881,469	790,790	654,024
Due after one year					
More than one year, but not exceeding two years	14,726	24,242	47,760	22,040	18,832
More than two years, but not exceeding five years	12,335	24,289	5,662	16,769	11,665
	27,061	48,531	53,422	38,809	30,497
Total borrowings	388,174	714,680	934,891	829,599	684,521

Note: Under Hong Kong Interpretation 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause, term loans with an overriding right of repayment clause on demand by the banks irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations are classified as current liabilities. As a result, bank loans that contain a repayment on demand clause with the aggregate carrying amounts of HK$27,061,000, HK$48,531,000, HK$53,422,000 and HK$38,809,000 have been reclassified from non-current liabilities to current liabilities as at 31 December 2008, 2009, 2010 and six months ended 30 June 2011 respectively.

The borrowings mainly comprised of bank loans and import loans. The Group financed certain of its purchase of property, plants and machinery by 3 to 5 years bank loans. The Group financed certain of its purchase of raw materials by import loans, which are normally due within 3 to 4 months after the settlement by the banks.

The increase in bank borrowings was predominantly in the form of import loans, which were mainly used to support business growth and the increment was in conjunction with the increases in sales revenue during the Track Record Period. Import loans were used to finance the purchase of materials. As at 31 December 2008, 2009, 2010 and 30 June 2011, balances of import loans were approximately HK$297 million, HK$592 million, HK$811 million and HK$745 million, respectively.

The borrowings increased from approximately HK$388 million as at 31 December 2008 to approximately HK$715 million as at 31 December 2009, and then to approximately HK$935 million as at 31 December 2010, were in line with the increase in the Group's scale of operations and also due to relaxation of credit control by the Group's bankers after the recovery of global economy in 2009. The borrowings decreased from approximately HK$935 million as at 31 December 2010 to approximately HK$830 million as at 30 June 2011 by approximately HK$105 million, which is mainly due to the repayment of bank loan and import loans.

The borrowings bear interest at floating effective interest rates ranging from 0.8% to 4.4%.

The Group's banking facilities are secured by (i) bank deposits of the Group (Year ended 31 December 2008, 2009 and 2010: approximately HK$4 million, HK$7 million and HK$7 million, respectively. Period ended 30 June 2011: approximately HK$7 million); (ii) unlimited joint and several guarantee from the directors, Wong Shik Ho Tony, Leung Wah Kan and Wong Fong Pak; (iii) bank deposit of a related company of ASK Group (Year ended 31 December 2008, 2009 and 2010: approximately HK$10 million, HK$1 million and HK$Nil, respectively. Period ended 30 June 2011: HK$Nil million); (iv) unlimited personal guarantee from non-controlling interests; and (v) unlimited corporate guarantees from a related company. In December 2010, items (iii) to (v) were released. The Directors confirmed that item (ii) will be released upon the Listing.

As at 31 October 2011, being approximately eight weeks prior to the date of the Prospectus for the purpose of ascertaining information contained in the indebtedness statement prior to the printing of this prospectus, the Group has a total available committed banking facilities of approximately HK$1,292 million, of which approximately HK$607 million have not been utilised. Save as aforesaid and apart from intra-group liabilities, bank borrowings and normal trade payables, the Group did not have any outstanding bank borrowings, bank overdrafts, mortgages, charges, debentures, loan capital, debt securities or other similar indebtedness, or hire purchase commitments, acceptance liabilities (other than normal trade bills) or acceptance credits, any guarantees or other material contingent liabilities as at 30 June 2011.

Out of the said unutilised facilities, approximately HK$416 million was in respect of letter of credit, trust receipt and import loans, approximately HK$183 million was in respect of factoring services and approximately HK$8 million was in respect of overdraft facility. Banking facilities are generally reviewed annually by lending banks and are covered by bank facilities letters. The Group has banking facilities with Hang Seng Bank Limited, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank (Hong Kong) Limited and are due for review in September 2012, June 2012 and not specified, respectively. The aforementioned banking facilities are subject to the respective bank's overriding rights of repayment on demand.

The Directors confirm that there has been no material change in the Group's indebtedness and contingent liabilities from 30 June 2011 to the Latest Practicable Date.

Obligations under finance leases

The Group leases certain of its plant and machinery and office equipment during the Track Record Periods. Such assets are generally classified as finance leases as the rental period amounts to the estimated useful economic life of the assets concerned and often the Group has the right to purchase the assets outright at the end of the minimum lease term by paying a nominal amount.

The table below sets forth the future lease payments due as at the dates indicated.

	As at 31 December			As at 30 June	As at 31 October
	2008	**2009**	**2010**	**2011**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)
Total minimum lease payments					
— within one year	14	14	14	10	16
— more than one year but not later than five years	31	17	3	—	60
	45	31	17	10	76
Interest expense relating to future periods	—	—	—	—	—
Present value of the minimum lease payments	45	31	17	10	76
Present value of the minimum lease payments:					
— within one year	14	14	14	10	16
— more than one year but not later than five years	31	17	3	—	60
	45	31	17	10	76

The carrying amount of the Group's office and testing equipment and plant and machinery as at 31 December 2008, 2009, 2010 and 30 June 2011 includes an aggregate amount of approximately HK$37,000, HK$21,000, HK$10,000 and HK$2,000 respectively in respect of assets acquired under finance leases.

Operating lease arrangements

The Group leases the majority of its properties. The terms of property leases vary from country to country, although they all tend to be tenant repairing with rent reviews every 1 to 8 years and many have break clauses.

The total future minimum lease payments under non-cancellable operating leases are due as follows:

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	19,193	17,711	26,310	20,592
After one year but within five years	53,853	43,224	49,674	44,688
After five years	30,765	22,561	16,553	11,823
	103,811	83,496	92,537	77,103

Capital commitment

At 31 December 2008, 2009, 2010 and 30 June 2011, the Group had the following capital commitments in respect of:

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted for acquisition of property, plant and equipment but not provided	5,595	3,981	2,490	26,102

Contingent liabilities

As of the Latest Practicable Date, the Group did not have material contingent liabilities.

The Controlling Shareholders and Directors are not involved in any material legal proceedings.

Off-balance sheet commitments and arrangements

As of the Latest Practicable Date, the Group had not entered into any material off-balance sheet arrangement.

LIQUIDITY AND CAPITAL RESOURCES

The Group historically funded its operations primarily from cash flows from operating activities and bank borrowings. Its principal uses of cash have been, and are expected to continue to be, operational costs and capital expenditures.

The following table is a summary of the Group's cash flows during the Track Record Period.

	Year ended 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net cash generated from/(used in) operating activities	148,221	399,457	60,361	(279,061)
Net cash used in investing activities	(69,403)	(38,408)	(24,247)	(6,044)
Net cash (used in)/generated from financing activities	(31,695)	14,413	(32,186)	(39,324)
Net increase/(decrease) in cash and cash equivalents	47,123	375,462	3,928	(324,429)
Cash and cash equivalents at beginning of year/period	258,717	305,816	681,272	685,240
Effect of exchange rate changes on cash and cash equivalents	(24)	(6)	40	(70)
Cash and cash equivalents at end of year/period	305,816	681,272	685,240	360,741

Net cash generated from operating activities

Net cash flow generated from operating activities reflects the profit before income tax, as adjusted for non-cash items, such as depreciation and amortisation, interest income/ expense and the effects of changes in working capital, such as increases or decreases in inventories, trade and other receivables, trade and other payables, import loans, interest and income tax payment.

The Group derives its cash inflow from its operating activities principally from the receipt of payments from sales of its products. Its cash outflow from operations mainly included the purchases of raw materials and operating expenditures.

For the six months ended 30 June 2011, net cash used in operating activities was HK$279.1 million, consisting of cash used in operations of HK$270.7 million, income tax paid of HK$2.6 million, as well as interest paid of HK$5.8 million. Cash used in operations primarily reflected the profit before income tax of HK$40.6 million, as adjusted for income statement items with no operating cash effect and the increase in working capital. The increase in working capital was mainly due to the decrease in import loans and trade and other payables by HK$66.0 million and HK$369.2 million respectively, as well as the increase in inventories by HK$34.7 million, and was partially offset by the decrease in trade and other receivables by HK$133.6 million, respectively. The decrease in trade and other payables and import loans were primarily due to faster settlement to suppliers and settlement of import loans on maturity.

For the year ended 31 December 2010, net cash generated from operating activities was HK$60.4 million, consisting of cash generated from operations of HK$106.5 million, income tax paid of HK$34.3 million, as well as interest paid of HK$11.8 million. Cash generated from operations primarily reflected the profit before income tax of HK$133.1 million, as adjusted for income statement items with no operating cash effect and the increase in working capital. The increase in working capital consisted primarily of the increase in inventories and trade and other receivables of HK$216.5 million and HK$219.9 million respectively, but was partially offset by the increase in trade and other payables and import loans of HK$194.6 million and HK$219.1 million respectively. The increases in inventories, trade and other receivables, trade and other payables and import loans were mainly due to the increase in business activities in 2010.

For the year ended 31 December 2009, net cash generated from operating activities was HK$399.5 million, consisting of cash generated from operations of HK$414.2 million, income tax paid of HK$4.2 million, as well as interest paid of HK$10.5 million. Cash generated from operations primarily reflected the profit before income tax of HK$115.5 million, as adjusted for income statement items with no operating cash effect and the decrease in working capital. The decrease in working capital consisted primarily of, the increase in trade and other payables and import loans of HK$212.1 million and

HK$295.2 million respectively, and the decrease in amount due from related companies of HK$33.9 million, but was partially offset by the increase in inventories and trade and other receivables of HK$218.0 million and HK$96.4 million respectively. The increases in inventories, trade and other receivables, trade and other payables and import loans were mainly due to the increase in business activities in 2009.

For the year ended 31 December 2008, net cash generated from operating activities was HK$148.2 million, consisting of cash generated from operations of HK$188.7 million, income tax paid of HK$21.2 million, as well as interest paid of HK$19.3 million. Cash generated from operations primarily reflected the profit before income tax of HK$65.0 million, as adjusted for income statement items with no operating cash effect and the decrease in working capital. The decrease in working capital consisted primarily of the decrease in trade and other receivables of HK$113.4 million but was offset by the decrease in import loans of HK$90.7 million as a result of the Group's tightening credit control in 2008.

Net cash used in investing activities

For the six months ended 30 June 2011, net cash used in investing activities was HK$6.0 million. Net cash outflows were mainly contributed by payment of HK$5.7 million for purchase of property, plant and equipment and disposal of a subsidiary with HK$1.3 million cash equivalents.

For the year ended 31 December 2010, net cash used in investing activities was HK$24.2 million. Net cash outflows mainly contributed by payment of HK$44.8 million for purchase of property, plant and equipment and payment of consideration of HK$13.5 million for acquisition of businesses, and partially offset by receipt of dividend income of HK$33.0 million.

For the year ended 31 December 2009, net cash used in investing activities was HK$38.4 million. Net cash outflows mainly contributed by payment of HK$35.5 million for purchase of property, plant and equipment.

For the year ended 31 December 2008, net cash used in investing activities was HK$69.4 million. Net cash outflows mainly contributed by payment of HK$38.3 million for purchase of property, plant and equipment and payment of consideration of HK$38.3 million for acquisition of businesses, and partially offset by proceeds of HK$7.0 million from disposal of other financial assets.

Net cash used in financing activities

For the six months ended 30 June 2011, net cash used in financing activities was HK$39.3 million. The cash outflows were primarily repayment of HK$47.2 million for bank loans, and were partially offset by the net proceeds of HK$7.9 million for discounted bills and factoring loans.

For the year ended 31 December 2010, net cash used in financing activities was HK$32.1 million. The cash outflows were primarily dividend payments of HK$40.2 million and net repayments for discounted bills and factoring loans of HK$9.0 million, and partially offset by contribution from non-controlling interests of HK$7 million and net proceeds from bank loans of HK$10.1 million.

For the year ended 31 December 2009, net cash generated from financing activities was HK$14.4 million. The cash inflows were primarily due to net proceeds of bank loans of HK$27.0 million and partially offset by dividend payment of HK$13.7 million.

For the year ended 31 December 2008, net cash used in financing activities was HK$31.7 million. The cash outflows were primarily due to net repayment of bank loans of HK$15.8 million and dividend payment of HK$13.8 million.

WORKING CAPITAL

Taking into account the Group's existing cash balances, operating cash flow, available banking facilities and estimated net proceeds from the Offering, the Directors confirm that the Group has sufficient working capital for its present requirements, capital expenditure after listing and for at least the next 12 months from the date of this prospectus.

FINANCIAL RISKS

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk. The Group's risk management objectives and policies mainly focus on minimising the potential adverse effects of these risks on the Group by closely monitoring the individual exposure as follows:

Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit. Ongoing evaluations are performed on the financial condition of trade customers. Debtors with balances that are more than 3 months overdue, further credit will only be granted under management's approval, otherwise, debtors are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers, however the Group has purchased credit insurance for the Group's trade receivables. Total insured trade receivables accounted for approximately 57%, 49%, 48% and 56% of the Group's total trade receivables as at 31 December 2008, 2009, 2010 and 30 June 2011.

Further quantitative disclosures in respect of the Group exposures to credit risk arising from trade receivables are set out in Note 19 to the Accountants' Report in Appendix I of the Prospectus.

The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit-rating assigned by international credit-rating agencies.

Liquidity risk

The Group's policy is to regularly monitor its current and expected 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.

Interest rate risk

The Group's interest rate risk arises primarily from borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk respectively.

The Group manages certain of its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

At 31 December 2008, 2009, 2010 and 30 June 2011, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would lead to a decrease/increase the Group's profit after tax for the years ended 31 December 2008, 2009, 2010 and for the six months ended 30 June 2011 by approximately HK$1,908,000, HK$2,254,000, HK$3,121,000 and HK$3,355,000, respectively.

Currency risk

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars and Renminbi.

The following table details the Group's exposure at 31 December 2008, 2009, 2010 and 30 June 2011 to significant currency risk arising from the recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	As at 31 December						As at 30 June	
	2008		2009		2010		2011	
	United States dollar	Renminbi	United States dollar	Renminbi	United States dollar	Renminbi	United States dollar	Renminbi
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other receivables	599,107	1,710	630,325	2,005	751,794	6,855	738,406	22,155
Cash and cash equivalents	268,263	7,969	609,204	4,723	535,328	735	298,830	8,097
Trade and other payables	(440,120)	(16,972)	(657,322)	(24,174)	(756,976)	(3,613)	(508,839)	(75,617)
Borrowings	(104,350)	—	(479,175)	—	(535,163)	—	(472,358)	—
Overall net exposure	322,900	(7,293)	103,032	(17,446)	(5,017)	3,977	56,039	(45,365)

As at 31 December 2008, 2009, 2010, and 30 June 2011, if the US$ had strengthened/weakened by 5% against the HK$ with all other variables held constant, profit before income tax for the same periods would have been approximately HK$16.1 million higher/lower, HK$5.1 million higher/lower, HK$0.2 million higher/lower and HK$2.8 million higher/lower, respectively, mainly as a result of foreign exchange gains/losses on translation of trade receivables, cash and cash equivalents, trade payables and borrowings denominated in US$.

As at 31 December 2008, 2009, 2010, and 30 June 2011, if the RMB had strengthened/weakened by 5% against the HK dollars with all other variables held constant, profit before income tax for the same periods would have been approximately HK$0.3 million lower/higher, HK$0.8 million lower/higher, HK$0.2 million lower/higher and HK$2.3 million higher/lower, respectively, mainly as a result of foreign exchange gains/losses on translation of other receivables, cash and cash equivalents, trade and other payables denominated in RMB.

DERIVATIVE FINANCIAL INSTRUMENTS

During the Track Record Period, the Group's purchases of raw materials and components for its manufacturing, sales and borrowings were mainly made in US dollars and Hong Kong dollars. As Hong Kong dollar is currently pegged against US dollar, exposures of foreign currency fluctuations for the Group's sales, cost of materials and borrowings are minimal.

The Group's manufacturing activities are carried out in the PRC and its cost and expenses are principally denominated in RMB. Thus, the Group has significant exposures to foreign currency fluctuations in RMB. For the year ended 31 December 2008, 2009 and 2010, and for the six months ended 30 June 2011, the Group's average monthly cost and expenses paid in RMB were approximately RMB16.1 million, RMB16.6 million, RMB19.8 million and RMB21.5 million, respectively.

The Group has a treasury policy to provide guidelines on investment in financial instruments. The Group uses, inter alia, foreign exchange forward contracts, interest rate swap contracts and performance swap contracts for hedging against its foreign exchanges and interest rates risks. For interest rate swap contracts, the Group based its decisions on entering into such contracts on its anticipation of the potential rise in interest rates. Regarding RMB forward contracts, the Group based its decisions on entering into such contracts on the projection on the upcoming RMB exposure and information regarding potential appreciation in the RMB exchange rate.

At 31 December 2009, 2010, and 30 June 2011, the Group had forward foreign exchange contracts with a fair value of HK$790,000, HK$350,000 and HK$Nil, and performance swap contracts with a fair value of HK$311,000, HK$62,000 and HK$652,000 recognised as derivative financial assets respectively. At 31 December 2009, 2010, and 30 June 2011, the Group had interest rate swap contracts with a fair value of HK$143,000, HK$162,000 and HK$103,000 recognised as derivative financial liabilities.

The Group managed currency risk and interest rate risk through hedging by entering into foreign exchange forward contracts, performance swap contracts and interest rate swap contracts. The Group entered into such derivative contracts only with major banks operating in Hong Kong, namely The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank. As such, the Group considered it was exposed to minimal counterparty risk.

The chief financial officer and finance manager review balance sheet exposure and determine whether it is feasible to hedge the exposure economically. Both the chief financial officer and finance manager determine the Renminbi exposure by reviewing the monthly payables on Renminbi and demand forecast on Renminbi, and then propose the amount and the periods of the currency hedge to the chief executive officer and one other executive Director for approval. The Group has also entered into interest rate swap contracts to hedge against a specific term loan with floating interest rate. The chief financial officer and finance manager will review the latest economic situation and estimate the interest rate trends, and then propose the interest rate swap contract to executive Directors. Interest rate swap contracts are subject to the approval of the chief executive officer and one other executive Director.

The Group entered into derivative financial instruments to minimise potential foreign exchange losses due to balance sheet exposures as well as interest costs in case interest rates increase. The objective is to minimise the exposure on exchange losses and the financial impact of change of interest rates over the contract periods, which could adversely affect the Group's operating performance. The Group has realised gains on the derivative financial instruments of HK$0.5 million, HK$0.7 million, HK$1.3 million, and HK$0.6 million for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively. The gains did not represent significant amounts in the Group's profit since the objective of entering into the derivative financial instruments is to hedge against the potential increase in cost on currency and interest during the Track Record Period.

The Group did not carry out any speculative trading in financial instruments during the Track Record Period.

The Group has no plan to carry out speculative trading in financial instruments.

Please refer to the section headed "Directors, senior management and staff" of this prospectus for biographical information of the chief financial officer. The accounting manager, responsible for accounting functions and treasury operations, joined the Group in July 1997 and was qualified by experience. Both the chief financial officer and the finance manager do not have experience in investment management.

(a) Foreign exchange forward contracts

The foreign exchange forward contracts are settled at specific time intervals and the major terms of the contracts as at 31 December 2009, 2010, and 30 June 2011 are as follows:

			Fair value		
Notional amount	**Trade dates**	**Contracted exchange rates**	**As at 31 December 2009**	**As at 31 December 2010**	**As at 30 June 2011**
			HK$'000	*HK$'000*	*HK$'000*
US$1,000,000	16 March 2009	HK$7.85 or CNY6.995	691	—	—
US$1,000,000	8 June 2009	CNY6.3 to CNY6.89	99	—	—
US$2,000,000	30 June 2010 to 31 May 2011	US$1 to CNY6.9	—	350	—
			790	350	—

(b) Performance swap contract

			Fair value		
Notional amount	**Trade dates**	**Contracted exchange rates**	**As at 31 December 2009**	**As at 31 December 2010**	**As at 30 June 2011**
			HK$'000	*HK$'000*	*HK$'000*
HK$50,000,000 (Interest rate swap portion) and US$3,600,000 (Foreign Exchange portion)	4 August 2009 to 7 February 2011	HKD-HIBOR-HKAB/US$1 to CNY7	311	62	—
US$2,000,000	12 April 2011 to 7 March 2013	CNY5.95 to CNY6.6	—	—	652
			311	62	652

(c) Interest rate swap contract

Notional amount	Trade dates	Contracted interest rates/ strike rates	Fair value As at 31 December 2009	As at 31 December 2010	As at 30 June 2011
			HK$'000	*HK$'000*	*HK$'000*
HK$20,000,000	9 March 2009 to 11 March 2013	1.84% p.a.	(143)	(162)	(103)

RELATED PARTY TRANSACTION

During the Track Record Period, the Group entered into various transactions with its related parties. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control. The Directors are of the view that the related party transactions were conducted on normal commercial terms and in the ordinary and usual course of the Group's business. For details of the related party transaction, please refer to note 33 of the Accountants' Report included as Appendix I to this prospectus.

The Directors confirm that all balances with the related parties which are non-trade in nature were fully settled as at the Latest Practicable Date.

PROPERTY VALUATION

Jones Lang LaSalle Sallmanns Limited ("Jones Lang"), an independent property valuer, has valued the property interests of the Group as at 30 September 2011. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix III to this prospectus.

As required under Rule 5.07 of the Listing Rules, the table below sets forth reconciliation of the net book value of the Group's property interests from the audited combined financial information as at 30 June 2011 to their value as at 30 September 2011 as stated in Appendix III to this prospectus:

	HK$'000
Net book value of property interest as at 30 June 2011	990
Depreciation for the three months ended 30 September 2011	(7)
Net book value of property interest as at 30 September 2011	983
Valuation surplus as at 31 August 2011	5,827
Valuation as at 30 September 2011 per Appendix III in this Prospectus	6,810

DIVIDENDS

Subject to the Companies Law, the Group may declare dividends at a general meeting of the shareholders in any currency but no dividend shall be declared in excess of the amount recommended by the Board. With the sanction of an ordinary resolution, dividends may also be declared and paid out of a share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except insofar as the rights attaching to, or the terms of issue of, any Share may otherwise provide, all dividends shall be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Group on account of calls or otherwise.

In addition, the declaration of dividends is subject to the discretion of the Directors, and the amounts of dividends actually declared and paid will also depend upon the following factors:

- its earnings and profitability;
- its general business condition;
- its financial condition;
- its operating requirements;

- its capital requirements;
- cash demand and cash flow;
- interests of the Shareholders; and
- any other factors which the Board may deem relevant.

Distributions from its subsidiary companies may also be restricted if they incur losses or by any restrictive covenants in bank credit facilities or other agreements that the Group or its subsidiaries may enter into in the future.

Any dividends on the Shares will be declared and paid in Hong Kong dollars on a per Share basis. Any final dividend for a fiscal year will be subject to the Shareholders' approval.

The Group's future dividend policy is that approximately 30% to 40% of its profits available for distribution will be recommended for distribution for each financial year. There is no assurance that dividends of any amount will be declared or distributed in any year.

During the Track Record Period, the Group's subsidiaries paid approximately HK$13.7 million and HK$31.3 million in dividends to their then shareholders for profits generated in the financial year ended 31 December 2008 and 2009, respectively. For the financial year ended 31 December 2010, dividend declared amounted to HK$66.5 million, of which HK$35.2 million was considered to be normal annual dividend following the normal approximately 30% payout rate and the balance of HK$31.5 million was considered as a special dividend. As of 31 October 2011, HK$15 million out of the HK$66.5 million declared dividends had been paid and the balance is expected to be paid before the Listing. The said dividend payment will be funded by internal cashflow of the Group. The Directors consider that there would not be adverse effect on the sufficiency of working capital of the Group after the payment of the said dividend. Historically, the Group made payment of dividends based on its business and financial conditions as well as interests of the Shareholders at that time. All dividends payable for each year or period during the Track Record Period were settled at the Latest Practicable Date. The principal source of funding for such dividend payments was from the cash inflow generated from the operations.

DISTRIBUTABLE RESERVES

As at 30 June 2011, being the date to which the latest audited financial statements of the Group were made up, the Company had no distributable reserve available for distribution to the Shareholders.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted combined net tangible assets prepared in accordance with paragraph 4.29 of the Listing Rule is for illustration purposes only, and is set forth here to illustrate the effect of the Offering on the combined net tangible assets as at 30 June 2011 as if it had taken place on 30 June 2011.

The unaudited pro forma adjusted combined net tangible assets have been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets as at 30 June 2011 or any future date following the Offering. It is prepared based on the audited combined net assets as at 30 June 2011 as derived from the combined financial information set forth in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted combined net tangible assets does not form part of the Accountants' Report as set forth in Appendix I to this prospectus.

	Audited combined net tangible assets attributable to equity shareholders of our Company as at 30 June 2011[1]	**Estimated net proceeds from the Offering**[3]	**Unaudited pro forma net tangible assets**	**Unaudited pro forma net tangible assets per Share**[4]/[5]
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
Based on an Offer Price of HK$1.60 per Share	574,203	109,200	683,403	1.64

Notes:

1. The combined net tangible assets attributable to the equity shareholders of our Company as of 30 June 2011 is derived from the combined net assets attributable to the equity shareholders of our Company as of 30 June 2011 of HK$583,423,000 as reported in the Accountants' Report set out in Appendix I to this Prospectus, after deducting intangible assets of HK$9,220,000.

2. The estimated net proceeds from the Offering are based on the hypothetical Offer Price of HK$1.60 per Offer Share, assuming no exercise of the Over-allotment Option, after deduction of the underwriting fees and estimated expenses payable by us in connection with the Offering.

3. The unaudited pro forma net tangible asset value per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 417,518,668 Shares expected to be in issue immediately following the completion of the Offering, taking no account for the Share which may be issued pursuant to any exercise of the Over-allotment Option.

4. By comparing the valuation of our Company's property interests of HK$6,810,000 as set out in Appendix III to this Prospectus and the unaudited net book value of these properties as of 30 June 2011 the net valuation surplus is approximately HK$5,824,000, which has not been included in the above net tangible assets attributable to equity shareholders of our Company as of 30 June 2011. The revaluation of the Group's property interests will not be incorporated in the Group's financial information. If the revaluation surplus is to be included in the Group's financial information, an additional depreciation charge of approximately HK$162,000 per annum related to leasehold land and buildings would be recorded.

5. No adjustment has been made to reflect any trading result or other transaction of our Group entered into subsequent to 30 June 2011. In particular, the unaudited pro forma net tangible assets of the Group attributable to the owners of the Company does not take into account the dividend of approximately HK$66.5 million declared by the board of PC Partner Holdings on 28 July 2011, of which HK$15,648,000 was paid to the shareholders on 1 August 2011.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

The Directors confirm that as of the Latest Practicable Date there was no circumstance that would give rise to the disclosure requirements under Rule 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

From the end of the Track Record Period to 31 October 2011, based on the Group's management accounts, the Group experienced a decrease in the average monthly sales revenue from the European Union countries as compared with that from the same regions recognised in the first six months of 2011. However, the increase in sales revenue from other geographic areas over the same period has to a large extent offset the said decrease.

The Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in the financial or trading position of the Group since 30 June 2011 (being the date to which the latest audited financial statements of the Group were made up).