* For identification purpose only

HKSE: 1263

栢能集團有限公司*

PC Partner Group Limited

Incorporated in the Cayman Islands with limited liability

ANNUAL REPORT 2018

CONTENTS

COMPANY PROFILE

PC Partner is a leading manufacturer of computer electronics. Our key products are video graphics cards, motherboards and mini-PCs. We are also offering one-stop electronic manufacturing services to reputable brands all over the world.

As one of the leaders in the industry, we leverage our extraordinary research and development capabilities and state-of-the-art production facilities to constantly bring new product ideas and leading-edge innovations to the market. We endeavour to stay ahead of the industry to ensure success and competitiveness in serving the needs of our customers.

We are a
technology company with a
global vision.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WONG Shik Ho Tony
(Chairman and Chief Executive Officer)
Mr. WONG Fong Pak *(Executive Vice President)*
Mr. LEUNG Wah Kan *(Chief Operation Officer)*
Mr. HO Nai Nap
Mr. MAN Wai Hung

Non-executive Directors

Mrs. HO WONG Mary Mee-Tak
Mr. CHIU Wing Yui
(Alternate Director to Mrs. HO WONG Mary Mee-Tak)

Independent Non-executive Directors

Mr. IP Shing Hing
Mr. LAI Kin Jerome
Mr. CHEUNG Ying Sheung

AUDIT COMMITTEE

Mr. LAI Kin Jerome *(Chairman)*
Mr. IP Shing Hing
Mr. CHEUNG Ying Sheung

REMUNERATION COMMITTEE

Mr. IP Shing Hing *(Chairman)*
Mr. LAI Kin Jerome
Mr. CHEUNG Ying Sheung
Mr. WONG Shik Ho Tony

NOMINATION COMMITTEE

Mr. IP Shing Hing *(Chairman)*
Mr. LAI Kin Jerome
Mr. CHEUNG Ying Sheung
Mr. WONG Shik Ho Tony

INVESTMENT COMMITTEE

Mr. WONG Shik Ho Tony *(Chairman)*
Mr. WONG Fong Pak
Mr. LEUNG Wah Kan
Mr. IP Shing Hing
Mr. LAI Kin Jerome

COMPANY SECRETARY

Ms. LEUNG Sau Fong

AUTHORISED REPRESENTATIVES

Mr. WONG Shik Ho Tony
Ms. LEUNG Sau Fong

AUDITOR

BDO Limited
25/F., Wing On Centre
111 Connaught Road Central
Hong Kong

LEGAL ADVISER

Shirley Lau & Co. LLP
17/F., Sun House
90 Connaught Road Central
Hong Kong

REGISTERED OFFICE

Clifton House, 75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

19/F., Shatin Galleria
18–24 Shan Mei Street
Fo Tan
Shatin
New Territories

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Ltd.
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman, KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17/F
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
Australia and New Zealand Banking Group Limited

WEBSITE

www.pcpartner.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

We have experienced a strong first half year but a weak second half year in 2018. Although revenue has achieved a record high but the growth rate was only approximately at 6.6% and the profit attributable to shareholders was less than the profit of prior year.

The result of second half year was disappointed as the market is flooded with both new and second handed video graphics cards ("VGA Cards") and orders on blockchain applications and platforms dropped dramatically after digital coins prices crashed during the year. Market demand could not consume all the supplies that forced all the VGA Cards players to cut their margin on selling the cards to lower down the inventory risk.

Another impact was NVIDIA launched new generation of graphic processing unit ("GPU") by the end of the third quarter in 2018 so many gamers would rather hold up their purchase decision to see whether the new generation of GPU meet their price and performance expectation. Therefore, the Group have recorded a very weak quarter in the third quarter of 2018, resulting in a higher difficulty to clear the last generation of the on-hand VGA Cards inventory. Unfortunately, the new generation of GPU launched by NVIDIA had received much negative comments on price and performance from the market, and it was also due to the lack of new games to apply the new features. This new generation of VGA Cards did not sell very well like in the past. We originally expected the new products launch could fully cover the loss being incurred on clearing old inventory but it did not happened as expected. However, we expected the sales of the new generation of VGA Cards will be improved as more and more software developers are adapting their software to support the new features of the new generation of VGA Cards.

OUTLOOK

It looks like the challenge of excess channel inventory will still be around, we believe it may take another six months to digest the channel inventory and we will keep pushing to clear our excessive on-hand inventory in order to minimise the inventory risk. Global economy remains unstable in this year. The economy in China is getting weak and especially on the demand of the high end consumer products. The tariff imposed by the United States on goods import from China would increase operating costs and cause selling price increase ultimately in the United States. Strong U.S. dollar also hurts the demands on the rest of the world. All these uncertainties pose a risk on our business but we will do whatever it takes to manage the business risk and to diversify our business to achieve a continuous growth.

Our brand business was growing very fast in the past few years, it is now roughly contributing 57.1% of the revenue for the Group. We will continue to invest on our branding business, especially on ZOTAC, with more new innovative and stylish gaming products and participate in more eSports events in different regions and countries to promote the brand. We may see our Original Equipment Manufacturer ("OEM") business declines in 2019 by approximately 10% to 15% since we only expected very minimal orders on blockchain applications and platforms which was a strong driving forces on OEM business in the past two years. We try to diversify our business through a joint venture partnership on cloud computing service and we are looking into this investment to generate a good and stable income to the Group.

Investment on talents and innovative product ideas will remain to be our continuous strategy to drive business growth. We will also continue to invest into automation in our manufacturing plants in order to ensure the operation to be cost effective and efficient in the long run. In addition, we will continue to delegate resources on environmental, social and corporate responsibilities in the operating locations in order to strive our best to protect the environment and fulfil our social and corporate responsibilities.

Finally, I would like to thank all employees again for their contribution and dedication, my fellow directors for their counsel and all shareholders, customers and suppliers for their support throughout the year.

WONG Shik Ho Tony
Chairman and Chief Executive Officer

Hong Kong, 22 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the design, manufacturing and trading of VGA Cards for desktop PCs, electronics manufacturing services ("EMS"), and manufacturing and trading in other personal computer ("PC") related products and components.

The Group manufactures VGA Cards for Original Design Manufacturer/Original Equipment Manufacturer ("ODM/OEM") customers and also manufactures and market VGA Cards and other PC products under its own brands, namely ZOTAC, Inno3D, and Manli. The relationships with NVIDIA and AMD, the two globally dominant GPU suppliers, enable the Group to develop cost-competitive, high performance products and solutions to serve its customers. VGA Cards remain the core business of the Group for the year under review.

The Group provides EMS to globally recognised brands, including major providers of Automatic Teller Machines ("ATM") and Point-Of-Sales ("POS") systems, storage devices, consumer products, etc.. Aside from VGA Cards and the EMS business, the Group manufactures and sells other PC related products such as mini-PCs, gaming computers, motherboards, and further derives revenue from trading products and components.


ZOTAC
GRAND FINALS
《英雄聯盟》表演賽
8/26 (日) / 5PM
ROSE MA
VS
mibr
betway

Management Discussion and Analysis

Business Performance

Revenue for 2018 increased by 6.6% year over year from HK$8,555.4 million in 2017 to HK$9,122.3 million in 2018; of which, revenue from VGA Cards segment increased by 1.5% from HK$7,165.1 million in 2017 to HK$7,273.6 million in 2018. Sales on other PC related products and components segment increased by 32.6% from HK$865.5 million in 2017 to HK$1,148.0 million in 2018; EMS business with a sales increase of 33.5% from HK$524.8 million in 2017 to HK$700.7 million in 2018.

Revenue from own brands VGA Cards segment increased by HK$219.1 million, or 4.7%, from HK$4,666.5 million in 2017 to HK$4,885.6 million in 2018. The growth on revenue has been slowed down in comparison to previous years, it was mainly due to excessive inventory of VGA Cards included both the new cards and the second hand cards in the channel market after digital coins prices crashed early this year. Beside the excessive inventory issue of VGA Cards caused a slow down on sales on own brands VGA Cards, new generation of VGA Cards launched in the second half of the year is another factor caused a slow down on sales of the existing series of the own brands VGA Cards. Orders on ODM/OEM basis VGA Cards business decreased by HK$110.6 million or 4.4%, from HK$2,498.6 million in 2017 to HK$2,388.0 million in 2018. It was mainly caused by a significant decline on orders from customers on blockchain applications and platforms.

Revenue from EMS business recorded a growth of HK$175.9 million, or 33.5%, from HK$524.8 million in 2017 to HK$700.7 million in 2018. The increase was mainly due to more orders from both the existing customers and new customers during the year. Revenue from other PC related products and components business has achieved a growth of HK$282.5 million, or 32.6%, from HK$865.5 million in 2017 to HK$1,148.0 million in 2018. It was mainly contributed by more orders on project base systems.

Revenue from brand businesses have recorded a 5.6% growth rate from HK$4,930.5 million in 2017 to HK$5,208.0 million in 2018. Other PC related products and components under brand businesses have achieved a higher growth rate at 22.1%, it was much higher than the growth rate of VGA Cards only at 4.7%. Brand businesses represented 57.1% of the Group's revenue in 2018 and it represented 57.6% of the Group's revenue in 2017.

Both the Europe, Middle East, Africa and India ("EMEAI") region and North and Latin America ("NALA") regions have achieved a strong growth with over 30%. However, Asia Pacific ("APAC") and People's Republic of China ("PRC") regions have recorded a decline by single digit in 2018.

APAC Region

In the APAC region, the revenue decreased by HK$103.8 million, or 2.9%, from HK$3,619.0 million in 2017 to HK$3,515.2 million in 2018. It was mainly due to a decrease of orders from both ODM/OEM basis customers under VGA Cards segment and less orders on blockchain applications and platforms. Sales increase on brand businesses have partially offset the decline for the region.

EMEAI Region

In the EMEAI region, the revenue amounted to HK$2,300.5 million in 2018, representing an increase of HK$558.4 million, or 32.1%, as compared to HK$1,742.1 million in 2017. The growth of the region was mainly attributable to an increase on brand businesses as well as a strong demand on orders from customers on project base systems.

NALA Region

In the NALA region, the revenue significantly increased from HK$1,023.1 million in 2017, representing an increase of HK$322.8 million, or 31.6%, to HK$1,345.9 million in 2018, which was mainly attributable to the increase in sales of own brand products.

PRC Region

In the PRC region, the revenue recorded a decline to HK$1,960.7 million in 2018, representing a decrease of HK$210.5 million, or 9.7%, as compared to HK$2,171.2 million in 2017. It was mainly due to decline in the sales of VGA Cards under own brand businesses since the market was flooded with second hand VGA Cards after digital coins prices crashed in the year.

Management Discussion and Analysis

Business Compliance

The Group has achieved an on-going compliance with laws and regulations with its operating entities, and fulfilled different social responsibilities according to ISO9001, ISO14001, OHSAS18001, QC080000 and the code issued by Electronic Industry Citizenship Coalition ("EICC").

Principal Risks and Uncertainties

The Group is operating in a fast moving and highly competitive environment and the product life cycle turns to be shortened over the years. New products introduction requires significant resources involvement from development, production as well as sales and marketing. The Group will be at risk and may lag behind the competition if it cannot response promptly to the changing business environment. Technological change may impose a significant negative impact on the business if the Group is unable to acquire new technologies and apply onto the business. Talent is a key factor for companies' success especially technology and engineering talents are critical for the Group as a technology company. Lack of capable talents on development of new applications and technologies is a risk to the long term survival of the Group. The Group would continue to review the human resources and look for capable talents to join the Group in order to stay ahead of technology and launch new products more efficiently against competition.

Business relationship with customers and suppliers are crucial for business success. The Group has established a long-term business partnership with both AMD and NVIDIA for over 20 years and 10 years respectively. The Group rides on the technologies from both AMD and NVIDIA to develop own products and gain the know-how of the VGA Cards in order to obtain orders on contract manufacturing business of VGA Cards and to develop products under its own brands. Discontinuance of the business partnership would be a threat to the survival of the business in long run. The Group would continue to maintain a good relationship with partners, customers and suppliers and also look for new cooperation opportunities in the industry.

The Group is not aware of any particular important event which has occurred and would trigger risk and uncertainty as of 31 December 2018.

FINANCIAL REVIEW

Revenue

The Group's total revenue increased by HK$566.9 million, or 6.6%, from HK$8,555.4 million in 2017 to HK$9,122.3 million in 2018. It was mainly resulted from an increase in revenue on all business segments, including VGA Cards, EMS and other PC related products and components. Both EMS and other PC related products and components have demonstrated a strong growth in comparison to prior year with growth rates at 33.5% and 32.6% respectively. VGA Cards has only achieved growth rate at 1.5% since the sales has experienced a dramatic slowdown in the second half of the year due to both the excessive inventory of VGA Cards in the channel market after digital coins prices crashed and a slowdown in sales of the last generation of VGA Cards after NVIDIA announced new GPUs launched in the second half of the year.

Revenue from the VGA Cards business has increased by HK$108.5 million, or 1.5%, from HK$7,165.1 million in 2017 to HK$7,273.6 million in 2018. Sales of own brand VGA Cards recorded an increase of 4.7% but ODM/OEM base orders on VGA Cards declined by 4.4% in comparison to the prior year. Sales of own brand VGA Cards increased by HK$219.1 million, or 4.7%, from HK$4,666.5 million in 2017 to HK$4,885.6 million in 2018. The growth rate has slowed down from previous years due to the excessive inventory of VGA Cards in the channel market after digital coins prices crashed as well as the sales momentum of the last generation of VGA Cards has slowed down after NVIDIA announced new GPUs launched in the second half of the year. In addition, the new generation of VGA Cards did not sell very well as expected because the new generation of VGA Cards were positioned at a much higher price band in comparison to the last generation of VGA Cards. VGA Cards orders on ODM/OEM contract manufacturing businesses decreased by HK$110.6 million, or 4.4%, from HK$2,498.6 million in 2017 to HK$2,388.0 million in 2018. It was mainly due to the decline in orders from customers on blockchain applications and platforms after the digital coins prices crashed in the year.

Revenue derived from the EMS business amounted to HK$700.7 million in 2018, representing an increase of HK$175.9 million, or 33.5%, as compared to HK$524.8 million in 2017. The change was mainly attributable to more orders from existing customers and new businesses. Revenue from other PC related products and components business increased by HK$282.5 million, or 32.6%, from HK$865.5 million in 2017 to HK$1,148.0 million in 2018. The growth was mainly contributed by a strong growth of miniPC as well as project base systems.

Gross Profit and Margin

The Group's gross profit in 2018 was HK$957.4 million, representing an increase of HK$41.4 million, or 4.5%, compared with HK$916.0 million in 2017. Gross profit margin decreased by 0.2 percentage point to 10.5% as compared with 10.7% in 2017. It was mainly due to a significant decline in gross profit margin to 6.7% in the second half of the year. The decline in gross profit margin was mainly due to both the price reduction on selling the last generation of VGA Cards after NVIDIA announced new GPUs launched and additional inventory provision to write down the inventory value at the end of the year.

Material consumption to sales reduced from 86.3% in 2017 to 85.7% in 2018. This contributed 0.6% savings on material consumption which was mainly resulted from higher average selling price on own brand products as well as high margin on ODM/OEM basis orders from customers. The Group has spent more on direct labour and conversion costs of HK$80.2 million, or 30.9% from HK$259.4 million in 2017 to HK$339.6 million in 2018; of which, outsourced subcontracting fees increased by HK$14.3 million to HK$61.3 million in 2018 which was due to additional outsourcing arrangement to speed up the delivery of orders from customers in the first quarter of the year after Chinese New Year. Additional workers needed to support businesses and wages for workers increased both resulted in a higher spending on direct labour cost in 2018. Direct labour plus conversion costs as a percentage on sales increased by 0.8 percentage point to 3.8% in 2018.

Profit for the Year

The Group recorded a profit for the year attributable to owners of the Company of HK$270.8 million in 2018 as compared with a profit of HK$332.3 million in 2017. It was mainly resulted from a decline in gross profit margin and more operating expenses incurred during the year. The profit to revenue ratio decreased from 3.9% in 2017 to 3.0% in 2018.

Other revenue and other gains and losses decreased by HK$22.3 million from HK$12.1 million gain in 2017 to HK$10.2 million loss in 2018. It was mainly due to HK$23.0 million on exchange loss in 2018 but the Group recorded an exchange gain in 2017.

Operating expenses increased by HK$61.3 million, or 10.8%, from HK$569.1 million in 2017 to HK$630.4 million in 2018. Operating expenses as a percentage of revenue has increased by 0.2 percentage point from 6.7% in 2017 to 6.9% in 2018.

Management Discussion and Analysis

Selling and distribution expenses increased by HK$9.0 million, or 6.7%, from HK$133.6 million in 2017 to HK$142.6 million in 2018. The spending as a percentage of revenue recorded the same percentage at 1.6% in both 2017 and 2018. The increment of the selling and distribution expenses was mainly associated with additional spending on advertising and promotion as well as exhibition costs and e-Sports activities being organised under ZOTAC brand.

Administrative expenses increased by HK$26.0 million or 6.3% from HK$411.5 million in 2017 to HK$437.5 million in 2018; staff costs represented 73.9% out of the total administrative expenses for the year under review. Salary and compensation has increased by HK$15.1 million, or 4.9%, from HK$308.3 million in 2017 to HK$323.4 million in 2018. It was mainly due to annual salary adjustment and additional headcount under engineering, sales, marketing, and product management to support business growth for future. Other administrative expenses increased by HK$11.0 million, or 10.7%, from HK$103.2 million in 2017 to HK$114.2 million in 2018. The increment was mainly resulted from additional spending at factories to improve facilities to retain workers, and additional rental arrangement for more warehouse floor spaces in Hong Kong.

Finance costs increased by HK$26.3 million, or 109.6%, from HK$24.0 million in 2017 to HK$50.3 million in 2018. It was mainly resulted from increase in interest rates and a higher bank borrowings during the year. Finance costs as a percentage of revenue has increased from 0.3% in 2017 to 0.6% in 2018.

Income tax expenses increased by HK$20.0 million, or 74.3%, from HK$26.9 million in 2017 to HK$46.9 million in 2018. It was mainly resulted from more profit generated by entities in Hong Kong, the PRC, and the United States during the year under review.

Profit Attributable to Owners of the Company and Dividends

Profit attributable to owners of the Company for 2018 was HK$270.8 million which resulted in basic earnings of HK66 cents per share, it was lower than profit attributable to owners of the Company of HK$332.3 million and the basic earnings of HK76 cents per share in 2017. The directors of the Company (the "Directors") do not propose a final dividend for the year ended 31 December 2018.

LIQUIDITY AND FINANCIAL RESOURCES

Shareholders' Funds

Total shareholders' funds have decreased by HK$330.9 million, or 27.4%, from HK$1,208.2 million as at 31 December 2017 to HK$877.3 million as at 31 December 2018. It was mainly due to the fact that the Company executed a share buyback from a major shareholder for HK$373.5 million during the year.

Financial Position

Total non-current assets increased by HK$0.5 million, or 0.5%, from HK$107.7 million as at 31 December 2017 to HK$108.2 million as at 31 December 2018. The change was mainly due to addition of property, plant and equipment, however, the increase was partially offset by disposal of investments during the year.

The Group has total current assets of HK$4,249.8 million as at 31 December 2018 and HK$3,991.3 million as at 31 December 2017. The Group's total current liabilities amounted to HK$3,480.6 million as at 31 December 2018 and HK$2,890.9 million as at 31 December 2017. The Group's current ratio, defined as total current assets over total current liabilities, reduced from 1.4 as at 31 December 2017 to 1.2 as at 31 December 2018.

The Group's cash and bank balances decreased from HK$1,453.8 million as at 31 December 2017 to HK$813.5 million as at 31 December 2018. Based on the borrowings of HK$1,709.7 million as at 31 December 2018 and HK$1,351.0 million as at 31 December 2017, and total equity of HK$877.3 million as at 31 December 2018 and HK$1,208.0 million as at 31 December 2017, the Group's net debts to equity ratio (being debts minus cash and cash equivalents divided by total equity) changed from a net cash position as at 31 December 2017 to 102.2% as at 31 December 2018. The change was mainly due to an increase in borrowings to finance the procurement of materials and components as at 31 December 2018. Approximately HK$28.3 million of the Group's cash and bank balances came from deposit from customers under contract liabilities in the current liabilities, majority of the remaining cash and bank balances are reserved to settle the procurement of components being purchased to fulfil the backlog orders and to finance the business operations.

Trade and other receivables consisted of both trade receivables of HK$875.1 million, other receivables of HK$15.6 million, and deposits and prepayments of HK$21.6 million for a total of HK$912.3 million as at 31 December 2018. Trade receivables reduced by HK$282.7 million, or 24.4%, from HK$1,157.8 million as at 31 December 2017 to HK$875.1 million as at 31 December 2018 due to a lower sales level in last quarter of the year in comparison to the same period in last year. Other receivables increased from HK$3.7 million as at 31 December 2017 to HK$15.6 million as at 31 December 2018. It was mainly due to market fund to be collected from a major business partner. Deposits and prepayments decreased from HK$24.7 million as at 31 December 2017 to HK$21.6 million as at 31 December 2018.

Trade and other payables consisted of trade payables of HK$1,403.8 million and other payables of HK$244.6 million for a total of HK$1,648.4 million as at 31 December 2018. Trade payables increased by HK$346.1 million, or 32.7%, from HK$1,057.7 million as at 31 December 2017 to HK$1,403.8 million as at 31 December 2018. It was mainly due to longer payment terms being obtained from major suppliers and more components intake by the end of the year to get prepare for new launch on VGA Cards in January 2019. Other payables reduced by HK$185.6 million, or 43.1%, from HK$430.2 million as at 31 December 2017 to HK$244.6 million as at 31 December 2018. It was mainly due to a reduction of deposits received from customers as at 31 December 2018 in comparison to the end of last year.

Due to a new Hong Kong Financial Reporting Standard, HKFRS 15, the Company is required to report the provision of sales return warranty under refund liabilities in the current liabilities section and the relevant costs of return is reported under the right of return assets in the current assets section. The Company has reported a total of HK$39.6 million as refund liabilities and HK$26.0 million as the right of return assets. Advance payment from customers of HK$28.3 million and volume rebate and sales allowance of HK$13.5 million are reported in aggregate as contract liabilities of HK$41.8 million under the current liabilities as at 31 December 2018.

Exposure to Fluctuation in Exchange Rates

As at 31 December 2018, the Group was exposed to currency risk primarily through sales and purchases denominated in currencies other than the functional currency of the operations to which they relate. The currencies giving rise to the risk are primarily Renminbi and Euro. The Group entered into several foreign exchange forward contracts during the year ended 31 December 2018.

Working Capital

Inventories as at 31 December 2018 were HK$2,497.5 million, increased by HK$1,148.0 million, or 85.1%, as compared with HK$1,349.5 million as at 31 December 2017. The inventory turnover days increased from 63 days as at 31 December 2017 to 86 days as at 31 December 2018. The high level of inventories as at 31 December 2018 was mainly resulted from a slowdown in sales of VGA Cards due to the excessive inventory issue in the channel market after digital coins prices crashed as well as additional intakes on components before the end of the year for upcoming new products launch in January 2019.

Management Discussion and Analysis

Trade receivables as at 31 December 2018 were HK$875.1 million, decreased by HK$282.7 million, or 24.4%, as compared with HK$1,157.8 million as at 31 December 2017. Trade receivable turnover days increased from 40 days as at 31 December 2017 to 41 days as at 31 December 2018. The reduction in trade receivables was resulted from a lower sales level in the last quarter of the year in comparison to the sales for the last quarter in last year.

Trade payables as at 31 December 2018 was HK$1,403.8 million, increased by HK$346.1 million, or 32.7%, as compared with HK$1,057.7 million as at 31 December 2017. Trade payable turnover days increased from 45 days as at 31 December 2017 to 55 days as at 31 December 2018. It was mainly due to longer payment terms being obtained from major suppliers and more components intake by the end of the year to get prepare for new launch on VGA Cards in January 2019.

Charge on Assets

As at 31 December 2018, bank deposit of HK$0.5 million was pledged to banks to secure the corporate credit card granted to the Group.

Capital Expenditure

The Group spent HK$46.8 million on capital expenditure in 2018. All of these capital expenditures were financed by internal resources.

Capital Commitments and Contingent Liabilities

As at 31 December 2018, total capital commitments amounted to HK$1.3 million, and there was no material contingent liability or off balance sheet obligation.

Contingency

The Group does not have any material contingency as at 31 December 2018.

Significant Acquisitions and Disposals of Investments

Save for those disclosed in the consolidated statement of financial position, there was no other significant investments held and there was no acquisition of additional interests in subsidiaries or disposal of subsidiary.

Future Plans for Material Investments or Capital Assets

The Group had an intention to invest in a joint venture business in the PRC principally on leasing of servers and projects involving cloud computing, container cloud and deep learning. The Group had no other plan for material investment or acquisition of capital asset as at 31 December 2018, but will continue to pursue opportunities for investments to enhance its profitability in the ordinary course of business.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group had 3,513 employees (2017: 3,539 employees). Employees are remunerated on basis of their individual performance and prevailing industry practice. Compensation policies and remuneration packages of the employees are reviewed at least once a year. In addition to basic salary, medical benefits, provident fund and performance related bonuses may also be awarded to employees. The Company has adopted a Pre-IPO Share Option Scheme to recognise the contributions of and as retention incentive to the executive directors, certain management staffs and selected long service employees of the Group. Subsequently, the Company has also adopted 2016 Share Option Scheme on 17 June 2016.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PC Partner Group Limited ("PC Partner" or the "Company") is a leading manufacturer of computer electronics products. We attach great importance to the establishment of management systems that regulate every aspect of our activities and have set up 4 managements systems, namely ISO9001 (Quality Management System), QC080000 (Hazardous Substance Process Management), ISO14001 (Environmental Management System) and OHSAS18001 (Occupational Health and Safety Management System), at the production base of 東莞栢能電子科技有限公司, our subsidiary in China. Operations are carried out by our staffs in accordance with these 4 management systems, thereby ensuring our product quality, environmental commitment and occupational safety. PC Partner undertakes to operate in a sustainable and responsible manner in terms of product and global development as well as the entire supply chain and focuses on, in particular, environmental sustainability, product liability, occupational health and safety and labour and ethics. In order to qualify specific products requirements, PC Partner has started to establish ISO13485 (Medical Equipments Quality System) and ATF16949 (Automotive Quality System) in order to fulfil the requests from customers.

In 2018, PC Partner showed continuous improvements in fulfilling different social responsibilities according to ISO9001, ISO14001, OHSAS18001, QC080000 and the code issued by the Electronic Industry Citizenship Coalition ("EICC") and has witnessed noticeable achievements in promoting environmental sustainability. Total electricity consumption was 21.43 million kilowatt-hours in 2018, it was comparatively higher than the electricity consumption of 18.67 million kilowatt-hours in 2017. It was mainly due to increase on production output. The power consumption per every thousand dollar increased from 3.45 per kilowatt-hour in 2017 to 3.46 per kilowatt-hour in 2018. In 2019, efforts will be continued to improve energy utilisation, such as enhancing our production lines, developing automatic production equipments and using energy-saving products and adopt advance technologies, in order to boost up energy efficiency and reduce consumption.

Since our first calculation of scopes 1 and 2 greenhouse gas (GHG) emissions in 2013 and the total scopes 1 and 2 GHG emissions have been on a downward trend between 2017 and 2018, on the basis of these statistics in term of revenue, we constantly look for ways to cut down GHG emissions.

In respect of product management, we are committed to pay regard to the impact on the environment and consumers throughout the product life cycles. The impact of energy utilisation, resources consumption and our products on the atmosphere, water, soil and consumers are also taken into consideration during different stages from the design, development and manufacturing to the consumption and recycling of our products. Based on the above, we adopt a green approach towards procurement, production and sale throughout the product cycles.

In relation to governance and ethics, training on codes of business ethics and conduct are provided to our staff so that our governance requirements on business ethics are well communicated to them. We keep abreast of other relevant requirements regarding codes of business ethics and conduct so as to ensure that they are always complied with by our staffs in their business activities. Throughout 2018, PC Partner was persistent in protecting labour, human rights, and occupation ethics by undergoing several audits required by clients under the code issued by the EICC and one Validated Audit Process (VAP) by EICC. The findings of the audits showed that we had taken the initiatives to make improvements to prevent labour or human right incident.

Environmental, Social and Governance Report

For the purpose of compliance with ISO9001, ISO14001, OHSAS18001, QC080000 and the code issued by the EICC, we continued to urge our suppliers to make improvements in 2018 by assessing their performance in terms of environmental compliance, occupational health and safety, labour and ethics through various means including on-site audit and self-assessment. Over 81 suppliers underwent our on-site audit in 2018. We will join hands with our suppliers to further efforts in improving our performance in terms of environmental compliance, product liability, occupational health and safety, labour and ethics and will offer management, technological and training supports to our suppliers.

A. SUSTAINABLE DEVELOPMENT OF THE ENVIRONMENT

As a commitment to use its endeavour to promote the sustainable development of the environment during its manufacturing process, PC Partner has set goals, formulated plans and carried out statistical analysis and audits to reduce energy and water consumption, carbon emission and waste disposal. Our environmental management system is established and implemented and the environmental impact of our operations is managed as required by the industry-leading ISO14001 Environmental Management System. In 2018, our production bases underwent an annual supervisory audit required by the ISO14001 Environmental Management System and the OHSAS18001 Occupational Health and Safety Management System, and ensured system compliance carry out by an independent third party of the annual supervisory audit under the environmental management system and the occupational health and safety management system. Internal audit was also conducted in 2018 according to the ISO14001 Environmental Management System and the OHSAS18001 Occupational Health and Safety Management System in order to ensure the ongoing effectiveness of and improvements in the systems. On the other hand, we were audited by a number of clients under the ISO14001 and OHSAS18001 standards and well-recognised for our compliance.

A1. Emissions

We have identified the environmental factors of our waste gas emissions, which are mainly from tin furnaces and soldering furnaces, kitchen exhaust systems and generators, and treated the sources of emissions according to local environmental laws and regulations. Such sources are regularly monitored to ensure the emissions comply with the regulations. Every year we engage third-party monitoring organisations to monitor the concentration of emissions from different sources according to local standards (e.g. Integrated Emission Standard of Air Pollutants (GB16297–1996), Emission Standard of Cooking Fume (GB18483–2001)) to ensure ongoing compliance. We also pay consistent attention to local laws and regulations and conduct safety assessments to ensure our gas emissions do not violate relevant regulations.

Both the production of products and offering of services require the use of energy, which leads to GHG emissions. In order to reduce such emissions, PC Partner identifies the utilisation and boosts the efficiency of energy and steps up the audit of management systems, and collects data on the scopes 1 and 2 GHG emissions on a regular basis based on our current technological level. Our top priority is to reduce the energy consumption and GHG emission per thousand dollars of our turnover. “Energy consumption per thousand dollars of revenue” and “GHG emission per thousand dollars of revenue” are measures that correlate with the amount of economic activities and provide more useful references to our performance as compared with indicator comparisons. In 2018, we have collected data on energy consumption and GHG emission and evaluated our performance based on the above policies.

Our operations generate household wastewater and no industrial wastewater is discharged. Measures have been taken to cut water consumption and minimise the amount of wastewater. Discharge indicators for wastewater are monitored annually to ensure the quality of the wastewater discharged meet local laws and regulations, and household wastewater is discharged to municipal treatment plants. During the process of product cleaning, we use a small amount of chemicals, which lead to liquid waste. Discharge of liquid waste to sewers, aquatic systems and soils is prohibited. Instead, it is centrally collected and stored in closed containers and then delivered to qualified green service providers under local laws and regulations.

There are four types of solid waste generated from our operations: household waste, hazardous waste, recyclable waste and waste paper. According to our policies, these types of waste are treated in different ways in compliance with local laws and regulations. Hazardous waste such as liquid chemical waste, scrap tin, chemical-stained cloth, fluorescent tubes, batteries and discarded containers are often resulted from our daily production activities and the proper disposal of these types of waste is strictly required. They must be centrally collected and delivered to qualified green service providers under local laws and regulations. Recyclable waste such as metals, plastic trays and plastics is treated by being sold to respective recyclers and, in respect of plastic trays, offering them to suppliers for reuse at no consideration, for the full utilisation of resources. Household waste is generated in the daily life of our staff and is centrally collected and delivered to municipal environmental organisations for treatment. For the protection of forest resources, waste paper in the offices and packaging waste in the production process are centrally collected and delivered to recyclers for reuse as raw materials for making recycled paper. Policies are in place to gather news on and evaluate the laws and regulations regarding the treatment of waste gas, GHG, wastewater and hazardous and ordinary materials, thereby ensuring our compliance with local laws, regulations and standards.

A1.1 Types of emissions and respective emissions data

We carried out statistical analysis of each type of discharge on an annual basis to keep track of the movement in the respective amount of discharge. The statistics on different types of discharge for 2018 are as follows in the A1 Statistical Table:

A1 Statistical Table			Hazardous materials				Non-hazardous materials				
Type of discharge	GHG	Household wastewater	Hazardous liquid waste	Discarded clothes	PCB trims and scraps	Scrap tin	Waste paper	Waste plastic	Metals	Hazardous materials (Total)	Non-hazardous materials (Total)
Unit of Measure	Tonne of CO_2	m^3	Tonne	Tonne	Tonne	Tonne	Tonne	Tonne	Tonne	Tonne	Tonne
2018 Discharged Volume	17,132.71	254,207	2.00	0.39	4.27	0.00	50.79	2.49	0.22	6.66	53.50
2017 Discharged Volume	14,947.48	214,803	1.00	0.43	4.70	0.13	54.22	2.39	0.24	6.26	56.85

Note: Based on the statistic data from 東莞栢能電子科技有限公司, the liquid waste has a material variance in compare to the data on the 2017 Annual Report. It was due to the data on the 2017 Annual Report only represented the liquid waste at the production line in 2017, this has been corrected to cover all liquid waste.

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A1.2 GHG emissions

Our scope 1 GHG emission in 2017 was 232.63 tonnes of CO_2, while that in 2018 was 239.44 tonnes of CO_2, representing an increase of 2.9%. This was mainly due to increase on production capacity which consumed more natural gas for generating electricity with generators.

Our scope 2 GHG emission increased by 14.8% from 14,714.85 tonnes of CO_2 in 2017 to 16,893.27 tonnes of CO_2 in 2018, which due to increase on production capacity that consumed additional electricity on production. However, we have adopted power consumption technologies (i.e. using LED lights, solar energy and optimising the production process), managing the use of electricity to drive the power consumption rate down per ten thousand dollar. In 2018, scopes 1 and 2 GHG emissions total of 17,132.71 tonnes of CO_2, which was 14.6% more than the figure in 2017 of 14,947.48 tonnes of CO_2.

Scopes 1 and 2 GHG emissions per thousand dollars of revenue were stable in these two year, it was 0.0028 tonne of CO_2 in 2017 and 0.0028 tonne of CO_2 in 2018. With GHG emission management as a part of our ISO14001 management system, we will continue to evaluate the impact of climate change on our businesses and take steps to mitigate such impact.

A1.3 Total hazardous waste produced

Our production process generates a small amount of hazardous waste, which are mainly liquid waste, discarded cloths, PCB trims and scarps and scrap tin. We have established a tracking and treatment process for hazardous waste, all of which is delivered to green service providers in accordance with local laws and regulations. Besides verifying the qualifications of the service providers, we also carry out audits to ensure they meet our selection criteria. We are working towards our operations being zero waste.

In 2018, we generated 6.66 tonnes of hazardous waste, 6.4% more than 6.26 tonnes for 2017. This was mainly due to the increase in the amount of scrap tin as our production output increased. The amount of hazardous waste generated per 100 million of dollars of revenue for 2018 was 0.1074 tonne, which fell significantly as compared with 0.1158 tonne for 2017.

A1.4 Total non-hazardous waste produced

Waste such as waste paper, scrap metals and waste plastic are often produced during our production process and household garbage and wastewater are by-products of the daily life of our staff. Non-hazardous waste from the production process is sorted and sold to respective recyclers as materials for recycling and reuse, and any improper disposal of recyclable and reusable non-hazardous waste is strictly prohibited. Household garbage is brought to a central collection point and transported to municipal refuse treatment organisations for further handling. In 2018, non-hazardous solid waste generated from the production process amounted to 53.50 tonnes, 5.9% less than 56.85 tonnes for 2017. Staff members are required to print and copy on both sides to reduce the use of plain paper. Household wastewater produced in 2018 increased by 18.3% from 214,803 cubic metres in 2017 to 254,207 cubic metres in 2018. A more convenient arrangement made by the Company on employees' living, hot water tubes were installed into each of the room in the dormitory; therefore, the water consumption was increased by employees' living.

PC Partner always targets to lower the amount of non-hazardous waste, and statistical data showed that we have been making a satisfactory progress. In 2018, non-hazardous solid waste generated per 100 million of revenue were 0.8626 tonnes, it was comparatively less than the non-hazardous waste in 2017; and household wastewater was 4,098.48 cubic meters, it was higher than the figure in 2017.

A1.5 Measures to mitigate emissions and results achieved

We strive to protect the environment and have made enormous efforts to reduce discharges and emissions. The following measures were taken to reduce the emissions from tin furnaces and soldering furnaces as well as kitchen exhaust systems in compliance with local laws and regulations:

1. Operation schedules have been improved so as to reduce the number of operating hours and hence emissions. For example, production plans are streamlined to boost production efficiency and shorten production time, and cooking time are better arranged to shorten kitchen time;

2. Emission reduction facilities are installed to cut down emissions. For example, emission filters are installed in generators and kitchens and air filters are installed in tin furnaces and soldering furnaces;

3. Regular maintenance and repair are carried out for the environmental equipment to ensure proper functioning;

4. Discharges and emissions are monitored on a regular basis to ensure compliance; and

5. Apply nitrogen welding technology to reduce tin oxidization in order to reduce tin wastage significantly; scrap tin are recast into tin bars (recovery rate: 90%) for reuse to reduce waste.

With our abovementioned efforts, the atmospheric emissions from tin furnaces, soldering furnaces and kitchens passed the annual tests undertaken by the third-party organisations we engaged.

Since the GHG emissions on which we have conducted analysis are mainly resulted from the use of energy, the measures we have taken to reduce GHG emission focus on enhancing energy efficiency. Those measures taken in 2018 are as follows:

1. Continue to enhance usage of tin furnaces to reduce electricity consumption;

2. Continue to improve the layout of our workshops and production lines in according to the capacity of our products to enhance energy efficiency;

3. Enhance modification and maintenance of equipments with heavy energy consumption, such as air conditioners and air compressors;

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4. Retire of old machinery and equipment, like changed of electric equipments for household in this year;

5. Adopt clean energy, like setup solar water system at dormitory in this year; and

6. Energy consumption is better managed.

With implementation of the above measurement, the Scopes 1 and 2 GHG emissions maintained at 0.0028 tonne of CO_2 per thousand Hong Kong dollars in both 2017 in 2018 even production output increased. The statistical data is at A2 Statistical Table.

A2 Statistical Table	Year 2018	Year 2017
Scope 1—Direct GHG Emission	239.44	232.63
Stationary and mobile combustion	239.44	232.63
Scope 2—Indirect GHG Emission	16,893.27	14,714.85
Purchased electricity	16,893.27	14,714.85
Total scopes 1 and 2 emissions (tonne of CO_2)	17,132.71	14,947.48
Total revenue (thousand HK dollars)	6,202,473	5,403,812
Emissions per thousand dollars of revenue (tonne of CO_2 per thousand HK dollars)	0.0028	0.0028

Note: based on the information of 東莞栢能電子科技有限公司

A1.6 How hazardous and non-hazardous waste is handled, reduction initiatives and results achieved

For many years, PC Partner has been employing different initiatives to manage waste and minimise the discharge of hazardous materials and deliver them for neutralisation treatment. In respect of non-hazardous waste, the following treatments are conducted:

1. Recyclable and reusable waste is collected and transported to green service providers for recycling and reuse;

2. Waste such as waste paper and waste plastic are sold to respective recyclers for processing into reusable materials;

3. Household solid waste is collected and transported to municipal environmental service providers for neutralisation treatment; and

4. Household wastewater is discharged to the municipal sewer system for treatment and tested every year to ensure compliance with discharge standards.

We select environmental service providers authorised by local governments to treat our hazardous waste. Such waste is centrally collected and delivered to selected service providers according to local laws and regulations for neutralisation treatment. Neutralisation treatment, recycling and reuse are our key green measures in waste management. We are also committed to waste reduction and have taken the following actions in 2018:

1. Waste is reduced through the improvement of production techniques. For example, cleaning-free technique is introduced to minimise the use of chemicals and PCB layouts are improved to reduce trims and scarps and use nitrogen welding technology to reduce tin waste;

2. By improving our techniques, pollution-free chemicals are used to replace heavy-polluting ones for waste reduction;

3. Simple packaging is used to use less raw materials and reduce packaging waste of completed goods;

4. Electronic operations are promoted through the development of various office software to reduce the use of paper and the generation of waste. For example, OA system;

5. To reduce the amount of production and household waste, trainings are provided to our staffs to increase their environmental awareness. For example, staffs are encouraged to use less disposable goods; and

6. Management initiatives are undertaken to encourage the reduction in water use so as to reduce the amount of household wastewater.

A2. Use of Resources

The Company has established management policies for energy, water and other resources under its environmental management system (an ISO14001 system) to constantly optimise and reduce the use of resources. PC Partner uses electricity, natural gas and diesel in its daily production and operation. As to the use of energy, the Company strives to "reduce consumption, optimise efficiency and protect the environment". Electricity is the major energy source utilised by the Company, which mainly purchases electricity from power companies. The electricity is then converted into the powers required by the Company's operations. We increase our energy efficiency and reduce electricity consumption through management and technical upgrades. We investigate the use of electricity of each premise and activity by evaluating the environmental conditions so as to adopt appropriate optimisation measures and reduce the use of electricity. The Company encourages its staff to save, and innovate new technique to use, electricity. As a relatively clean energy source, natural gas was also introduced in 2013 to replace diesel which has lower energy conversion rate. Natural gas is currently used in cooking in the canteens. In addition to replacing diesel with natural gas, the Company is also making effort to convert to other clean energies, such as using solar energy instead of diesel to provide hot water in staff quarters, in accordance with its energy policies. The Company currently does not use water in its production process, and only the staff use water for domestic purposes. As such, the Company's water policy focuses on encouraging the staff to save water through setting water consumption targets for each premise. We also upgrade water using facilities to reduce the use of water.

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The Company uses various kinds of packaging materials and components in its production process. We require our designers to take the environmental-friendliness into account when designing the packaging in order to reduce the use of materials with better designs. The materials used by us conform to all relevant laws and regulations and customer's requirements, such as the Restriction of Hazardous Substances (RoHS) and the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) for electrical and electronic equipment, in order to reduce the pollution caused by our materials. In the process of procuring materials, we require the suppliers to protect the environment in terms of material environmental compliance and consumption, implement clean production and simplify packaging. In its internal manufacturing process, the Company uses its best effort to choose recyclable materials to cut back on the use of packaging materials.

A2.1 Direct or indirect energy consumption in total

We need to consume energy to produce our products and provide our services. The Company currently uses electricity and natural gas as the main energy sources. To reduce the total consumption of energy, PC Partner identifies improvement opportunities, implements such improvements and evaluates the effectiveness and performance of the energy management system over its production process based on the relevant circumstances. Due to the complexity of statistically calculating our energy consumption per unit of production volume, energy consumption per unit of revenue has been chosen as our energy efficiency indicator. To facilitate conversion between different energy sources, all consumptions are converted into standard coal equivalent using a consistent conversion factor.

PC Partner measured various energy consumption every year. In 2018, the electricity consumption was 21.43 million kilowatt-hours, natural gas was 4.87 ten thousands cubic metres, and diesel consumption was 23.23 tonnes. We have achieved 44.59 tonnes of standard coal per 100 million revenue in 2018. The statistics of energy consumption by type for 2017 and 2018 are shown in the following A3 Statistical Table.

A3 Statistical Table		2018			2017		
Energy source	Unit of Measure	Industrial use	Non-industrial use	Total	Industrial use	Non-industrial use	Total
Electricity	10,000 KWH	2,004.00	139.00	2,143.00	1,762.72	103.94	1,866.66
Diesel	Tonnes	0.00	23.23	23.23	2.68	28.09	30.77
Natural gas	10,000 Cubic Metres	0.00	4.87	4.87	0.00	4.25	4.25
Petrol	Tonnes	0.00	22.49	22.49	0.00	19.92	19.92
Total (equivalent)	Tonnes of Standard Coal	2,462.92	302.54	2,765.46	2,170.29	254.51	2,424.80

Note: based on the information of 東莞栢能電子科技有限公司

A2.2 Water consumption in total and intensity

Water is a key natural resource which is crucial to human survival. Appropriate water management that protects water resource is vital to the protection of our ecosystem. We do not use water in our production process. Water used by the staff for domestic purposes comes from local municipal water supply. We have already adopted numerous measures to reduce our use of water and lower our water consumption per unit of revenue. Total water consumption in 2018 was 254,207 cubic metres and the consumption per 100 million of revenue was 4,098.48 cubic metres. We will keep on improving our water utilisation rate to bring down our water consumption. Opportunities of saving water will be identified with our systematic water resource management and water consumption analysis.

A2.3 Energy use efficiency initiatives and results achieved

Due to continuous change of business development and production capacity, the target of the Company is to enhance energy consumption efficiency continuously. We have taken initiatives to strengthen energy management and refine energy use. In 2018, we have carried out the following projects:

1. To upgrade the energy management centre in order to better monitor the energy use of the Company's facilities;

2. Automatic tools and equipments have been designed to enhance efficiency on energy consumption;

3. To upgrade electric facilities with latest electric equipments in order to enhance the electricity exchange efficiency;

4. The layout of the plants and production lines have been optimised in according to the production capacity of the Company's products to reduce hauling time and improve energy use efficiency; develop tools and equipments for automation in order to improve productivity; and

5. Air conditioning pipes have been reconstructed, all insulators of the pipes have been replaced, and the dirt in the pipes has been cleared.

With concerted efforts, total energy consumption for 2018 amounted to 2,765.46 tonnes of standard coal, representing an increase of 14.0% from 2,424.80 tonnes of standard coal for 2017. Energy consumption per HK$100 million of revenue dropped from 44.87 tonnes of standard coal for 2017 to 44.59 tonnes for 2018, a drop of 0.6%.

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A2.4 Water efficiency improvement initiatives and results achieved

The Company updates its per unit of production volume water efficiency target each year and formulates comprehensive yearly water efficiency initiatives according to this target. Such initiatives improve water efficiency principally through better water-saving management and water consumption facilities. We will continue to put effort to improve the water consumption efficiency. Because hot water has been connected to each of the room in the staff dormitory in 2018, this is the root cause on water consumption increased.

A2.5 Total packaging materials used

We design our packaging during our product design and development process. The general approach is to minimise the use of packaging materials as long as the packaging serves its purpose in order to reduce the impact on the environment. We also have measures in place to minimise harmful substances in the packaging materials and thus their harm on the environment. As our efforts to control the use of packaging materials are made on a group level for years, we do not have any statistics of total packaging material amount.

B. SOCIETY

PC Partner is committed to upholding the highest ethical standard in its business operations. We manage our occupational safety, hygiene, labour, ethics, human rights and other matters in accordance with OHSAS18001 and EICC standards. We have obtained OHSAS18001 certification.

B1. Employment

Being a responsible corporation, PC Partner is under an obligation to protect labour and human rights, and guarantee a working environment that allow employees to manifest their values, share their knowledge and innovate. To eliminate the potential problem of child labour, PC Partner does not employ any worker below 16 years of age. Furthermore, PC Partner utilises local workforce as much as possible and ensures that labour rights are protected through strictly prohibiting any forced labour, human trafficking or slavery. We do not withhold any personal documents. Audits are conducted to assure that labour rights are protected. We pursue the safety of our employees in our production bases both during working hours and on rest days in order to satisfy the requirements of EICC standards and local labour laws and regulations. As a manufacturing corporation, we have stringent measures in place to prevent and deal with common labour issues, such as child labour, forced labour, overtime work and safety risks.

We conduct annual internal audit of the Company's occupational safety, hygiene, labour, ethics, human rights and other social responsibilities in accordance with the requirements of the OHSAS18001 and EICC standards. The results of such annual audit are submitted to the management for review so as to analyses the Company's performance and possible improvement in terms of social responsibilities. We conducted one internal audit under OHSAS18001 and one internal audit under EICC in 2018.

We have upgraded our management system in according to the latest EICC Standard in order to align with the international standard. EICC emphasizes on labour protection, alignment with United Nations' principles and integrate other best practices as guiding principles. To consolidate the requirements of the new EICC, we strived to update PC Partner's policies, practices, training materials and internal audit documents and tools in the related area. We also added assessment procedures in terms of occupational hygiene, safety, internal labour and ethical risks to assure that such risks are identified and prevented.

B1.1 Total workforce and its analysis

The Company has policies in place to eliminate any discrimination in staff recruitment and development so as to ensure equal employment. We also strive to aid employees who are disadvantaged in competition to enjoy alternative development opportunities. As at the end of 2018, PC Partner's production bases employed over 2,025 employees, in which the numbers of male and female employees were approximately 1,183 and 842, respectively, accounting for approximately 58.4% and 41.6%, respectively.

B1.2 Employee turnover rate and its analysis

Our employment policies that employees are free to choose their career, and can freely join or leave the Company in accordance with its formalities. The Company does not require the employees to surrender any identity card, passport or work permit issued by the government. Our employee turnover rate is in line with industry level and there has not been any particular reason for such turnover. Our employee turnover rate was 12.6% in 2018, it was higher than the employee turnover rate of 10.9% in 2017. It was mainly due to a higher fluctuation on orders under different seasons.

B2. Health and Safety

PC Partner is committed to the protection of employee safety, physical health and mental well-being. The policies under our occupational health and safety management system are documented and have obtained OHSAS18001 certification. Our occupational health and safety management system covers applicable local and international laws and regulations and evaluates our compliance level to ensure that our business operations and activities meet the requirements of all relevant laws, regulations and standards.

We assure the consistent implementation of all health and safety policies with clear procedures, division of responsibilities, distinct requests and broad staff training. Occupational health and safety events are organised according to an evaluation of the sources of health and safety hazards. We make sure that all the staff, ranging from the management to frontline staff, understand the duties of their jobs. As a part of our commitment towards staff health and safety, we have also launched various health and safety training courses to enhance staff health and safety awareness. The occupational health and safety management system is also audited every year to ensure its continual effectiveness. Several customers have also reviewed our occupational health and safety management system in 2018.

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B2.1 Number and rate of work-related fatalities

To secure satisfactory performance and safeguard the physical health and mental well-being of the employees, we systematically identify, manage and prevent health and safety risk on the premises. No work-related fatality was recorded in 2018.

B2.2 Lost days due to work injury

We eliminate the potential risks on our premises and in our activities and, in turn, work injuries by identifying and managing such risks. However, accidents may still occur due to negligent operation and management on the part of the staff. Not only do such accidents cause personal injuries to the staff, they result in the loss of working time as well. There were a total of 3 work-related accidents in 2018, the accidents were minor injuries mainly due to negligent operation by the relevant employee. We have investigated and evaluated the causes of such accidents and made corresponding improvements. The Company has formulated work injury handling policies in compliance with local laws and regulations to provide strong support for the injured staff and thus effectively protect their physical health, mental well-being and interests. We also investigated the causes of the accidents and formulated corresponding improvement measures in order to prevent future occurrences.

B2.3 Occupational health and safety measures adopted

The occupational health and safety management of PC Partner concentrates on risk management and encompasses occupational health and safety measures that focus on prevention. Following this approach, we have established a comprehensive occupational health and safety measure management system in accordance with OHSAS18001 based on the following lines of action:

1. identify each activities required in our business operation as a whole;
2. identify the potential occupational health and safety risks of each activity;
3. determine the level of such occupational health and safety risks pursuant to a consistent system;
4. determine the required responses for each risk level;
5. formulate and strictly execute remedies and preventive measures for the risk of each activity; and
6. formulate an occupational health and safety management checklist to facilitate daily management.

The relevant departments of the Company repeat the evaluation of the occupational health and safety risks of their activities each year. The annual evaluation is conducted to confirm whether any new risks have arisen and that the occupational health and safety measures for each risk are effective in preventing accidents. To ensure that the measures are effective, the Company organises occupational health and safety checks in the ordinary course of business to identify any potential health and safety risks on the premises in a timely manner in addition to the annual evaluation of the implementation and effectiveness of the occupational health and safety measures during the audit of the management system. The reports of such checks are submitted to the management to secure effective implementation of remedies. The Company has also set up an industrial safety committee to execute all health and safety tasks across the Company.

B3. Development and Training

PC Partner has formulated specific employee training and development policies to foster staff's self-improvement. We require our staff to complete induction programme and participate in certain annual training for the sake of our corporate growth as well as their own development. PC Partner offers financial support to encourage the staff to participate in cultural and technical certification programmes in their leisure time. All these years, many employees have obtained their certifications through such support.

Moving along with the society, we have allocated specific resources to training so that the employees can flexibly and quickly adapt to social changes, achieve career development and create more opportunities for our own business development. In 2018, we continue to develop various trainings in order to enhance the management capability for quality management officers and technicians on quality, occupational safety and health, and so on. We also continued to roll out an internal education certification project targeting at frontline staff in 2018 to increase their comprehensive knowledge in factory management and expertise, thereby facilitating their career development.

After years of efforts, an effective staff development and training programme has been establish under our expertise and skill enhancement policies and is well-received by the staff.

B3.1 Employee training

PC Partner requires new employees to participate in induction programmes in accordance with its training policies so as to make sure that the new employees are capable to handle their jobs. The time of the induction programmes are 24 hours. All new employees joining us in 2018 have participated in such training. We also require the employees to complete at least 15 hours of on-the-job training organised by the human resource department each year. There are a variety of on-the-job training programmes for the employees to choose from. The employees may also apply for external training according to their needs. In 2018, all employees have completed their required annual training. Training offered by the Company also include social responsibility programmes corresponding to the employees' job nature. In 2018, the average annual training hours (excluding induction programme hours) completed per senior and junior employee were 24.5 hours and 19.5 hours, respectively.

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B4. Labour Standards

PC Partner has formulated its labour policy in accordance with the EICC standards, local laws and regulations, and the requirements of the respective stakeholders. In the process of formulating such labour policy, we have studied and evaluated relevant labour standards and local laws and regulations. PC Partner recruits and selects the most suitable candidates as staff members based on the duties and need of the respective position. Major criteria for selection of candidates include integrity, academic achievements, expertise, capability and aptitude for the respective position. We do not discriminate candidates or offer different treatment based on their sex, age, nationality, ethnicity, religious belief, marital status, pregnancy, disabilities or family conditions.

We strictly prohibit forced labour and have established relevant management measures and set up whistle-blowing channels (e.g. staff representatives, suggestion boxes and intranet) for the employees to give comments and express feelings about their work. The employees are free to leave from work after office hours. They can also have meals or take rests on schedule and go to the toilet according to their need during office hours. An employee of the Company has the right to resign at any time but a 3-day or 30-day written notice should be given to the Company during and after the probationary period, respectively. The management shall approve the resignation without setting any impediment.

The Company stringently complies with local and international business operation practices against child labour. During the recruitment process, we clearly inform our applicants of our policy against child labour. We closely examine whether their personal identity documents are authentic and belong to them, and verify the information through interview and, if necessary, governmental information channels. The recruitment process will begin only after the respective applicant's identity has been verified.

PC Partner formulates policies on hours of work in faithful compliance with local laws and regulations as well as the most stringent international requirements. The employees' hours of work shall not exceed the number of hours limited by local laws and regulations or international standards. The shift systems are designed according to local laws and regulations or international standards. Subject to the requirements of local laws and regulations or international standards, hours of work can be arranged flexibly according to work need. Due to production need, plants may not be able to apply standard working hour system and may have to implement certain systems approved by local labour departments. If employees are required to work overtime due to work need, the amount of extra time shall not violate the requirements of local laws and regulations or international standards.

The Company complies with applicable laws and regulations relating to wages and benefit policies promulgated by local governments, fulfils minimum wage requirements, and offers discretionary annual allowances or performance-based bonus for certain positions. Employees are also entitled to fringe benefits required under local laws and regulations.

We have already laid down policies to prohibit racial, religious, nationality, origin, age, disability, sex, pregnancy, sexual-orientation, social-orientation and other discrimination in any decisions relating to, among other matters, recruitment, remuneration, training, promotion, termination, retirement, and wages, bonus, allowance and other payments payable to the workers. Discriminatory medical examinations are also banned.

PC Partner has specific policy in place to protect the employees' freedom of assembly. We completely respect and do not interfere with employees' freedom of assembly and right of collective bargaining. They are allowed to organise and join labour unions and will not be punished or discriminated against for joining labour unions, such as being rejected for employment, being threatened with dismissal, being restricted in promotion, pay raise and overtime, being forced to work overtime excessively, or being re-designated to an inferior position. Every employee is entitled to the freedom of assembly and right of collective bargaining irrespective of their ethnicity, sex, position, religious belief, education background, age and so on. The Company does not obstruct any legal bodies or events organised by the employees, but provides financial support to the activities of such bodies or events. Being a responsible corporation, we protect the rights of our staff with these labour standards and policies, thereby ensuring the highest social responsibility standards in its business activities.

B5. Supply Chain Management

PC Partner engages hundreds of major suppliers, including distributors and contractors, around the world. We require our suppliers to fulfil certain social responsibilities to ensure their compliance with environmental, occupational safety and health, labour, human rights and other matters. We also offer relevant training or guidances to familiarise the suppliers with these requirements and how to fulfil them.

In recent years, we have notified our suppliers of our social responsibility policies spanning from environmental, occupational health and safety to labour, human rights and ethics, and help them comply with these requirements. To encourage our suppliers to fulfil the required social responsibilities, we also require them to give written undertakings to comply with our social responsibility policies. Social responsibility performance (e.g. environmental, occupational health and safety, labour, human rights and ethics) is also one of the criteria we use to select new suppliers. If any supplier cannot fulfil our social responsibility policies, such supplier may not become our qualified supplier. We conduct on-site social responsibility audit against the relevant suppliers each year to ensure that they constantly fulfil our requirements in terms of social responsibility and to stimulate improvements.

The suppliers of the Company are widely distributed but majority of them are located in China. Our supplier management process encompasses certification, approval, improvement, monitoring and dismissal. Potential suppliers must pass our certification criteria in a due diligence before being selected as PC Partner's qualified supplier and enter our qualified supplier list. The supplier certification criteria set by us include, among other matters, quality, environment, occupational health and safety, labour, human rights, ethics. The supplier due diligence can be conducted on-site or in written form. If we can conduct on-site due diligence against a supplier, we will review, among other matters, its quality, environment, occupational health and safety, labour, human rights and ethics on-site. If we are unable to conduct on-site due diligence against a supplier, we will conduct due diligence in written form by requiring that supplier to fill in a survey form or to submit relevant information.

Environmental, Social and Governance Report

Suppliers that have passed our due diligence will be approved as our qualified suppliers. To ensure that the suppliers fulfil PC Partner's social responsibility requirements and are in line with PC Partner's development, PC Partner strives to enhance their social responsibility performance through communication and guidance. We also monitor the suppliers' social responsibility performance through annual review. In 2018, there were 81 suppliers have been conducted on-site review in order to ensure the supply chain fulfilled various social responsibility on environment, occupational safety and health, labour, human right, ethics and so on.

B6. Product Liability

We value the responses and transparent communication of the possible impacts of our products, and work closely with our partners along the supply chain to manage our products so as to maximise their useful life. We constantly evaluate and improve the safety and reliability, the use of restricted substances and the impact of conflict minerals of our products.

PC Partner uses almost 1,000 kinds of materials in its production. We make every effort to understand the substances of the materials and manage the environmental impact of our products. We co-operate with our suppliers to obtain comprehensive information of each material and product. Such information allows us to ensure whether our materials contain the relevant prohibited substances that affect the environment, and to formulate management measures. We request the supplier of each material to provide laboratory report of restricted substances issued by third-parties and give warranty to confirm proper management of restricted substances. We also discuss with the suppliers about restricted substance control techniques and management measures.

PC Partner keeps an eye on the impact of our products on the consumers. To safeguard consumers against any possible safety hazard during the use of its products, it makes sure that these products are safe for use through various safety and reliability tests. It also saves resources and protects the environment by maximising the useful lives of its products.

We keep abreast of and study the laws and regulations relating to our products in order to take appropriate actions to comply with their requirements. In 2018, we continued to manage the product design, development, procurement, manufacturing, sale and other processes in accordance with product safety and reliability laws and standards, restrictive laws and regulations and other international and local laws and regulations (e.g. CE, UL, CCC, RoHS and REACH).

B6.1 Percentage of products returned or recalled

PC Partner has adopted a product return policy. We promise consumers to exchange defective products after sale and provide after-sale repairing. In 2018, none of our products has been returned by our customers or subject to recalls for safety reasons. All returned products are returned for general quality issues.

B6.2 Policies relating to protecting intellectual property rights

PC Partner is also committed to the protection of intellectual property rights, and has developed specific policies to protect them. In addition to protecting its own innovations, the Company also requires its staff not to violate any intellectual property rights or pirate any third-parties' know-how and designs in the design, development, product production and other processes. Any inventions used or created by any staff members of PC Partner while carrying out their duties or using the Company's resources to invent, innovate, design, compose or create shall be deemed as intellectual property rights and protected or used in accordance with the relevant intellectual property laws and practices, regardless of whether any patents or copyrights have been registered.

All staff of PC Partner shall report their inventions, innovations, designs, compositions or other creations to the Company for it to decide whether to apply for patents or copyrights therefore. The staff are obligated to surrender all files, drafts, designs and other information on their creations to the Company and assist the Company to apply for patents or copyrights for their creations. The Company arranges training on protecting intellectual property rights for its staff to ensure that they understand how to protect intellectual property rights. PC Partner continued to provide training to employees on protecting intellectual property rights until end of 2018.

B6.3 Quality assurance process and recall procedures

PC Partner has established a quality management system in accordance with the requirements of ISO9001 and has been certified by the relevant organisation. The Company carries out quality tests on its products and raw materials according to the standards of this quality management system as well as industry standards. We have devised a documented quality assurance process. In addition to tests on products and materials, the Company also monitors key parameters of the process to ensure the stability of the process and thus safeguard its quality. PC Partner has also laid down documented product recall procedures to recall products with potential safety hazards and protect the well-being of the consumers.

B6.4 Data protection and privacy policies

PC Partner has framed a documented privacy policy to protect the privacy of its customers, staff members and other stakeholders. All staff members must participate in trainings in relation to the privacy policy and must enter into a privacy agreement upon joining the Company. The Company classifies confidential information and manages such information according to the respective classification. Each and every department has a privacy officer responsible for the relevant duties. The Company arranges internal audit of the implementation of these duties each year to ensure the effective execution of the relevant privacy requirements.

Environmental, Social and Governance Report

B7. Anti-corruption

PC Partner has policy on anti-corruption operation and an anti-improper interest policy in place to prevent corruption, bribery and other illegal actions during business transactions amongst stakeholders, such as its staff and suppliers. The Company requires its staff, suppliers and other stakeholders to comply with local laws and regulations as well as international commercial practices in their business transactions. PC Partner stresses values like honesty, integrity, uprightness and fairness, and requests all staff to act impartially and fairly and not to abuse their position for their own or someone else's benefits or improper personal gain while dealing with customers, suppliers and other third parties. The Company prohibits its staff (or agents) from soliciting or receiving any benefits from any party having business transactions with the Company (e.g. customers, suppliers, contractors and so on).

PC Partner has set up designated whistle-blowing channels to receive complaints from stakeholders during all sorts of business transactions. The identity of the reporter will be concealed in order to prevent revenge. We will evaluate the relevant complaints and determine the solutions, including legal action against any corruption in breach of the relevant laws. In 2018, PC Partner did not receive any complaint of incompliance or any case of corruption and bribery committed by its employees. PC Partner will assess the ethical risks of each position to determine which position may induce incompliance by the relevant employee. With respect to positions with high risk, we arrange training for the relevant employees and require the employees to enter into an anti-corruption warranty, thereby fully informing them of the possible consequences of corruption. PC Partner has designated specific officers to receive complaints about business ethics and deal with any related incompliance.

B8. Community Investment

The Company operates a balanced community participation programme, under which it conducts collaborative projects with different stakeholders (such as employees, members of local communities, non-profit partners, citizens, schools and governments). Such projects include co-operating with schools to nurture local talents, supporting stricken community members by donations, serving underprivileged groups by volunteering events and protecting the environment. We continued to get involve on community participation programme in 2018.

CORPORATE GOVERNANCE REPORT

The Directors recognise the importance of incorporating elements of good corporate governance in the management structure and internal control procedures of the Group so as to achieve effective accountability. The Directors continuously observe the principles of good corporate governance in the interests of the Company and its shareholders and devote considerable efforts to identifying and formalising best practice.

During the year ended 31 December 2018, the Company has complied with the code provisions set out in the Corporate Governance Code (the "Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the deviation from code provision A.2.1 of the Code as described below.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the year ended 31 December 2018, the roles of chairman and chief executive officer of the Company were performed by Mr. WONG Shik Ho Tony. With Mr. WONG's extensive experience in the electronics industry, in addition to his role as chairman responsible for the overall strategic management and corporate development of the Group, he is also heavily involved and instrumental to the Group in running its daily business. The board of Directors (the "Board") considers that vesting the roles of chairman and chief executive officer simultaneously in Mr. WONG is beneficial to the business prospects and management of the Group. The roles of the respective executive directors and senior management, who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to a strong and balanced management organisation that enables the Group to operate effectively. The Board currently comprises of 5 Executive Directors, 1 Non-executive Director and 3 Independent Non-executive Directors and therefore has sufficient independent elements in its composition.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the required standard for securities transactions by Directors. All directors, after specific enquiries made by the Company, confirmed that they have complied with the required standards set out in the Model Code during the year.

BOARD OF DIRECTORS

The Board is responsible for the formulation of business policies and strategies of the Group, the nomination and appointment of directors, and to ensure the availability of resources as well as the effectiveness of its system of internal control. The senior management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. In addition, the Board has also established Board committees and has delegated to these Board committees various duties and responsibilities as set out in their terms of reference respectively. Each Director shall ensure that he carries out his duty in good faith in compliance with the standard of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times.

Corporate Governance Report

During the year, 5 Board meetings were held and the attendance of each Director is set out below:

Directors	Number of Attendance
Executive Directors	
Mr. WONG Shik Ho Tony	5
Mr. WONG Fong Pak	5
Mr. LEUNG Wah Kan	5
Mr. HO Nai Nap	5
Mr. MAN Wai Hung	5
Non-executive Director	
Mrs. HO WONG Mary Mee-Tak	5
Independent Non-executive Directors	
Mr. IP Shing Hing	5
Mr. LAI Kin Jerome	5
Mr. CHEUNG Ying Sheung	5

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considered that the Independent Non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the Executive Directors has entered into a service contract for a term of 3 years with the Company commencing from 12 January 2012 unless otherwise terminated by either party by giving to the other not less than three months' prior written notice.

Each of the Non-executive Director and the Independent Non-executive Directors has entered into a letter of appointment for a term of 3 years with the Company commencing from 12 January 2012 unless otherwise terminated by either party by giving to the other not less than three months' notice in writing.

In accordance with Article 108 of the Articles of Association of the Company, at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation and re-election. Each Director shall retire from office at least once every three years.

In accordance with Article 112 of the Articles of Association, any Director appointed by the Board either to fill a casual vacancy or as an addition to the existing Board shall hold office until the following general meeting (in the case of filling a causal vacancy) or the next following annual general meeting (in the case of an additional Director) and shall then be eligible for re-election.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

To ensure that the Directors' contribution to the Board remains informed and relevant and in compliance with provision code A.6.5 of the Code, the Company would arrange and fund suitable continuous professional development for the Directors to participate in order to develop and refresh their knowledge and skills.

The training each director received during the year is summarised as below:

	Attending seminars/ in house workshop relevant to the Company's business, Listing Rules compliance, regulatory and statutory updates	Reading newspaper, journals and other relevant materials regarding regulatory update and corporate governance matters
Executive Directors		
Mr. WONG Shik Ho Tony	√	√
Mr. WONG Fong Pak	√	√
Mr. LEUNG Wah Kan	√	√
Mr. HO Nai Nap	√	√
Mr. MAN Wai Hung	√	√
Non-executive Director		
Mrs. HO WONG Mary Mee-Tak	√	√
Independent Non-executive Directors		
Mr. IP Shing Hing	√	√
Mr. LAI Kin Jerome	√	√
Mr. CHEUNG Ying Sheung	√	√

BOARD COMMITTEES

The Board has established four board committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Investment Committee with terms of reference to assist them in the efficient implementation of their functions.

Corporate Governance Report

Audit Committee

The Company established the audit committee (the "Audit Committee") on 21 December 2011 with written terms of reference. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control and risk management systems of the Group as well as to provide advice and comments to the Board. The Audit Committee comprises three Independent Non-executive Directors, namely Mr. LAI Kin Jerome (chairman), Mr. IP Shing Hing and Mr. CHEUNG Ying Sheung.

During the year, 3 Audit Committee meetings were held and the attendance of each committee member is set out below:

Member	Number of Attendance
Mr. LAI Kin Jerome	3
Mr. IP Shing Hing	3
Mr. CHEUNG Ying Sheung	3

During the meetings held in 2018, the Audit Committee had performed the following major works:

(1) reviewed and approved the remuneration and terms of engagement letter of external auditor regarding the financial statements of the Group for the year ended 31 December 2017 (the "2017 Financial Statements");

(2) reviewed the 2017 Financial Statements and discussed with the external auditor's on any findings in relation to the 2017 Financial Statements and audit issues;

(3) reviewed and discussed the findings of risk management and internal control report prepared by external professional firm; and

(4) reviewed the interim results for the six months ended 30 June 2018 of the Group.

There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor.

Remuneration Committee

The Company established the remuneration committee (the "Remuneration Committee") on 21 December 2011 with written terms of reference. The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration policies and structure of the remuneration for the Directors and senior management and to set up a formal and transparent procedure for determination of such remuneration policies and structure. The Remuneration Committee consists of four members, comprising three Independent Non-executive Directors, namely Mr. IP Shing Hing (chairman), Mr. LAI Kin Jerome and Mr. CHEUNG Ying Sheung and one Executive Director namely Mr. WONG Shik Ho Tony.

During the year, 1 Remuneration Committee meeting was held and the attendance of each committee member is set out below:

Member	**Number of Attendance**
Mr. IP Shing Hing	1
Mr. LAI Kin Jerome	1
Mr. CHEUNG Ying Sheung	1
Mr. WONG Shik Ho Tony	1

The Remuneration Committee had reviewed and discussed the existing remuneration policy of the Company and the remuneration package of Executive Directors and senior management of the Group.

Nomination Committee

The Company established the nomination committee (the "Nomination Committee") on 21 December 2011 with written terms of reference. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. The Nomination Committee consists of four members, comprising three Independent Non-executive Directors, namely Mr. IP Shing Hing (chairman), Mr. LAI Kin Jerome and Mr. CHEUNG Ying Sheung and one Executive Director namely Mr. WONG Shik Ho Tony.

Nomination Policy

The Company adopted a nomination policy in March 2019. In conjunction to the board diversity policy, the Board shall consider a number of criteria on the appointment of Directors, and succession planning for Directors, as well as re-appointment of Directors. The criteria include character and integrity, professional qualifications, skills, knowledge, experience, potential contributions to the Board, as well as willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board commitment(s).

During the year, 1 Nomination Committee meeting was held and the attendance of each committee member is set out below:

Member	**Number of Attendance**
Mr. IP Shing Hing	1
Mr. LAI Kin Jerome	1
Mr. CHEUNG Ying Sheung	1
Mr. WONG Shik Ho Tony	1

The Nomination Committee had reviewed the structure, size and the composition of the Board in consideration of re-election of retiring Directors in 2018 Annual General Meeting and reviewed the board diversity policy of the Company during the year.

Corporate Governance Report

Investment Committee

The Board has set up the investment committee (the "Investment Committee") in August 2015 with written terms of reference. The primary duties of the Investment Committee are to review, evaluate investment projects and issue opinion for long-term development of the Company proposed by its investment working team and make recommendations to the Board. The Investment Committee comprises three Executive Directors, namely Mr. WONG Shik Ho Tony (chairman), Mr. WONG Fong Pak and Mr. LEUNG Wah Kan and two Independent Non-executive Directors, namely Mr. IP Shing Hing and Mr. LAI Kin Jerome.

During the year, no Investment Committee meeting was held.

Board Diversity Policy

During the year under review, the Board reviewed a board diversity policy. All Board appointments will continue to be made on meritocracy and selection of candidate will be based on a range of diversity perspectives, including but not limited to gender, age, culture and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Nomination Committee will review the board diversity policy, as appropriate, to ensure its continued effectiveness from time to time.

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for performing and has performed in compliance with the corporate governance duties as set out in the Code which includes to develop and review the Group's policies and practices on corporate governance, to review and monitor the training and continuous professional development of the Directors and senior management; to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements; to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors and to review the Group's compliance with the Code and disclosure in this Corporate Governance Report.

NON-COMPETITION UNDERTAKING

The Independent Non-executive Directors have reviewed the confirmation given by Mrs. HO WONG Mary Mee-Tak, Classic Venture International Inc. and Perfect Choice Limited, the controlling shareholders of the Company, pursuant to which each of Mrs. HO WONG Mary Mee-Tak, Classic Venture International Inc. and Perfect Choice Limited has confirmed that, during the year ended 31 December 2018, they and their respective associates did not breached any of the terms of undertaking contained in the non-competition deed dated 21 December 2011 as disclosed in the prospectus of the Company dated 29 December 2011.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the financial statements which give a true and fair view of the state of affairs of the Group in accordance with accounting principles generally accepted in Hong Kong. The statement by the Auditor of the Company about their responsibilities for the financial statements is set out in the Independent Auditor's Report contained in this Annual Report. There are no material uncertainties relating to events or conditions that may cast significant doubt of the Company's ability to continue as a going concern.

AUDITOR'S REMUNERATION

The remuneration paid and payable for the year ended 31 December 2018 to the Company's external auditor, BDO Limited, is set out as follows:

Service rendered to the Group	HK$
Audit services	1,300,000
Non-audit services (note)	130,000

Note: Non-audit services on agreed-upon procedures on the interim results of the Group and preliminary results announcement.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for maintaining an adequate system of internal controls and risk management of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control and risk management systems to safeguard the interest of shareholders and the Group's assets. The Board has reviewed the effectiveness of the internal control and risk management systems of the Group through Audit Committee.

The Audit Committee has received the risk management and internal control evaluation reports prepared by the external professional firm. The reports summarised information relating to the work carried out in the following areas:

- the results of selective testing of internal control procedures, operation, and financial records of the Company;
- a general evaluation of risk management and internal control systems installed by the Company; and
- an outline of major control issues, if any, noticed during the year under review.

The Audit Committee has reviewed the reports and discussed with the management. The Audit Committee acknowledged that the management has been progressively implementing adequate and effective risk management and internal control systems in order to ensure the effective functioning of the Company's operations.

Corporate Governance Report

COMPANY SECRETARY

Ms. LEUNG Sau Fong is the Company Secretary of the Company. Ms. LEUNG is a director of a corporate secretarial services provider in Hong Kong. The primary contact persons of the Company with Ms. LEUNG are Mr. WONG Shik Ho Tony, the Chairman and Chief Executive Officer of the Company and Mr. LAU Ka Lai Gary, the Chief Financial Officer of the Company.

In compliance with Rule 3.29 of the Listing Rules, Ms. LEUNG has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2018.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an extraordinary general meeting

The following procedures for shareholders of the Company to convene an extraordinary general meeting (the "EGM") of the Company are prepared in accordance with Article 64 of the Articles of Association of the Company:

1. One or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings may, by written requisition to the Board or the Company Secretary of the Company require an EGM to be called by the Board for the transaction of any business specified in such requisition.

2. The EGM shall be held within 2 months after the deposit of such requisition.

If the Directors fail to proceed to convene such meeting within 21 days of such deposit of requisition, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for raising enquires

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

2. Shareholders may at any time raise any enquiry in respect of the Company to our investor relation team via email at the email address at ir@pcpartner.com.

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

Procedures and contact details for putting forward proposals at shareholders' meetings

1. To put forward proposals at the general meeting of the Company, a shareholder should lodge a written notice of his/her/its proposal ("Proposal") with his/her/its detailed contact information at the Company's principal place of business at 19/F., Shatin Galleria, 18–24 Shan Mei Street, Fo Tan, Shatin, New Territories for the attention of the Board or the Company Secretary of the Company.

2. The identity of the shareholder and his/her/its request will be verified with the Company's branch share registrar in Hong Kong and upon confirmation by the branch share registrar that the request is proper and in order and made by a shareholder, the Board will include the Proposal in the agenda for the general meeting.

3. The notice period to be given to all the shareholders for consideration of the Proposal raised by the shareholders concerned at the annual general meeting or an EGM varies according to the nature of the Proposal as follows:

    (i) At least 21 clear day's notice (notice period must include 20 business days and excludes the date of the notice and the date of the meeting) in writing if the Proposal constitutes a special resolution of the Company in an EGM or if the Proposal is put forward at an annual general meeting of the Company; or

    (ii) At least 14 clear days' notice (the notice period must include 10 business days and excludes the date of the notice and the date of the meeting) in writing if the Proposal constitutes an ordinary resolution of the Company at an EGM.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Information about the Group has been provided to the shareholders through financial reports and announcements in order to keep shareholders well informed of the business activities and directions of the Group. The Group has also established a corporate website www.pcpartner.com as a channel to facilitate effective communication with the shareholders.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. WONG Shik Ho Tony, aged 59, was appointed as a Director on 1 April 2010 and re-designated as an *Executive Director and Chief Executive Officer* on 24 January 2011 and was a co-founder of the Group in May 1997. He is also the chairman of Investment Committee, a member of each of the Remuneration Committee and the Nomination Committee of the Board. Mr. WONG is responsible for the overall strategic management and corporate development of the Group. He directly oversees the Group's finance and administration functions as well as the sales and marketing functions of the Group's VGA Cards, motherboards, Mini PCs and other PC accessories businesses. He also sits on the boards of various companies within the Group. Prior to co-founding the Group in 1997, he worked as a general manager at VTech Computers Limited. Mr. WONG was conferred a Bachelor of Science degree in Electronics & Electrical Engineering by the University of Swansea, South Wales, the United Kingdom in 1982.

Mr. WONG Fong Pak, aged 69, was appointed as a Director on 1 April 2010 and re-designated as an *Executive Director and Executive Vice President* on 24 January 2011 and a co-founder of the Group in May 1997. He is also a member of Investment Committee of the Board. Mr. WONG is responsible for managing the Group's materials management function and sales and business development function of the Group's EMS business. He also sits on the boards of various companies within the Group. Prior to co-founding the Group in 1997, Mr. WONG worked as purchasing manager at VTech Computers Limited.

Mr. LEUNG Wah Kan, aged 60, was appointed as a Director on 1 April 2010 and re-designated as an *Executive Director and Chief Operation Officer* on 24 January 2011 and a co-founder of the Group in May 1997. He is also a member of Investment Committee of the Board. Mr. LEUNG is responsible for the strategic management of the Group's manufacturing operations in China and the product design and development engineering activities of the Group. He also sits on the boards of various companies within the Group. Prior to co-founding the Group in 1997, he worked at VTech Computers Limited for more than 14 years, serving in various capacities from a testing engineer to a general manager. Mr. LEUNG was conferred a Bachelor of Science in Engineering degree in 1981 by the University of Hong Kong.

Mr. HO Nai Nap, aged 63, was appointed as an *Executive Director* on 24 January 2011 and is the founder of ASK Technology Limited ("ASK Technology") in 1989. Mr. HO is now the general manager and managing director of ASK Technology Group Limited, a wholly-owned subsidiary of the Company. He is responsible for the general management, including product and sales. He also sits on the boards of various companies within the Group. Before founding ASK Technology, Mr. HO worked for Plantronics Inc., Compression Labs Inc., Texas Instruments Hong Kong Ltd. and Telefunken Electronic Far East Ltd.. Mr. HO was conferred a Bachelor of Science in Electrical and Computer Engineering degree in 1980 and a Master of Science degree in 1982 by the Oregon State University. He is a registered Professional Engineer in Electrical Engineering in California, the United States of America.

Mr. MAN Wai Hung, aged 53, was appointed as an *Executive Director* on 24 January 2011 and is the co-founder of Manli Technology Co. Limited in 1996. Since 2008, Mr. MAN has been the managing director of Manli Technology Group Limited, a wholly-owned subsidiary of the Company and is in charge of functions of sales and marketing, and business development. He was conferred a Bachelor of Arts degree in 1988 by the University of Hong Kong (the "University").

NON-EXECUTIVE DIRECTORS

Mrs. HO WONG Mary Mee-Tak, aged 69, was appointed as a *Non-executive Director* on 24 January 2011. Mrs. HO was the wife of the late Mr. HO Hin Wun Bosco, a co-founder of the Group. Mrs. HO also sits on the boards as Non-executive Director of other companies within the Group. She completed a three-year program of study in interior design at Ryerson University in 1972.

Mr. CHIU Wing Yui, aged 54 was appointed as an *Alternate Director* to Mrs. HO WONG Mary Mee-Tak on 1 November 2012. Mr. CHIU has been a Non-executive Director of the Company from 24 January 2011 to 31 October 2012. Mr. CHIU is also an Alternate Director to Mrs. HO WONG Mary Mee-Tak for various companies within the Group. Mr. CHIU was conferred a Bachelor of Science degree in Computer Science in 1993 by the University of Wales, United Kingdom. After graduation, Mr. CHIU worked for B.S.C. Building Materials Supply Company Limited as a system support supervisor. Mr. CHIU was conferred a Bachelor of Chinese Medicine degree in 2008 by the Hong Kong Baptist University. He is now a registered Chinese medicine practitioner.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. IP Shing Hing, aged 63, was appointed as an *Independent Non-executive Director* on 24 January 2011. He is also the chairman of the Remuneration Committee and the Nomination Committee of the Board and a member of the Audit Committee and Investment Committee of the Board. Mr. IP was conferred a Bachelor of Laws (Hons.) Degree in 1978 by the University of Hong Kong and a Master of Arts degree in Arbitration and Alternative Dispute Resolution in 2005 by the City University of Hong Kong. He is a solicitor and notary public of Hong Kong, China-appointed Attesting Officer and Justice of the Peace. He has been a practicing solicitor in Hong Kong for more than 20 years. He is currently serving as an Independent Non-executive Director on the board of Far East Hotels and Entertainment Limited and Binhai Investment Company Limited, both being companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is enthusiastic in community activities, which include serving as the President of The Law Society of Hong Kong (2002–2004), Chairman of Association of China-Appointed Attesting Officers Limited from 2012 to 2014, a committee member and standing committee member of the Hong Kong Chinese General Chamber of Commerce (since 1988), director of Ocean Park Corporation (March 2006 to February 2012), member of Hong Kong Housing Authority (April 2007 to June 2012) and chairman of Appeal Board (Amusement Game Centres) from 30 May 2010 to 31 December 2016.

Mr. LAI Kin Jerome, aged 70, was appointed as an *Independent Non-executive Director* on 24 January 2011. He is also the chairman of the Audit Committee of the Board and a member of each of the Remuneration Committee, the Nomination Committee and Investment Committee of the Board. Mr. LAI graduated in 1974 from the University of Toronto with a Bachelor of Commerce degree and is a member of the Hong Kong Institute of Certified Public Accountants and a chartered accountant of The Institute of Chartered Accountants of Ontario. Mr. LAI has over 30 years of experience in accounting and management. Mr. LAI was senior vice president of the finance, treasury and administration functional unit of Hong Kong Exchanges and Clearing Limited between 2000 and 2003; and an Executive Director of the finance and management services division of the Stock Exchange between 1997 and 2000. Mr. LAI was an Independent Non-executive Director of Mastercraft International Holdings Limited from 21 June 2012 to 19 February 2016, a company listed on the Stock Exchange.

Directors and Senior Management

Mr. CHEUNG Ying Sheung, aged 65, was appointed as an *Independent Non-executive Director* on 24 January 2011. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Board. Mr. CHEUNG graduated from Imperial College of Science and Technology, University of London with a Bachelor of Science (Engineering) degree in 1973 and a Doctor of Philosophy degree in 1978. He joined the University in 1980 and is currently honorary professors of Electrical and Electronic Engineering, and of Computer Science, after retiring as a professor in 2018. He has held various other positions at the University, inter alia, the Dean of Faculty of Engineering between 1994 and 2000. Associate Vice-President (Research) between 2012 and 2015, and Managing Director of Versitech Limited between 2004 and 2016. He was seconded from the University between 2002 and 2004 to the Hong Kong Government as the Policy Advisor of the Innovation and Technology Commission. He is a chartered IT professional and fellow of the BCS, Chartered Institute for IT, and a senior member of the Institute of Electrical and Electronics Engineers.

SENIOR MANAGEMENT

Mr. KWONG Kwok Kuen, age 58, *Director of Sales — EMEAI Region*, is responsible for the Group's sales and marketing of ZOTAC motherboards, VGA Cards and miniPC products in the Europe, Middle East, Africa and India regions. Mr. Kwong has extensive experience in electronics industry. Prior to joining the Group in January 2005, he served as Executive Director of Silver Star Technology Limited and as general manager of the Hong Kong office of Norsk Data International Limited. Mr. Kwong graduated with a Higher Certificate in Electronic Engineering from the Hong Kong Polytechnic University.

Mr. CHOW Hon Fat, age 52, *Director of Program Management — Graphics, SSD and Memory Procurement*, is responsible for account servicing and program management of the Group's VGA Cards ODM/OEM business. Prior to joining the Group in July 1997, Mr. Chow was the production and material control manager of VTech Computers Limited.

Mr. WONG Man Fai, age 57, *Director of Product*, is responsible for product marketing of the ZOTAC video graphics cards of the Group. Mr. Wong has over 20 years' experience in the electronic sector and in the product marketing, logistic, purchasing and inventory control functions. He holds a Bachelor Degree in Business (Management) from Royal Melbourne Institute of Technology University Australia and a Higher Certificate in Purchasing and Supply from Hong Kong Baptist University. He joined the Group in July 2006.

Mr. LIU Ngai Choi, age 47, *Director of Sales — APAC Region*, is responsible for the Group's sales and marketing of motherboards, VGA Cards and miniPC products in the Asia Pacific region. Mr. Liu has over 15 years of relevant electronics sales experience. Prior to joining the Group in October 2005, he has worked with Ocean Office Automation and Accuracy Information Technology.

Mr. YANG Ho Ching, age 55, *General Manager*, is responsible for the Group's VGA Cards, motherboard and miniPC manufacturing operations in Dongguan. He joined the Group in November 2013. Mr. Yang has more than 25 years' experience in electronic engineering and computer manufacturing in Taiwan and China. Prior to joining the Group, he has held various quality and manufacturing management positions at Taiwan Micro-Star International, Xin Qiang Electronics and GVC Corporation etc.

Mr. HUANG Chia Pao, age 53, is *Director of Product*, is responsible for the product development of motherboard and miniPC businesses of the Group. Mr. Huang joined the Group in August 2009. Prior to that, he held various product development and management positions in computer hardware companies such as Abit Computer Corporations, DFI San Jose and OCZ Technology Group in Taiwan and USA. Mr. Huang holds a Bachelor Degree in Business Administration from the National Chung Hsing University in Taiwan.

Mr. LAU Ka Lai Gary, age 49, *Chief Financial Officer*, is responsible for overall financial, accounting, legal and information technology functions of the Group. He is also the President of Zotac USA, a wholly-owned subsidiary of the Group in USA. Mr. Lau joined the Group in October 2010. Prior to joining the Group, he has worked for ROLEX (HONGKONG) LIMITED, Johnson Electric International Limited, Linyi Shansong Biological Products Company Limited, Oracle Systems Hong Kong Limited, e2e Business Solutions Limited and Deloitte Touche Tohmatsu. Mr. Lau is a member of American Institute of Certified Public Accountants and a member of Hong Kong Institute of Certified Public Accountants. Mr. Lau is graduated from the University of Windsor, Canada, with a Bachelor Degree in Commerce and the University of Western Ontario, Canada, with a Bachelor Degree in Science. He also holds a Master Degree in Business Administration and a Master Degree in Business Systems from the University of Manchester and the Monash University respectively.

Mr. CHOW Pak Keung, age 52, *Director of Program Management — EMS*, is responsible for account servicing and program management of the Group of EMS business. Prior to joining the Group in July 1997, he was a Senior Mechanical Engineer of VTech Computers Limited. Mr. Chow holds a Higher Certificate in Mechanical Engineering from Hong Kong Polytechnic University and a Diploma in Mechanical Engineering from Vocational Training Council.

Ms. CHUANG Hsiao Chi, age 40, *Global Marketing Director*, is responsible for the marketing operations for ZOTAC International. Ms. Chuang has more than 15 years' experience in corporate marketing and communication across diverse industries. Prior to joining the Group in 2014, Ms. Chuang has worked for Acer Incorporations, Shuttle Computer, EVGA, and Newegg Incorporations House Brand, Rosewill. Ms. Chuang holds a Master Degree in Integrated Marketing Communication from Florida State University, and Bachelor Degree in Journalism Communication from Fu Jen Catholic University in Taiwan.

Mr. FONG Wing Fai, age 52, *Engineering Director — Design*, is responsible for the Group's design engineering, product planning, design roadmap as well as advising the Group on the latest product technology trend and strategy. Mr. Fong has over 25 years' experience in engineering industry. Prior to joining the Group, he has worked for VTech Computers Limited as Project Manager. Mr. Fong holds a Bachelor Degree in Electrical and Electronic Engineering from the University.

Directors and Senior Management

Mr. KIM Seong Pyo, age 56, *General Manager* of Zotac Korea, a wholly-owned subsidiary of the Group. Mr. Kim has more than 25 years' experience in international IT business. Prior to joining Zotac Korea in May 2010, he has worked for Inside TNC Europe. Mr. Kim holds a Master Degree in Business from Hamburg University Germany.

Mr. KUPERJANS Norbert, age 57, *Business Development Director* for the EMEAI region, is responsible for developing new business opportunities in the area of embedded PC, EMS and OEM graphics for the Group. He joined the Group since May 2013. Mr. Kuperjans has 30 years' experience in the IT industry in engineering, project management and business development. Prior to joining the Group, Mr. Kuperjans has worked for ATI Technologies, Media Vision and NEC. Mr. Kuperjans holds an Engineering Degree of the University in Hannover, Germany.

Mr. WEI Yick Siu, Andrew, age 49, *Director of Program Management — PMI*. Mr. Wei is responsible for the account servicing and program management of the Group IOT business. Prior to joining the Group in 2017, Mr. Wei was the Chief Operating Officer with Electronics Tomorrow Limited. Mr. Wei holds a Bachelor Degree in Arts from University of Toronto.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report together with the audited consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The Group is principally engaged in the design, development and manufacturing of VGA Cards for desktop PCs, EMS, and manufacturing and trading in other PC related products and components.

An analysis of the Group's revenue and segment information is set out in notes 7 and 6 respectively to the consolidated financial statements.

BUSINESS REVIEW

Details of the operation of the Company's principal business during the year, as required by Schedule 5 to the Companies Ordinance, including an indication of likely future development in the Group's business, an analysis of key performance indicators, a description of the principal risks and uncertainties facing the Group, and the Group's environmental policies and performance are set out under the sections "Management Discussion and Analysis" on pages 8 to 16 and "Environmental, Social and Governance Report" on pages 17 to 34 of this Annual Report respectively.

There is no important event affecting the Group that has occurred after the year ended 31 December 2018. Details of the Company's relationships with its employees, suppliers and customers that have a significant impact on the Group and on which the Group's success depends are set out under the section "Environmental, Social and Governance Report" of this Annual Report.

The Group has strictly complied with relevant laws and regulations which have a significant impact on the operations of the Group during the year.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of comprehensive income on page 62 of this report.

The Board does not recommend the payment of final dividend for the year ended 31 December 2018.

Report of the Directors

DIVIDEND POLICY

The Company has adopted a dividend policy. The Board shall consider the following factors before declaring or recommending dividends:

(a) the Company's current and future operations, actual and expected financial performance;

(b) the Group's liquidity position, working capital and capital expenditure requirements and future expected capital needs;

(c) any corporate development plans;

(d) any restrictions on payments of dividends that may be imposed by the Group's lenders or other third parties;

(e) the level of the Group's debt to equity ratio, return on equity and the relevant financial covenants;

(f) retained earnings and distributable reserves of the Company and each of the members of the Group;

(g) general economic conditions, the business cycle of the Group's business and other internal and external factors that may have an impact on the business or financial performance and position of the Company; and

(h) any other factor that the Board deems appropriate and relevant.

The declaration and payment of dividends by the Company is also subject to any restrictions under the Laws of the Cayman Islands, the articles of association of the Company and any applicable laws, rules and regulations.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 28 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out on page 65 and note 40 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2018 amounted to approximately HK$675.8 million.

DONATIONS

Charitable and other donations made by the Group during the year amounted HK$182,000.

PROPERTY, PLANT AND EQUIPMENT

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

INFORMATION ON SUBSIDIARIES

Particulars of the subsidiaries are set out in note 38 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

The following is a summary of the consolidated results, assets and liabilities of the Group for each of the last five years ended 31 December 2018.

	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
RESULTS					
Revenue	**9,122,319**	8,555,368	5,837,964	4,754,149	4,895,192
Profit/(loss) before income tax	**316,859**	358,973	157,672	(16,179)	64,955
Income tax expense	**(46,877)**	(26,900)	(7,610)	(2,327)	(13,606)
Profit/(loss) for the year	**269,982**	332,073	150,062	(18,506)	51,349
Attributable to:					
Owners of the Company	**270,843**	332,293	150,189	(18,460)	51,349
Non-controlling interests	**(861)**	(220)	(127)	(46)	—
	269,982	332,073	150,062	(18,506)	51,349
ASSETS AND LIABILITIES					
Total assets	**4,357,972**	4,098,979	2,904,408	2,305,835	2,400,613
Total liabilities	**(3,480,648)**	(2,890,939)	(1,971,214)	(1,528,292)	(1,584,790)
Total equity	**877,324**	1,208,040	933,194	777,543	815,823

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Report of the Directors

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2018, the Company repurchased 74,700,000 ordinary shares at HK$5 per share from the substantial shareholder of the Company at an aggregate consideration of HK$373,500,000.

All 74,700,000 repurchased shares were cancelled on delivery of the share certificates during the year. The aggregate consideration of HK$373,500,000 was paid out from the Company's retained profits. Apart from the above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year.

SHARE OPTION SCHEME

The shareholders of the Company approved and adopted a pre-IPO share option scheme and 2016 Share Option Scheme on 14 December 2011 and 17 June 2016 respectively. Particulars of the pre-IPO share option scheme and 2016 Share Option Scheme of the Company are set out in note 30 to the consolidated financial statements.

As at the date of this Annual Report, the share options under the Pre-IPO share option scheme were expired. No shares are available for issue under the 2016 Share Option Scheme of the Company.

DIRECTORS

The Directors during the year and as at the date of this report are:

Executive Directors:
Mr. WONG Shik Ho Tony
Mr. WONG Fong Pak
Mr. LEUNG Wah Kan
Mr. HO Nai Nap
Mr. MAN Wai Hung

Non-executive Directors:
Mrs. HO WONG Mary Mee-Tak
Mr. CHIU Wing Yui *(Alternate Director to Mrs. HO WONG Mary Mee-Tak)*

Independent Non-executive Directors:
Mr. IP Shing Hing
Mr. LAI Kin Jerome
Mr. CHEUNG Ying Sheung

In accordance with Article 108 of the Articles of Association, Mr. WONG Fong Pak, Mr. LEUNG Wah Kan and Mr. MAN Wai Hung will retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The Company has received annual confirmation of independence from each of the three Independent Non-executive Directors, Mr. IP Shing Hing, Mr. LAI Kin Jerome and Mr. CHEUNG Ying Sheung that they have met all the factors concerning their independence as set out in Rule 3.13 of the Listing Rules and that there are no other factors which may affect their independence. The Board considers these Independent Non-executive Directors to be independent.

DIRECTORS' INTERESTS IN CONTRACTS

Except as disclosed in note 33 to the consolidated financial statements, no contracts of significance to which the Company, any of its holding companies or fellow subsidiaries, was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service agreement with the Company for a term of three years commencing from 12 January 2012 unless terminated by either the Company or the Director giving to the other party not less than 3 months' prior written notice and is subject to retirement by rotation and re-election at the annual general meeting. Under the agreements, the Executive Directors will receive a fixed monthly salary. The Executive Directors will also receive a year end bonus and a discretionary performance bonus and discretionary profit-sharing bonus under the agreements.

Each of Non-executive Directors and Independent Non-executive Directors has entered into a letter of appointment with the Company for a term of three years commencing from 12 January 2012 unless terminated by either the Company or the Director giving to the other party not less than 3 months' prior written notice and is subject to retirement by rotation and re-election at the annual general meeting.

Apart from the above, none of the Directors offering themselves for re-election at the forthcoming Annual General Meeting has a service contract with the Company or any member of the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACT

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

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the interests and short positions of each Director and chief executive of the Company in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong) ("SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, were as follows:

Long Positions in Shares

Name of Director	Type of interest	Number of Shares held	Percentage of shareholding
Mrs. HO WONG Mary Mee-Tak	Interest in controlled corporations (note)	54,850,000	14.76%
Mr. WONG Shik Ho Tony	Beneficial owner	54,405,750	14.65%
Mr. WONG Fong Pak	Beneficial owner	27,639,750	7.44%
Mr. LEUNG Wah Kan	Beneficial owner	24,100,500	6.47%
Mr. HO Nai Nap	Beneficial owner	20,462,538	5.50%
Mr. MAN Wai Hung	Beneficial owner	5,007,065	1.34%

Note: These 54,850,000 Shares are owned by Perfect Choice Limited. As the entire issued share capital of Perfect Choice Limited are owned by Mrs. HO WONG Mary Mee-Tak, Mrs. HO WONG Mary Mee-Tak is deemed to be interested in these 54,850,000 Shares under the SFO.

Long Positions in Share Options of the Company

Name of Director	Date of grant	Number of underlying Shares	Percentage of shareholding
Mr. WONG Shik Ho Tony	26 August 2016	—	—
Mr. WONG Fong Pak	26 August 2016	—	—
Mr. LEUNG Wah Kan	26 August 2016	—	—
Mr. HO Nai Nap	26 August 2016	—	—
Mr. MAN Wai Hung	26 August 2016	—	—

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the Share Options as disclosed in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares", at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the following parties with interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Interest in the Company

Name	Long/Short position	Type of interest	Number of Shares held	Percentage of shareholding
Perfect Choice Limited	Long position	Beneficial owner	54,850,000	14.76%
Mr. WONG Shik Ho Tony	Long position	Beneficial owner	54,405,750	14.65%
Mr. WONG Fong Pak	Long position	Beneficial owner	27,639,750	7.44%
Mr. LEUNG Wah Kan	Long position	Beneficial owner	24,100,500	6.47%
Mr. HO Nai Nap	Long position	Beneficial owner	20,462,538	5.50%

Note: As the entire issued share capital of Perfect Choice Limited are owned by Mrs. HO WONG Mary Mee-Tak, Mrs. HO WONG Mary Mee-Tak is deemed to be interested in the 54,850,000 Shares held by Perfect Choice Limited under the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales and purchases attributable to the Group's largest customers and suppliers are as follows:

	2018 %	2017 %
Sales		
— the largest customer	**8%**	13%
— five largest customers combined	**22%**	29%
Purchases		
— the largest supplier	**64%**	60%
— five largest suppliers combined	**72%**	71%

Report of the Directors

During the year, none of the Directors, their associates or any shareholders (which to the knowledge of the Directors own more than 5% of the share capital of the Company) had any interest in any of the Group's five largest customers or suppliers.

CONNECTED TRANSACTIONS

During the year, there is no connected transaction of the Group which is subject to the requirements of reporting, annual review, announcement and independent shareholders' approval under Chapter 14A of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

CORPORATE GOVERNANCE

The corporate governance report is set out on pages 35 to 43 of this report.

PERMITTED INDEMNITY

Pursuant to the Bye-laws, the Director(s) shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation to any affairs of the Company.

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group throughout the year.

AUDITOR

The financial statements for the year ended 31 December 2018 have been audited by BDO Limited who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of BDO Limited as auditor of the Company will be proposed at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD
WONG Shik Ho Tony
Chairman

Hong Kong, 22 March 2019

INDEPENDENT AUDITOR'S REPORT

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TO THE MEMBERS OF PC PARTNER GROUP LIMITED
(栢能集團有限公司)
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of PC Partner Group Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 62 to 159, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

Independent Auditor's Report

KEY AUDIT MATTERS

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

Provision for obsolete inventories

Refer to notes 4(g), 5 and 22 to the consolidated financial statements

As at 31 December 2018, inventories net of provision for obsolescence of HK$121,399,000, amounted to HK$2,497,524,000 which represent approximately 57.3% of total assets of the Group. The inventories is measured at the lower of cost and net realisable value. Sale of video graphics cards and other PC related products and components can be extremely volatile with the launching in the market of new computer products based on more advanced technology. As a result there is significant risk that the carrying value of inventories exceed their net realisable value.

In view of the above, management has made estimates based on certain assumptions relating to inventory obsolescence.

Obsolescence provision considerations included inventories ageing profiles, as well as different market factors impacting the sales of these models of products. In addition, the determination of the method and period to use to determine the provisioning percentages to be applied to aged inventories as a result of changing trends, requires significant judgement based on experience.

Accordingly, the provision carried against inventories is considered to be a key audit matter.

Our response:

- Evaluating the assumptions and estimates applied to the determination of obsolescence provision by performing analytical procedures and comparison to historical records, taking into account recent developments in the market;

- Assessing whether there were inventories which were sold with a negative margin by checking to sales invoices subsequent to 31 December 2018 on a sample basis to validate management's assessment of inventory obsolescence; and

- Checking on a sample basis that items on the inventory ageing listing were classified in the appropriate ageing bracket.

Impairment of trade receivables

Refer to notes 4(h)(ii), 5 and 19 to the consolidated financial statements

As at 31 December 2018, the Group had trade receivables measured at amortised cost of HK$839,973,000, and impairment of HK$6,238,000 has been made over the balance for the year then ended.

Determining loss allowances for trade receivables measured at amortised cost is based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, ageing of trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement.

We identified assessing the recoverability of trade receivables measured at amortised cost as a key audit matter because the assessment of the recoverability of trade receivables and recognition of loss allowances are inherently subjective and require significant management judgement.

Our response:

- Obtaining an understanding of the model adopted by management in estimating lifetime expected credit losses and testing the operating effectiveness of key controls which oversee credit control, debt collection and estimation of lifetime expected credit losses;

- Checking the ageing analysis of the trade receivables, on a sample basis;

- Assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgement, including checking the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; and

- Checking subsequent settlement of the year end trade receivables balances on a sample basis.

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

Independent Auditor's Report

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee assists the directors of the Company in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

BDO Limited
Certified Public Accountants

Li Pak Ki
Practising Certificate no. P01330

Hong Kong, 22 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	6, 7	**9,122,319**	8,555,368
Cost of sales		**(8,164,874)**	(7,639,397)
Gross profit		**957,445**	915,971
Other revenue and other gains and losses	8	**(10,203)**	12,089
Selling and distribution expenses		**(142,611)**	(133,565)
Administrative expenses		**(435,487)**	(403,941)
Impairment losses on financial assets		**(2,034)**	(7,535)
Finance costs	9	**(50,251)**	(24,046)
Profit before income tax	10	**316,859**	358,973
Income tax expense	11	**(46,877)**	(26,900)
Profit for the year		**269,982**	332,073
Other comprehensive income, after tax			
Items that will not be reclassified to profit or loss:			
Changes in fair value of equity instruments at FVTOCI		**(4,727)**	—
Gain on disposal of financial assets at FVTOCI		**5,259**	—
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(1,794)**	3,605
Total comprehensive income for the year		**268,720**	335,678
Profit for the year attributable to:			
— Owners of the Company		**270,843**	332,293
— Non-controlling interests		**(861)**	(220)
		269,982	332,073
Total comprehensive income for the year attributable to:			
— Owners of the Company		**269,581**	335,898
— Non-controlling interests		**(861)**	(220)
		268,720	335,678
		HK$	HK$
Earnings per share	15		
— Basic		**0.66**	0.76
— Diluted		**0.66**	0.75

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	16	**84,313**	58,728
Intangible assets	17	**6,355**	5,915
Other financial assets	18	**10,893**	36,612
Deferred tax assets	21	**6,655**	6,445
Total non-current assets		**108,216**	107,700
Current assets			
Inventories	22	**2,497,524**	1,349,456
Trade and other receivables	19	**912,314**	1,186,246
Right of return assets		**25,955**	—
Amount due from a related party	33(i)	**—**	1,762
Derivative financial assets	20	**464**	—
Cash and bank balances	23	**813,499**	1,453,815
Total current assets		**4,249,756**	3,991,279
Total assets		**4,357,972**	4,098,979
Current liabilities			
Trade and other payables	24	**1,648,464**	1,487,961
Refund liabilities		**39,557**	—
Contract liabilities	25	**41,823**	—
Amount due to a related party	33(i)	**2,090**	—
Borrowings	26	**1,709,646**	1,350,956
Provisions	27	**28,243**	28,576
Obligations under finance leases		**18**	18
Current tax liabilities		**10,758**	23,361
Total current liabilities		**3,480,599**	2,890,872
Net current assets		**769,157**	1,100,407
Total assets less current liabilities		**877,373**	1,208,107

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Total non-current liabilities			
Obligations under finance leases		**49**	67
NET ASSETS		**877,324**	1,208,040
Capital and reserves			
Share capital	28	**37,209**	44,484
Reserves		**840,078**	1,163,669
Equity attributable to owners of the Company		**877,287**	1,208,153
Non-controlling interests		**37**	(113)
TOTAL EQUITY		**877,324**	1,208,040

On behalf of the Board

WONG Shik Ho Tony
Director

WONG Fong Pak
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Equity attributable to owners of the Company											
	Share capital HK$'000	Share premium (note (a)) HK$'000	Translation reserve HK$'000	Merger reserve (note (b)) HK$'000	Other reserve (note (c)) HK$'000	Legal reserve (note (d)) HK$'000	Financial asset at FVTOCI reserve HK$'000	Share-based payment reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2017	42,939	142,086	(1,418)	6,702	21,771	2,824	–	4,103	714,363	933,370	(176)	933,194
Profit for the year	–	–	–	–	–	–	–	–	332,293	332,293	(220)	332,073
Other comprehensive income												
– exchange difference on translating foreign operations	–	–	3,601	–	4	–	–	–	–	3,605	–	3,605
Total comprehensive income	–	–	3,601	–	4	–	–	–	332,293	335,898	(220)	335,678
Shares issued under share option scheme	1,545	20,371	–	–	–	–	–	(5,076)	–	16,840	–	16,840
Dividends paid (note 14)	–	–	–	–	–	–	–	–	(80,715)	(80,715)	–	(80,715)
Equity settled share-based transactions (note 30)	–	–	–	–	–	–	–	2,760	–	2,760	–	2,760
Lapse of share options	–	–	–	–	–	–	–	(1,142)	1,142	–	–	–
Transfer to legal reserve	–	–	–	–	–	204	–	–	(204)	–	–	–
Capital contributed by non-controlling interests	–	–	–	–	–	–	–	–	–	–	283	283
At 31 December 2017 and 1 January 2018	44,484	162,457	2,183	6,702	21,775	3,028	–	645	966,879	1,208,153	(113)	1,208,040
Profit for the year	–	–	–	–	–	–	–	–	270,843	270,843	(861)	269,982
Other comprehensive income												
– exchange difference on translating foreign operations	–	–	(1,795)	–	1	–	–	–	–	(1,794)	–	(1,794)
– changes in fair value of equity instruments at FVTOCI	–	–	–	–	–	–	(4,727)	–	–	(4,727)	–	(4,727)
– changes in fair value and gain on disposal of financial assets at FVTOCI	–	–	–	–	–	–	–	–	5,259	5,259	–	5,259
Total comprehensive income	–	–	(1,795)	–	1	–	(4,727)	–	276,102	269,581	(861)	268,720
Shares issued under share option scheme	195	2,576	–	–	–	–	–	(645)	–	2,126	–	2,126
Dividends paid (note 14)	–	–	–	–	–	–	–	–	(227,260)	(227,260)	–	(227,260)
Transfer to legal reserve	–	–	–	–	–	771	–	–	(771)	–	–	–
Acquisition of subsidiary	–	–	–	–	–	–	–	–	–	–	317	317
Capital contributed by non-controlling interests	–	–	–	–	–	–	–	–	–	–	694	694
Purchase of own shares	(7,470)	–	–	–	–	–	–	–	(367,843)	(375,313)	–	(375,313)
At 31 December 2018	37,209	165,033	388	6,702	21,776	3,799	(4,727)	–	647,107	877,287	37	877,324

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

Notes:

(a) Share premium represents premium arising from the issue of shares at a price in excess of their par value per share. Under the Companies Law of the Cayman Islands, the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(b) Merger reserve represents the difference between the share capital of the Company and the combined share capital and share premium of the subsidiaries (after eliminating intra-group investments and share capital) acquired by the Company pursuant to the Reorganisation underwent in December 2011.

(c) Other reserve represents the excess of the fair value of shares issued as consideration for acquisition of the additional interests of the subsidiaries from their non-controlling shareholders pursuant to the Reorganisation over their nominal values.

(d) Legal reserve included (i) reserve made by a subsidiary established in Macau under the Macau Commercial Code which requires the subsidiary to retain not less than 25% of profits of the accounting period as legal reserve, until such reserve reaches 50% of the capital of this entity; and (ii) reserve made by the Group's subsidiaries established in the People's Republic of China (the "PRC") pursuant to the PRC Company Law and the respective articles of association which require the PRC subsidiaries to appropriate 10% of its annual statutory net profit (determined in accordance with the PRC accounting principles and regulations and after offsetting any prior years' losses) to the statutory reserve fund until such reserve fund reaches 50% of the registered capital of these entities. The statutory reserve can be utilised, upon approved by the relevant authorities, to offset accumulated losses or to increase capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Operating activities			
Profit before income tax		**316,859**	358,973
Adjustments for:			
Depreciation of property, plant and equipment		**21,365**	15,606
Amortisation of intangible assets		**—**	215
Impairment of intangible asset		**1,090**	—
Interest income		**(3,441)**	(2,734)
Net fair value gains on derivative financial instruments		**(971)**	(329)
Interest expense		**50,251**	24,046
Bad debts written off		**160**	1,052
Gain on waiver of obligations under finance leases		**—**	(27)
Gain on disposal of property, plant and equipment		**(149)**	(362)
Property, plant and equipment written off		**—**	39
Impairment losses on financial assets		**2,034**	7,535
Share-based payment expenses		**—**	2,760
Provision for obsolete inventories		**83,655**	31,065
Provision for product warranties and returns, net		**16,026**	27,675
Provision for demand of repayment, net		**—**	289
Operating profit before working capital changes		**486,879**	465,803
Inventories		**(1,231,785)**	(98,818)
Right of return assets		**2,118**	—
Trade and other receivables		**271,733**	(447,059)
Amount due from a related party		**1,762**	(1,762)
Trade and other payables		**235,437**	527,173
Refund liabilities		**6,004**	—
Contract liabilities		**(34,571)**	—
Amount due to a related party		**2,090**	(562)
Import loans		**(231,546)**	364,548
Provision for product warranties and returns		**(10,880)**	(11,992)
Cash generated from operations		**(502,759)**	797,331
Interest paid		**(50,251)**	(24,046)
Income tax paid		**(59,558)**	(17,557)
Net cash (used in)/generated from operating activities		**(612,568)**	755,728
Investing activities			
Payments to acquire property, plant and equipment		**(46,830)**	(18,746)
Proceeds from disposal of property, plant and equipment		**210**	408
Interest received		**3,441**	2,734
Acquisition of subsidiary	39	**90**	—
Net cash received on settlement of derivative financial instruments		**507**	329
Addition of available-for-sale financial assets		**—**	(15,620)
Proceeds from disposal of financial assets at FVTOCI		**26,251**	—
Net cash used in investing activities		**(16,331)**	(30,895)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Financing activities			
Issue of new shares		**2,126**	16,840
Capital contribution by non-controlling interests		**694**	283
Dividends paid to owners of the Company		**(227,260)**	(80,715)
Proceeds from bank loans		**597,703**	—
Proceeds from discounted bills and factoring loans		**59,493**	80,687
Repayment of discounted bills and factoring loans		**(66,960)**	(81,834)
Repayment of obligations under finance leases		**(18)**	(18)
Purchase of own shares		**(375,313)**	—
Net cash used in financing activities		**(9,535)**	(64,757)
Net (decrease)/increase in cash and cash equivalents		**(638,434)**	660,076
Cash and cash equivalents at beginning of year		**1,453,361**	789,839
Effect of exchange rate changes on cash and cash equivalents		**(1,882)**	3,446
Cash and cash equivalents at end of year, representing Cash and bank balances (net of pledged time deposit)	23	**813,045**	1,453,361

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

PC Partner Group Limited (the "Company") was incorporated in the Cayman Islands on 1 April 2010 with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 12 January 2012. The address of its registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. Its principal place of business is situated at 19/F., Shatin Galleria, 18–24 Shan Mei Street, Fo Tan, New Territories, Hong Kong.

The Company and its subsidiaries (referred to as the "Group") are engaged in the business of design, manufacturing and trading of electronics and personal computer ("PC") parts and accessories with its operation base in Mainland China and trading of electronics and PC parts and accessories with its operation base in Hong Kong, Korea and the United States of America.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

(a) Adoption of new/revised HKFRSs — effective 1 January 2018

The Group has adopted the following new/revised Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for annual periods beginning on or after 1 January 2018.

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

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

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

The adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

A. HKFRS 9 Financial Instruments ("HKFRS 9")

(i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

The directors considered that there is no material impact on transition to HKFRS 9 on the opening balances of retained profits, other reserves and non-controlling interests ("NCI") as at 1 January 2018.

HKFRS 9 basically retains the existing requirements in HKAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables that do not contain a significant financing component in accordance with HKFRS 15, an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised cost"); (ii) financial assets at fair value through other comprehensive income ("FVTOCI"); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives are no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

A. HKFRS 9 Financial Instruments ("HKFRS 9") (continued)

(i) Classification and measurement of financial instruments (continued)

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVTOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to be achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVTOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVTOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

A. HKFRS 9 Financial Instruments ("HKFRS 9") (continued)

(i) Classification and measurement of financial instruments (continued)

The following accounting policies would be applied to the Group's financial assets:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised cost	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FVTOCI (equity investments)	Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

(a) As at 1 January 2018, certain unquoted equity investments were reclassified from available-for-sale financial assets at cost to FVTOCI. These unquoted equity investments have no quoted price in an active market. The Group intends to hold these unquoted equity investments for long term strategic purposes. In addition, the Group has designated such unquoted equity investments at the date of initial application as measured at FVTOCI. The directors consider that the fair value of these investments, as at 1 January 2018, approximate to their then carrying amount as at 31 December 2017 and so no opening adjustment is required.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

A. *HKFRS 9 Financial Instruments ("HKFRS 9") (continued)*

(i) Classification and measurement of financial instruments (continued)

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 January 2018 under HKAS 39 HK$'000	Carrying amount as at 1 January 2018 under HKFRS 9 HK$'000
Other financial assets	Available-for-sale (at cost) (note 2A(i)(a))	FVTOCI	36,612	36,612
Trade and other receivables (excluding non-financial assets of HK$17,627,000)	Loans and receivables (notes 2A(ii)(a) and (b))	Amortised cost	1,168,619	1,168,619
Amount due from a related party	Loans and receivables (note 2A(ii)(b))	Amortised cost	1,762	1,762
Cash and bank balances	Loans and receivables	Amortised cost	1,453,815	1,453,815

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". HKFRS 9 requires the Group to recognise ECLs for trade receivables, other receivables and amount due from a related party. Cash and bank balances are subject to ECLs model but the impairment is immaterial for the current year.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12-month ECLs: these are the ECLs that result from possible default events within the 12-month after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

A. HKFRS 9 Financial Instruments ("HKFRS 9") (continued)

(ii) Impairment of financial assets (continued)

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-month ECLs. The 12-month ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

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

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

A. HKFRS 9 Financial Instruments ("HKFRS 9") (continued)

(ii) Impairment of financial assets (continued)

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt investment at FVTOCI, the loss allowance is recognised in other comprehensive income, instead of reducing the carrying amount of the assets.

Impact of the ECLs model

(a) Impairment of trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which adopts a lifetime ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Additional loss allowance as at 1 January 2018 was determined by the directors to be immaterial.

The loss allowances for trade receivables decreased by HK$1,305,000 during the year ended 31 December 2018.

(b) Impairment of other receivables and amount due from a related party

The directors consider that the loss allowance on other receivables and amount due from a related party by applying the ECLs model on 1 January 2018 and for the year ended 31 December 2018 is immaterial.

(iii) Hedge accounting

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

A. HKFRS 9 Financial Instruments ("HKFRS 9") (continued)

(iv) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the consolidated statement of financial position as at 1 January 2018. This means that differences (if any) in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained profits and other reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 which is 1 January 2018:

- The determination of the business model within which a financial asset is held;
- The designation of certain equity investments not held for trading as at FVTOCI.

B. HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect (if any) of initially applying HKFRS 15 as an adjustment to the opening balance of retained profits at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated and there is no adjustment to the opening balance of retained profits as at 1 January 2018.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

B. HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") (continued)

The following tables summarised the impact of adopting HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of comprehensive income for the year ended 31 December 2018 by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with amounts that would have been reported under HKAS 18 and related interpretations. There was no material impact on the Group's consolidated statement of cash flows for the year ended 31 December 2018:

Impact on the consolidated statement of financial position as at 31 December 2018 (increase/(decrease)):

	HK$'000
Assets	
Current assets	
Right of return assets (note 2(a)B(a))	**25,955**
Liabilities	
Current liabilities	
Trade and other payables (note 2(a)B(a))	**(41,823)**
Refund liabilities (note 2(a)B(a))	**39,557**
Contract liabilities (note 2(a)B(a))	**41,823**
Provisions	**(13,602)**
Total current liabilities and total liabilities	**25,955**

The impact on the consolidated statement of comprehensive income for the year ended 31 December 2018 (increase/(decrease)):

	HK$'000
Revenue (note 2(a)B(a))	**(25,955)**
Cost of sales (note 2(a)B(a))	**25,955**
Profit for the year	**–**
Total comprehensive income for the year	**–**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

B. *HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") (continued)*

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below:

Note	Product/service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
(a)	Sale of video graphics cards ("VGA Cards"), electronics manufacturing services ("EMS") and other PC related products and components (collectively "products")	Customers obtain control of the products when the goods are delivered to and have been accepted. Revenue is thus recognised when the customers accepted the products. There is generally only one performance obligation. Invoices are usually payable within 30–90 days. **Right of return** Some of the Group's contracts with customers from the sale of products provide customers a right of return. The right of return allows the returned goods to be refunded in cash if the returned goods cannot be repaired.	**Right of return** Under HKAS 18, revenue for these contracts was recognised when a reasonable estimate of the returns could be made, provide that all other revenue recognition criteria are met. If a reasonable estimate could not be made, such revenue would be deferred until the return period lapsed or a reasonable estimate could be made. Under HKFRS 15, right of return gives rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. In addition, a refund liability and a right to recover returned assets are recognised.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

B. HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") (continued)

Note	Product/service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
			Impact As at 1 January 2018, the Group reclassified HK$5,479,000 from provisions and recognised refund liabilities of HK$33,553,000 and right of return assets of HK$28,074,000. As at 31 December 2018, refund liabilities of HK$39,557,000 and right of return assets of HK$25,955,000 were recognised. Revenue decreased by HK$25,955,000 and cost of sales increased by HK$25,955,000 for the year ended 31 December 2018. (Under HKAS 18, the Group recognised provision of goods return by recognition of a provision and a corresponding reduction in revenue in the amount which represented the gross profit of the related sales.)
		Volume rebate and sales allowance Some of the Group's contracts with customers from the sale of products provide customers a volume rebate if the customers purchase more than certain volume of products in a calendar year.	**Volume rebate and sales allowance** Under HKAS 18, the Group estimated the expected volume rebates using the most likely outcome approach and recognised as a reduction of revenue as the sales are recognised. A provision of rebate will be recognised in trade and other payables. Under HKFRS 15, volume rebates give rise to variable consideration. The Group apply the most likely outcome method to estimate the variable consideration. A contract liability would be recognised based on the estimate of the amount expected to be paid to customers under volume-based rebate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

B. HKFRS 15 Revenue from Contracts with Customers (“HKFRS 15”) (continued)

Note	Product/service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
			Impact As at 1 January 2018, an increase in contract liabilities of HK$11,814,000 and a decrease in trade and other payables of HK$11,814,000 were recognised. As at 31 December 2018, contract liabilities of HK$13,527,000 was recognised.
		Advance Considerations Some customers paid in advance before the goods are delivered.	**Advance Considerations** Under HKAS 18, the Group recognised the advance consideration received from customers as trade and other payables. Under HKFRS 15, payments received in advance that are related to the sale of goods not yet delivered to customers are deferred and recognised as contract liabilities. **Impact** As at 1 January 2018, an increase in contract liabilities of HK$64,580,000 and a decrease in trade and other payables of HK$64,580,000 were recognised. As at 31 December 2018, contract liabilities of HK$28,296,000 was recognised.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

Amendments HKFRS 15 — Revenue from Contracts with Customers (Clarifications to HKFRS 15)

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

The adoption of these amendments has no impact on these financial statements as the Group first adopted HKFRS 15 and the amendments for the year ended 31 December 2018.

HK(IFRIC)-Int 22 — Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretation specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of the Interpretation has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

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

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, Business Combinations[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 11, Joint Arrangements[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]

1 Effective for annual periods beginning on or after 1 January 2019.

2 Effective for annual periods beginning on or after 1 January 2020.

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

HKFRS 16 — Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 Leases and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

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

HK(IFRIC)-Int 23 — Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKFRS 9 — Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met — instead of at fair value through profit or loss.

Amendments to HKAS 28

The amendments clarify that HKFRS 9 applies to long-term interests ("LTI") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarify that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKFRS 11, Joint Arrangements

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

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

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarify that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

Amendments to HKFRS 3 — Definition of business

The amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

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

Amendments to HKAS 1 and HKAS 8 — Definition of materials

The amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The Group does not expect the adoption of these new pronouncements will result in significant impact on the Group's results and financial position.

3. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

(c) Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Business combination and basis of consolidation (continued)

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

(b) Subsidiary

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the note to the consolidated financial statements that discloses the Company's statement of financial position, investment in a subsidiary is stated at cost less impairment loss, if any. The results of subsidiary are accounted for by the Company on the basis of dividend received and receivable.

(c) Goodwill

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Freehold buildings	39 years
Leasehold land and buildings	50 years
Leasehold improvements	Over the remaining lease terms
Plant and machinery	2 to 5 years
Office and testing equipment	2 to 5 years
Furniture and fixtures	2 to 5 years
Motor vehicles	3 years
Moulds	2 to 4 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

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

(e) Intangible assets

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over their useful lives as follows:

Non-contractual customer lists and relationship	5 years

The amortisation expense is recognised in profit or loss and included in administrative expenses. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Intangible assets (continued)

(ii) Impairment

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired (note 4(o)).

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

— the technical feasibility of completing the intangible asset so that it will be available for use or sale;

— the intention to complete the intangible asset and use or sell it;

— the ability to use or sell the intangible asset;

— how the intangible asset will generate probable future economic benefits;

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Intangible assets (continued)

(ii) Impairment (continued)

Research and development expenditure (continued)

— the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

— the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

(f) Leasing

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

The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Inventories

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

(h) Financial instruments

Accounting policies applied from 1 January 2018

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

Accounting policies applied from 1 January 2018 (continued)

(i) Financial assets (continued)

Debt instruments (continued)

Fair value through profit or loss ("FVTPL"): Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

Accounting policies applied from 1 January 2018 (continued)

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("ECL") on trade receivables and financial assets measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12-month ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

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

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-month ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

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

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

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

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For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

Accounting policies applied from 1 January 2018 (continued)

(iii) Financial liabilities

The Group classifies its financial liabilities as at amortised cost. Financial liabilities at amortised cost are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables and borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

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

(iv) Effective interest method

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

(v) Equity instruments

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

(vi) Derecognition

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. Accordingly, the comparative financial information provided continues to be accounted for in accordance with the Group's previous accounting policy.

(i) Financial assets

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

Financial assets at fair value through profit or loss

These assets include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Loans and receivables

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

Accounting policies applied until 31 December 2017 (continued)

(i) Financial assets (continued)

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

(ii) Impairment loss on financial assets

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

Accounting policies applied until 31 December 2017 (continued)

(ii) Impairment loss on financial assets (continued)

For loans and receivables

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

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale debt investments are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

Accounting policies applied until 31 December 2017 (continued)

(iii) Financial liabilities

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

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, obligations under finance leases, provisions and borrowings by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

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

(iv) Effective interest method

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

(v) Equity instruments

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

(vi) Derecognition

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Revenue recognition

Accounting policies applied from 1 January 2018

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

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

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

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

(a) Sales of VGA cards, EMS and other PC related products and components

Customers obtain control of the products when the goods are delivered to and have been accepted. Revenue is thus recognised when the customers accepted the products. There is generally only one performance obligation. Invoices are usually payable within 30–90 days.

(b) Other Income

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets, interest income is calculated based on the gross carrying amount.

Dividend income is recognised when the right to receive the dividend is established.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Revenue recognition (continued)

Accounting policies applied until 31 December 2017

Revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Service income is recognised when services are provided.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Dividend income is recognised when the right to receive the dividend is established.

(j) Contract assets and contract liabilities (applied from 1 January 2018)

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer.

(k) Contract costs (applied from 1 January 2018)

The Group applies the practical expedient in paragraph 94 of HKFRS 15 and recognises the incremental costs of obtaining contracts relating to the sale of goods as an expenses when incurred if the amortisation period of the assets that the Group otherwise would have recognised is within the same reporting period as the date of entering into the contract.

(l) Income taxes

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Income taxes (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

(m) Foreign currency

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

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

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

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in other comprehensive income and accumulated in the translation reserve.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Employee benefits

(i) Short term employee benefits

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

(ii) Defined contribution retirement plan

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

(iii) Pension obligations

For employees in Hong Kong, the Group participates in a master trust scheme provided by an independent Mandatory Provident Fund (MPF) service provider to comply with the requirements under the MPF Scheme Ordinance. Contributions paid and payable by the Group to the scheme are charged to profit or loss when incurred. The Group has no further payment obligations once the contribution has been made.

For employees in the People's Republic of China (the "PRC"), the Group contributes to state-sponsored retirement plans. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the plan prior to vesting fully in the contributions.

(iv) Termination benefits

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Impairment of assets other than financial assets

At the end of each reporting period, the Group/Company reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets with finite useful lives; and
- investment in a subsidiary.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value-in-use) of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Value-in-use is based on the estimated future cash flows expected to be derived from the asset or cash-generating unit, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

(p) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share-based payment reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

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For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Share-based payments (continued)

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised. For cash-settled share based payments, a liability is recognised at the fair value of the goods or services received.

(q) Capitalisation of borrowing costs

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

(r) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(s) Provisions and contingent liabilities

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity); or

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

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

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

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

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5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

The key sources of estimation uncertainty are discussed below.

Impairment of property, plant and equipment

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. It will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in the estimated useful lives and therefore affect the depreciation and amortisation charges in future periods.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Fair value measurement of financial assets

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "fair value hierarchy"):

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs;
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures a number of items at fair value:

- Other financial assets (note 18)
- Trade receivables at fair value through profit or loss (note 19(b))

For more detailed information in relation to the fair value measurement of the item above, please refer to the applicable notes.

Provision for obsolete inventories

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 reporting 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.

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For the year ended 31 December 2018

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Impairment of trade receivables

Under HKFRS 9

The provision rate of trade receivables is made based on assessment of their recoverability and ageing analysis of trade receivables as well as other quantitative and qualitative information and on management's judgement and assessment of the forward-looking information. At the end of reporting period, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast of economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast of economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 35(a).

Under HKAS 39

Recoverability of trade receivables is reviewed by management based on the receivables' ageing 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 return provisions

As explained in note 27, the Group makes provisions under the warranties and right of return it gives on sales of its electronic products taking into account the Group's cumulative past claim experience. As the Group is continually upgrading its product designs and launching new models, it is possible that the cumulative past 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.

6. SEGMENT REPORTING

(a) Reportable segments

The Group determines its operating segments based on the regional 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 trading of electronics and PC parts and accessories. The following summary describes the operation of the Group's reportable segments:

Revenue from contracts with customers within the scope of HKFRS 15:

	2018 **HK$'000**	2017 HK$'000
Design, manufacturing and trading of electronics and PC parts and accessories	**9,122,319**	8,555,368

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

6. SEGMENT REPORTING (CONTINUED)

(a) Reportable segments (continued)

Disaggregation of revenue from contracts with customers

In the following table, revenue is disaggregated by primary geographical market, major products and service lines, brand and non-brand businesses and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments.

For the year ended	Design, manufacturing and trading of electronics and PC parts and accessories	
	2018 HK$'000	2017 HK$'000
Primary geographical markets		
Asia Pacific ("APAC")	**3,515,172**	3,619,005
North and Latin America ("NALA")	**1,345,881**	1,023,123
PRC	**1,960,727**	2,171,183
Europe, Middle East, Africa and India ("EMEAI")	**2,300,539**	1,742,057
	9,122,319	8,555,368
Major products/services		
VGA Cards	**7,273,614**	7,165,095
EMS	**700,738**	524,772
Other PC related products and components	**1,147,967**	865,501
	9,122,319	8,555,368
Brand and non-brand businesses		
Brand businesses	**5,208,042**	4,930,525
Non-brand businesses	**3,914,277**	3,624,843
	9,122,319	8,555,368
Timing of revenue recognition		
At a point in time	**9,122,319**	8,555,368

6. SEGMENT REPORTING (CONTINUED)

(b) Geographic information

The following table provides an analysis of the Group's revenue from external customers and non-current assets other than financial instruments and deferred tax assets ("Specified non-current assets").

	Revenue from external customers (by customer location)		Specified non-current assets	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
APAC	**3,515,172**	3,619,005	**12,986**	10,409
NALA	**1,345,881**	1,023,123	**24,530**	24,910
PRC	**1,960,727**	2,171,183	**53,110**	29,237
EMEAI	**2,300,539**	1,742,057	**42**	87
	9,122,319	8,555,368	**90,668**	64,643

(c) Information about the major customer

Revenue from the customer contributing 10% or more of the Group's revenue for the respective years is as follows:

	2018 HK$'000	2017 HK$'000
Customer A (note)	**N/A**	1,095,582

Note:

Revenue from this customer was derived from sale of VGA Cards in the PRC.

During the year ended 31 December 2018, none of the customers (including customer A) contributed 10% or more of the Group's revenue.

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7. REVENUE

Revenue represents the net invoiced value of goods sold and service income earned by the Group.

The following table provides information about contract liabilities from contracts with customers.

	31 December 2018 HK$'000	1 January 2018 HK$'000
Contract liabilities (note 25)	**41,823**	76,394

The contract liabilities mainly relate to the advance consideration received from customers and volume rebates and sales allowances to customers. HK$64,580,000 of the contract liabilities as at 1 January 2018 has been recognised as revenue for the year ended 31 December 2018 from performance obligations satisfied when the goods were sold.

8. OTHER REVENUE AND OTHER GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
Government grants (note)	**1,700**	976
Interest income	**3,441**	2,734
Net exchange (losses)/gains	**(23,039)**	4,445
Net fair value gains on derivative financial instruments	**971**	329
Gain on disposal of property, plant and equipment	**149**	362
Gain on waiver of obligations under finance leases	**—**	27
Sundry income	**6,575**	3,505
Provision for demand of repayment, net	**—**	(289)
	(10,203)	12,089

Note: Government grants were received from several local government authorities the entitlements of which were under the discretion of the relevant authorities. There is no unfulfilled conditions and other contingencies attaching to the government grants that have been recognised.

9. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on bank advances and other borrowings	**50,251**	24,046

10. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	2018 HK$'000	2017 HK$'000
Inventories recognised as expense	**8,081,219**	7,608,332
Provision for obsolete inventories	**83,655**	31,065
Cost of sales	**8,164,874**	7,639,397
Staff costs (note 12)	**480,202**	419,253
Auditor's remuneration	**1,923**	1,752
Bad debts written off	**160**	1,052
Depreciation of property, plant and equipment	**21,365**	15,606
Amortisation of intangible assets (note (a))	**—**	215
Impairment of intangible asset (note 17)	**1,090**	—
Impairment losses on financial assets	**2,034**	7,535
Operating lease payments on plant and machinery	**242**	210
Operating lease payments on premises	**33,815**	30,755
Property, plant and equipment written off	**—**	39
Provision for product warranties and returns, net (note 27)	**16,026**	27,675
Provision for demand of repayment, net	**—**	289
Research and development expenditure (note (b))	**56,802**	52,318

Notes:

(a) Amortisation of intangible assets of HK$Nil (2017: HK$215,000) is included in "Administrative expenses" in the consolidated statement of comprehensive income.

(b) The research and development expenditure for the year includes HK$56,802,000 (2017: HK$52,318,000) relating to depreciation of plant and machinery and office equipment and staff costs for research and development activities, which are also included in the total amounts disclosed above for each of these types of expenses.

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11. INCOME TAX EXPENSE

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

	2018 HK$'000	2017 HK$'000
Current tax — Hong Kong		
— provision for the year	**35,743**	26,625
— under provision in respect of prior year	**267**	29
Current tax — PRC		
— provision for the year	**3,164**	1,896
— under/(over) provision in respect of prior year	**163**	(1,630)
Current tax — others		
— provision for the year	**4,703**	3,699
— under provision in respect of prior year	**3,048**	344
	47,088	30,963
Deferred tax		
— origination and reversal of temporary differences (note 21)	**(211)**	(4,063)
Income tax expense	**46,877**	26,900

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.

The Company's Macau subsidiary is exempted from Macau Complimentary Tax pursuant to Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces a two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. For the year ended 31 December 2018, Hong Kong profits tax is calculated in accordance with the two-tiered profits tax rates regime. For the year ended 31 December 2017, the provision for Hong Kong profits tax was calculated at 16.5% of the estimated assessable profits for the year. A significant subsidiary of the Company, PC Partner Limited, is entitled to claim 50% of all of its manufacturing profits as offshore in nature and non-taxable under Departmental Interpretation and Practice Notes No.21 issued by the Inland Revenue Department of Hong Kong.

11. INCOME TAX EXPENSE (CONTINUED)

(a) The amount of income tax expense in the consolidated statement of comprehensive income represents: (continued)

The Company's wholly-owned subsidiary located in the PRC, 東莞栢能電子科技有限公司 successfully obtained the "High Technology Enterprise" status during 2012 and renewed successfully during 2018 and the applicable PRC enterprise income tax rate for the year is 15% (2017: 15%). Other PRC subsidiaries of the Company are subject to PRC enterprise income tax at a statutory rate of 25% (2017: 25%) on the assessable profits as determined in accordance with the relevant income tax rules and regulations of the PRC for the year ended 31 December 2018.

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

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

	2018 HK$'000	2017 HK$'000
Profit before income tax	**316,859**	358,973
Tax calculated at Hong Kong profits tax rate	**52,282**	59,231
Effect of different tax rates of subsidiaries operating in other jurisdictions	**3,147**	7,752
Effect of tax exemption granted to a subsidiary	**–**	(15,035)
Tax effect of non-taxable net income relating to offshore operation	**(13,578)**	(11,736)
Tax effect of expenses not deductible for tax purposes	**5,765**	2,296
Tax effect of revenue not taxable for tax purposes	**(3,829)**	(1,829)
Tax effect of tax losses and deductible temporary differences not recognised	**3,339**	441
Utilisation of tax losses and deductible temporary differences previously not recognised	**(2,708)**	(13,833)
Under/(over) provision in prior year	**3,478**	(1,257)
Tax rebate and tax concession under two-tier profits tax rate	**(305)**	(150)
Others	**(714)**	1,020
Income tax expense	**46,877**	26,900

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12. STAFF COSTS

	2018 HK$'000	2017 HK$'000
Staff costs (including directors' emoluments) comprise:		
Wages and salaries	**444,181**	385,913
Pension contribution	**3,892**	3,286
Social insurance	**18,149**	14,583
Share-based payment (equity-settled)	**—**	2,760
Provision for long services payment, annual leave and others	**13,980**	12,711
	480,202	419,253

13. EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The emoluments paid or payable to each of the ten (2017: ten) directors and chief executive were as follows:

Year ended 31 December 2018

Name of directors	Fees HK$'000	Basic salaries and bonus HK$'000	Pension contribution HK$'000	Housing and other allowances and benefits in kind HK$'000	Sub-total HK$'000	Share-based payment (note (i)) HK$'000	Total HK$'000
Executive Directors							
Mr. WONG Shik Ho Tony	–	12,329	18	586	12,933	–	12,933
Mr. WONG Fong Pak	–	5,955	–	4	5,959	–	5,959
Mr. LEUNG Wah Kan	–	8,368	18	43	8,429	–	8,429
Mr. MAN Wai Hung	–	4,053	18	53	4,124	–	4,124
Mr. HO Nai Nap	–	5,013	18	–	5,031	–	5,031
Non-executive Directors							
Mrs. HO WONG Mary Mee-Tak	60	–	–	–	60	–	60
Mr. CHIU Wing Yui (note (iii))	60	–	–	–	60	–	60
Mr. IP Shing Hing	240	–	–	–	240	–	240
Mr. LAI Kin Jerome	240	–	–	–	240	–	240
Mr. CHEUNG Ying Sheung	240	–	–	–	240	–	240
	840	35,718	72	686	37,316	–	37,316

13. EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS (CONTINUED)

(a) Directors' emoluments (continued)

Year ended 31 December 2017

Name of directors	Fees	Basic salaries and bonus	Pension contribution	Housing and other allowances and benefits in kind	Sub-total	Share-based payment (note (i))	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors							
Mr. WONG Shik Ho Tony	–	17,835	18	589	18,442	190	18,632
Mr. WONG Fong Pak	–	8,062	–	6	8,068	190	8,258
Mr. LEUNG Wah Kan	–	12,410	18	25	12,453	190	12,643
Mr. MAN Wai Hung	–	5,077	18	50	5,145	189	5,334
Mr. HO Nai Nap	–	6,726	18	–	6,744	189	6,933
Non-executive Directors							
Mrs. HO WONG Mary Mee-Tak	60	–	–	–	60	–	60
Mr. CHIU Wing Yui (note (iii))	60	–	–	–	60	–	60
Mr. IP Shing Hing	240	–	–	–	240	–	240
Mr. LAI Kin Jerome	240	–	–	–	240	–	240
Mr. CHEUNG Ying Sheung	240	–	–	–	240	–	240
	840	50,110	72	670	51,692	948	52,640

Notes:

(i) This represents the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 4(p).

The details of these benefits-in-kind, including the principal terms and number of options granted, are disclosed in note 30.

(ii) The remuneration of directors is determined by the remuneration committee having regard to the level and composition of pay and the general market conditions in the respective countries and businesses.

(iii) As alternative director to Mrs. Ho Wong Mary Mee-Tak.

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13. EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS (CONTINUED)

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2017: four) were directors of the Company whose emoluments are included in the disclosure in note 13(a) above and the remaining two (2017: one) highest paid individuals were senior management personnel whose emoluments are included in the band of HK$6,000,001 to HK$6,500,000 in the disclosure in note 13(c) below.

During the year, no emoluments were paid or payable by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2017: HK$Nil). In addition, none of the directors waived or agreed to waive any emoluments during the year (2017: None).

(c) Senior management's emoluments

The emoluments paid or payable to members of senior management, which exclude directors, were within the following bands:

	2018 No. of Individuals	2017 No. of Individuals
HK$Nil to HK$1,000,000	**2**	3
HK$1,000,001 to HK$1,500,000	**9**	8
HK$1,500,001 to HK$2,000,000	**1**	3
HK$6,000,001 to HK$6,500,000	**2**	1
HK$7,000,001 to HK$7,500,000	**–**	1

14. DIVIDENDS

	2018 HK$'000	2017 HK$'000
2017 Final dividend paid — HK$0.28 per share (2017: 2016 Final dividend paid — HK$0.108 per share)	**124,934**	47,209
2017 Special dividend paid — HK$Nil per share (2017: 2016 Special dividend paid — HK$0.036 per share)	**—**	15,736
2018 Interim dividend paid — HK$0.275 per share (2017: 2017 Interim dividend paid — HK$0.04 per share)	**102,326**	17,770
Dividends paid for the year	**227,260**	80,715

The directors of the Company do not propose a final dividend for the year ended 31 December 2018 (2017: HK$0.28 per share, totalling HK$124,934,000).

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the years ended 31 December 2018 and 2017 is based on the following data:

Profit	2018 HK$'000	2017 HK$'000
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**270,843**	332,293

Number of shares	**2018**	2017
Weighted average number of ordinary shares for the purpose of basic earnings per share	**409,461,750**	437,248,120
Effect of dilutive potential ordinary shares:		
— share options	**387,165**	6,259,568
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**409,848,915**	443,507,688

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16. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Office and testing equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Total HK$'000
Cost:								
At 1 January 2017	24,938	48,458	273,676	63,297	2,237	3,218	2,921	418,745
Additions	–	577	4,686	10,785	132	2,535	121	18,836
Disposals/written off	–	(321)	(12,195)	(855)	–	(23)	–	(13,394)
Exchange adjustments	198	53	–	152	21	7	–	431
At 31 December 2017 and 1 January 2018	25,136	48,767	266,167	73,379	2,390	5,737	3,042	424,618
Additions	–	6,271	24,461	11,083	258	–	4,757	46,830
Acquisition of subsidiary	–	143	–	15	–	–	–	158
Disposals/written off	–	(17,979)	(7,088)	(4,335)	(160)	(63)	–	(29,625)
Exchange adjustments	48	(19)	–	(51)	(5)	(1)	–	(28)
At 31 December 2018	25,184	37,183	283,540	80,091	2,483	5,673	7,799	441,953
Accumulated depreciation:								
At 1 January 2017	378	46,091	253,042	58,730	1,459	2,429	1,301	363,430
Depreciation	329	2,373	5,753	5,379	196	639	937	15,606
Written back on disposals/written off	–	(282)	(12,148)	(845)	–	(23)	–	(13,298)
Exchange adjustments	3	23	–	115	10	1	–	152
At 31 December 2017 and 1 January 2018	710	48,205	246,647	63,379	1,665	3,046	2,238	365,890
Depreciation	330	1,188	7,067	9,720	255	1,133	1,672	21,365
Written back on disposals/written off	–	(17,979)	(7,079)	(4,332)	(160)	(14)	–	(29,564)
Exchange adjustments	2	(9)	–	(40)	(4)	–	–	(51)
At 31 December 2018	1,042	31,405	246,635	68,727	1,756	4,165	3,910	357,640
Net book value:								
At 31 December 2018	24,142	5,778	36,905	11,364	727	1,508	3,889	84,313
At 31 December 2017	24,426	562	19,520	10,000	725	2,691	804	58,728

17. INTANGIBLE ASSETS

	Brand name	Non-contractual customer lists and relationship	Goodwill	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Cost:				
At 1 January 2017, 31 December 2017 and 1 January 2018	6,196	10,074	—	16,270
Acquisition of subsidiary	—	—	1,530	1,530
At 31 December 2018	6,196	10,074	1,530	17,800
Accumulated amortisation and impairment:				
At 1 January 2017	281	9,859	—	10,140
Amortisation	—	215	—	215
At 31 December 2017 and 1 January 2018	281	10,074	—	10,355
Impairment	1,090	—	—	1,090
At 31 December 2018	1,371	10,074	—	11,445
Carrying amount:				
At 31 December 2018	4,825	—	1,530	6,355
At 31 December 2017	5,915	—	—	5,915

The brand name acquired through acquisition of businesses is considered by management of the Group as having indefinite useful life as there was no limit to the period the brand name would contribute to net cash inflows.

Non-contractual customer lists and relationship acquired through acquisition of businesses is amortised over their useful lives of 5 years. The amortisation expense has been included in administrative expenses in the consolidated statement of comprehensive income.

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17. INTANGIBLE ASSETS (CONTINUED)

For impairment testing, brand names which include Manli's brand and Innovision's brand are allocated to the cash generating units (CGUs) — VGA cards retailing business in respective brand names that contribute the cash flows.

The recoverable amount of the CGU for Innovision's brand name has been determined from value-in-use calculations. The Group prepares cash flow projections derived from the most recent financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the long-term growth rate stated below.

The key assumptions used for value-in-use calculations are as follows:

	2018	2017
Profit margin (average of next five years)	**5.99%**	3.51%
Long-term growth rate	**2%**	2%
Growth rate for 2019 (2017: 2018)	**–25%**	–22%
Growth rate for 2020 to 2023 (2017: 2019 to 2022)	**5%**	2% to 5%
Discount rate	**31.89%**	27%

Management determined the profit margin based on past performance and its expectations regarding market development. The long-term growth rate does not exceed the long-term average growth rate for the industry. The discount rate used is pre-tax and reflects specific risks relating to the CGU. The growth rates are based on industry growth forecasts. Profit margin is based on historical data of the CGUs.

The recoverable amount of the CGU based on the estimated value-in-use calculations was higher than its carrying amount at 31 December 2018. Accordingly, no provision for impairment loss for Innovision's brand name is considered necessary.

Full impairment losses of HK$1,090,000 in respect of the carrying amount of Manli's brand had been recognised during the year ended 31 December 2018 as the Group considered the recoverable amount of the asset is close to zero as the Group had decided to discontinue the sales of Manli's brand products.

For impairment testing of Goodwill, it is allocated to the cash generating unit (CGU) — Zotac Nippon that contributes the cash flows. The recoverable amount of the CGU is determined from value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the long-term growth rate stated below.

The key assumptions used for value-in-use calculations at 31 December 2018 are as follows:

Profit margin (average of next five years)	3.15%
Long-term growth rate	2%
Growth rate within the five-year period	5%
Discount rate	31.89%

Management determined the profit margin based on past performance and its expectations regarding market development. The long-term growth rate does not exceed the long-term average growth rate for the industry. The discount rate used is pre-tax and reflects specific risks relating to the CGU. The recoverable amount of the CGU (including goodwill) based on the estimated value-in-use calculations was higher than its carrying amount at 31 December 2018. Accordingly, no provision for impairment loss for goodwill is considered necessary.

18. OTHER FINANCIAL ASSETS

	2018 HK$'000	2017 HK$'000
Available-for-sale investments — Non-current		
Investments in unlisted securities (notes)		
— Ordinary shares in Federal Bonus Limited (note (b))	–	244
— Ordinary shares in Sapphire Global Holdings Limited (note (b))	–	20,748
— Preferred stock in Dreamscape Immersive Inc. (note (c))	–	15,620
Equity investments measured at FVTOCI — Non-current		
Investments in unlisted securities (notes)	–	—
— Preferred stock in Dreamscape Immersive Inc. (note (c))	10,893	—
Total	10,893	36,612

Notes:

(a) The Group holds less than 20% equity interest in and has no significant influence over the above investees.

(b) These are investments in ordinary shares in private companies incorporated in the British Virgin Islands ("BVI"). As the investments do not have a quoted market price in an active market and their fair value cannot be reliably measured, they are stated at cost less any accumulated impairment losses as at 31 December 2017 under HKAS 39.

All the above investments which were classified as available-for-sale investments under HKAS 39 are not held for trading and the Group has irrecoverably elected at initial recognition to recognise at fair value through other comprehensive income upon adoption of HKFRS 9. They are strategic investments and the Group considers this classification to be more relevant. No dividends were received on these investments during the year (2017: Nil).

In November 2018, the Group sold its shares in Federal Bonus Limited and Sapphire Global Holdings Limited as these investments no longer suited the Group's investment strategy. The shares in Federal Bonus Limited and Sapphire Global Holdings Limited were sold to independent third parties for cash consideration of HK$780,000 and HK$25,471,000 respectively. The Group realised gain of HK$536,000 and HK$4,723,000 respectively, which were included in other comprehensive income by transfer to retained earnings.

(c) This is an investment in preferred stock in a private company incorporated in the United States of America of US$1,999,995 (2017: US$1,999,995). As the investment does not have a quoted market price in an active market and its fair value cannot be reliably measured, it is stated at cost less any accumulated impairment losses as at 31 December 2017 under HKAS 39.

The above investment which was classified as available-for-sale investment under HKAS 39 is not held for trading and the Group has irrevocably elected at initial recognition to recognise at fair value through other comprehensive income upon adoption of HKFRS 9. It is a strategic investment and the Group considers this classification to be more relevant. No dividends were received on this investment during the year (2017: Nil).

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19. TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables at amortised cost	**839,973**	1,165,369
Less: Accumulated impairment losses	**(6,238)**	(7,543)
Trade receivables at amortised cost, net (note (a))	**833,735**	1,157,826
Trade receivables at fair value through profit or loss (note (b))	**41,373**	—
Other receivables (note (c))	**15,600**	3,706
Deposits and prepayments	**22,633**	25,741
Less: Accumulated impairment losses	**(1,027)**	(1,027)
	21,606	24,714
	912,314	1,186,246

As at 31 December 2018, the Group entered into trade receivables factoring arrangement and transferred certain trade receivables to banks. As at 31 December 2017, the Group had not entered into any trade receivables factoring arrangement. There are two types of arrangements which are discounted bills with full recourse and factoring loans without recourse.

For discounted bills with full recourse, as at 31 December 2018, trade receivables with both original carrying value and the carrying amount of approximately HK$10,044,000 (2017: HK$17,511,000) had been transferred to banks. Since the Group has retained substantial risks and rewards relating to the trade receivables including default risks, the trade receivables are regarded as transferred financial assets that should not be derecognised. Accordingly, the trade receivables and the corresponding proceeds of discounted bills with same amount as the trade receivables continued to be recognised in the consolidated financial statements even though the trade receivables have been legally transferred to banks. In the event of default by the debtors, the Group is obliged to pay the banks the amount in default. Interest is charged at 1.96% to 3.43% (2017: 1.78% to 2.40%) on the proceeds received from the banks until the date the debtors pay.

19. TRADE AND OTHER RECEIVABLES (CONTINUED)

The carrying amount of trade receivables of HK$10,044,000 and the corresponding proceeds of discounted bills approximate to their fair values.

The details of factoring loans without recourse are set out in note (b).

Notes:

(a) The ageing analysis of trade receivables at amortised cost (net of impairment losses) of the Group, based on invoice dates, as at the end of the year is as follows:

	2018 HK$'000	2017 HK$'000
Within 1 month	**435,571**	710,267
Over 1 month but within 3 months	**362,748**	364,466
Over 3 months but within 1 year	**33,117**	24,703
Over 1 year	**2,299**	58,390
	833,735	1,157,826

The Group recognised impairment losses based on the accounting policy stated in note 4(h)(ii).

The credit period on sale of goods is 30 to 90 days (2017: 30 to 90 days) from the invoice date. Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 35.

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19. TRADE AND OTHER RECEIVABLES (CONTINUED)

Notes: (continued)

(b)

	2018 HK$'000	2017 HK$'000
Trade receivables at fair value through profit or loss	**41,373**	—

It represents trade receivables which are subject to a factoring arrangement without recourse. Under this arrangement, the Group will transfer the relevant receivables to the bank in exchange for cash.

The Group considers this is a "hold to sell" model and hence these trade receivables are measured at fair value through profit or loss.

As at 31 December 2018, the Group had drawn approximately HK$35,404,000 from banks by transferring its trade receivables. The Group has transferred substantially all risks and rewards relating to the trade receivables and thus the trade receivables are regarded as transferred financial assets that should be derecognised. Therefore, the corresponding trade receivables are derecognised in the consolidated financial statements.

The ageing analysis of trade receivables at fair value through profit or loss of the Group, based on invoice dates, as at the end of the year is as follows:

	2018 HK$'000	2017 HK$'000
Within 1 month	**32,264**	—
Over 1 month but within 3 months	**9,109**	—
	41,373	—

The credit period of sales of goods is 30 to 90 days from the invoice date.

The ageing analysis of trade receivables at fair value through profit or loss of the Group, based on due date, as at the end of the year is as follows:

	2018 HK$'000	2017 HK$'000
Not past due	**41,285**	—
Within 1 month past due	**88**	—
	41,373	—

(c) The balance includes market fund receivables of HK$8,377,000 and a claim of HK$2,467,000 under an insurance policy as detailed in note 24(b).

20. DERIVATIVE FINANCIAL INSTRUMENTS

	2018 HK$'000	2017 HK$'000
Derivative financial assets		
Foreign exchange forward contracts	**464**	—

Notional amount	Trade dates	Contracted exchange rates	Fair value	
			2018 HK$'000	2017 HK$'000
US$1,500,000	26 April 2018 to 27 April 2020	HK$7.8505	**196**	—
US$2,000,000	25 April 2018 to 23 April 2020	HK$7.8500	**268**	—
			464	—

The fair values of the above derivatives as at 31 December 2018 were determined based on valuations performed by Stirling Appraisals Limited, a qualified valuer. Under the terms of the foreign exchange contracts, the contracts will be terminated when accumulative gain reaches the target amount. According to the valuations, the contracts will be terminated within one year, so the assets are classified as current assets.

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21. DEFERRED TAX

Details of the deferred tax assets recognised and movements during the year:

	Decelerated tax depreciation HK$'000	Provision for doubtful debts, annual leave and warranty HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2017	957	1,417	—	2,374
(Charged)/credited to profit or loss	(24)	1,316	2,771	4,063
Exchange difference	—	—	8	8
At 31 December 2017 and 1 January 2018	933	2,733	2,779	6,445
(Charged)/credited to profit or loss	(440)	3,429	(2,778)	211
Exchange difference	—	—	(1)	(1)
At 31 December 2018	493	6,162	—	6,655

Deferred tax asset has not been recognised for the followings:

	2018 HK$'000	2017 HK$'000
Unused tax losses	**9,475**	10,880
Other deductible temporary differences	**18,812**	15,643
	28,287	26,523

The PRC subsidiaries of the Company are subject to PRC withholding income tax at a statutory rate of 10% (2017: 10%) on any dividend declared.

No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. No deferred tax asset has been recognised in relation to other deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised. Losses amounting to approximately HK$5,186,000 (2017: HK$5,387,000) could be carried forward indefinitely. Remaining losses amounting to approximately HK$4,289,000 (2017: HK$5,493,000) will expire in 2023.

The temporary difference associated with investment in subsidiaries for which deferred tax liabilities have not been recognised amounted to approximately HK$50,973,000 (2017: HK$36,080,000).

22. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	**1,400,709**	865,789
Work in progress	**50,627**	65,233
Finished goods	**1,167,587**	478,682
	2,618,923	1,409,704
Less: Provision for obsolete inventories	**(121,399)**	(60,248)
	2,497,524	1,349,456

23. CASH AND BANK BALANCES

	2018 HK$'000	2017 HK$'000
Cash and bank balances	**813,499**	1,453,815
Less: Pledged time deposit	**(454)**	(454)
Cash and cash equivalents in the consolidated statement of cash flows	**813,045**	1,453,361

The currency analysis of cash and cash equivalents are shown as follows:

	2018 HK$'000	2017 HK$'000
Renminbi	**71,268**	96,983
Japanese Yen	**4,508**	2,998
Taiwan Dollars	**2,256**	1,561
United States Dollars	**545,709**	1,065,793
Hong Kong Dollars	**172,662**	247,465
Korean Won	**14,308**	28,060
Euro	**997**	9,782
Others	**1,337**	719
	813,045	1,453,361

Renminbi is not freely convertible into other currencies. Under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorised to conduct foreign exchange business.

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24. TRADE AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables	**1,403,836**	1,057,747
Other payables and accruals (notes (a), (b))	**244,628**	430,214
	1,648,464	1,487,961

All trade and other payables and accruals are due to be settled within twelve months.

Notes:

(a) As at 31 December 2018, other payables and accruals mainly comprised provision for bonus and accrued expenses.

(b) On 22 August 2016, a joint liquidator of Changtel Solutions UK Limited ("Changtel"), which is a customer of the Group, informed the Group that Changtel was wound up by the United Kingdom ("UK") Court on 28 January 2015 and alleged that the transactions between Changtel and the Group during Changtel's winding-up period from 7 June 2013 to 28 January 2015 ("Winding-up Period") are void pursuant to section 127 of UK Insolvency Act 1986. Based on this, the joint liquidator requested for a return of sales payments, which is the contractual payments for goods sold and delivered by the Group to Changtel during the Winding-up Period.

The Group was not aware of the winding up action against Changtel. The management has sought for legal opinion from a local independent lawyer. According to the legal opinion, such payment may be valid if validation order is granted by the court to the Group. However, the lawyer does not consider that any application for a validation order by the Group is likely to succeed. As such, the Group has made a provision of HK$6,473,000 in respect of the abovementioned demand, of which HK$2,467,000 is covered by insurance policy (note 19).

The movement of provision for demand of repayment is as follow:

	2018 HK$'000	2017 HK$'000
At 1 January	**6,461**	6,121
Additional provision	**—**	289
Exchange difference	**12**	51
At 31 December	**6,473**	6,461

24. TRADE AND OTHER PAYABLES (CONTINUED)

The ageing analysis of trade payables of the Group, based on invoice dates, as at the end of the year is as follows:

	2018 **HK$'000**	2017 HK$'000
Within 1 month	**221,915**	633,874
Over 1 month but within 3 months	**948,799**	389,326
Over 3 months but within 1 year	**229,326**	31,232
Over 1 year	**3,796**	3,315
	1,403,836	1,057,747

25. CONTRACT LIABILITIES

	31 December 2018 HK$'000	1 January 2018 HK$'000	31 December 2017 HK$'000
Contract liabilities arising from:			
Sale of goods	**41,823**	76,394	—

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25. CONTRACT LIABILITIES (CONTINUED)

Movements in contract liabilities

	2018 HK$'000
At 1 January	76,394
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(64,580)
Decrease in contract liabilities as a result of settlement of volume rebates and sales allowances during the year that was included in the contract liabilities at the beginning of the year	(11,814)
Increase in contract liabilities as a result of advance consideration received from customers	28,296
Increase in contract liabilities as a result of volume rebates and sales allowances to customers	13,527
At 31 December	41,823

Note: The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018. Upon the adoption of HKFRS 15, amounts previously included as "Trade and other payables" have been reclassified to "Contract liabilities".

26. BORROWINGS

	2018 HK$'000	2017 HK$'000
Bank loans — guaranteed	597,703	—
Import loans — guaranteed	1,101,899	1,333,445
Discounted bills	10,044	17,511
	1,709,646	1,350,956

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

	2018 HK$'000	2017 HK$'000
Within 1 year	1,560,294	1,350,956
Over 1 year but within 2 years	149,352	—
	1,709,646	1,350,956

26. BORROWINGS (CONTINUED)

(i) At 31 December 2018, the above borrowings bear interest at effective interest rates ranging from 0.9% per annum over cost of funds (2017: 0.9% per annum over cost of funds) to 1.5% per annum over cost of funds (2017: 1.1% per annum over cost of funds) for the year.

(ii) Some of the Group's banking facilities are secured by bank deposits of HK$454,000 (2017: HK$454,000).

(iii) The discounted bills are secured by the Group's trade receivables as disclosed in note 19.

(iv) The banks have overriding right of repayment on demand for all bank loans irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations. Therefore, the bank loans were entirely classified as current liabilities in the consolidated statement of financial position.

27. PROVISIONS

	2018 HK$'000	2017 HK$'000
Provision for product warranties and returns		
At 1 January	**28,576**	12,883
Reclassification under HKFRS 15 (note 2(a)B(a))	**(5,479)**	—
Additional provision, net	**16,026**	27,675
Utilisation	**(10,880)**	(11,992)
Exchange difference	**—**	10
Net movement for the year	**(333)**	15,693
At 31 December	**28,243**	28,576

Under the terms of certain sales agreements of the Group, the Group will rectify any product defects arising within two to three years from the date of sale ("Warranty Period"). The Group also has a policy allowing the customers to return any defected products within two to three 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 in respect of sales made during the Warranty Period. The amount of provision 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.

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28. SHARE CAPITAL

	2018 Number of shares	2018 Amount HK$'000	2017 Number of shares	2017 Amount HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**1,000,000,000**	**100,000**	1,000,000,000	100,000
Issued and fully paid:				
Ordinary shares of HK$0.10 each				
At 1 January	**444,843,668**	**44,484**	429,393,668	42,939
Share options exercised	**1,950,000**	**195**	15,450,000	1,545
Purchase of own shares for cancellation	**(74,700,000)**	**(7,470)**	—	—
At 31 December	**372,093,668**	**37,209**	444,843,668	44,484

Purchase of own shares for cancellation

During the year ended 31 December 2018, the Company repurchased its own ordinary shares listed on the Stock Exchange as follows:

Month/year	**Number of shares repurchased**	**Price paid per share** HK$	**Aggregate price paid** HK$'000
July 2018	74,700,000	5	373,500

The repurchased shares were cancelled during the year ended 31 December 2018 and accordingly the issued share capital of the Company was reduced by the nominal value of the ordinary shares repurchased.

29. OPERATING LEASE ARRANGEMENTS (AS LESSEE)

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 10 years and many have break clauses.

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

	2018 HK$'000	2017 HK$'000
Within 1 year	**36,816**	34,324
Over 1 year but within 5 years	**6,462**	4,015
	43,278	38,339

30. SHARE-BASED PAYMENT

(a) Pre-IPO Share Option Scheme

Pursuant to the written resolutions of the shareholders of the Company passed on 14 December 2011 (the "Resolutions"), the Company has adopted a Pre-IPO Share Option Scheme (the "Pre-IPO Share Option Scheme"). Under the Pre-IPO Share Option Scheme, share options are granted to directors (including Non-executive Directors), employees and consultants to the Group (the "Grantees"). The Pre-IPO Share Option Scheme was terminated on 24 December 2011. Upon termination of the Pre-IPO Share Option Scheme, no further share option was granted but in all other respects the provisions of the Pre-IPO Share Option Scheme remain in full force and effect to the extent necessary to give effect to the exercise of any share options granted prior thereto or otherwise as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme, and share options which were granted prior to such termination continued to be valid and exercisable in accordance with the provisions of the Pre-IPO Share Option Scheme and their terms of issue.

As at 14 December 2011, options to subscribe for an aggregate of 31,990,000 shares of the Company, representing 7.66% of the issued share capital of the Company immediately following the completion of the offering (as defined in the Company's prospectus dated 29 December 2011), at an exercise price of HK$1.46 per share of the Company, have been granted pursuant to the Pre-IPO Share Option Scheme. Each of the Grantees has paid HK$1 to the Company on acceptance of the offer for the grant of option.

Pursuant to the Resolutions, Grantees may exercise 50% of such options granted for three years commencing from the first anniversary of 12 January 2012 (the "Listing Date") and the remaining 50% for the period of three years commencing from the second anniversary of the Listing Date. The share-based payment in respect of such options is amortised over the vesting periods from 14 December 2011 to 11 January 2013 and 14 December 2011 to 11 January 2014 and in accordance with the Group's accounting policy set out in note 4(p).

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30. SHARE-BASED PAYMENT (CONTINUED)

(a) Pre-IPO Share Option Scheme (continued)

The fair values for total share options granted to directors and employees amounted to HK$7,175,000 and HK$10,095,000 respectively and were calculated using the Binomial option pricing model by Stirling Appraisals Limited, a qualified valuer. The weighted average remaining contractual life of the share options outstanding at 31 December 2018 is Nil year (2017: Nil year).

(b) 2016 Share Option Scheme

Since the termination of the Pre-IPO Share Option Scheme on 24 December 2011, no new share option scheme has been adopted by the Company. Hence, the Company adopted a 2016 Share Option Scheme on 17 June 2016. The purpose of 2016 Share Option Scheme is to enable the Company to grant options to participants as incentives or rewards for their retention and contribution or potential contribution to the Group.

Details of the 2016 Share Option Scheme are set out in the Company's circular dated 1 June 2016.

The fair values for total share options granted to directors and employees amounted to HK$1,964,000 and HK$3,955,000 respectively and were calculated using the Binomial option pricing model by Stirling Appraisals Limited, a qualified valuer. The weighted average remaining contractual life of the share options outstanding at 31 December 2018 is Nil year (2017: 0.92 years).

Movements in the number of share options outstanding and their exercise prices are as follows:

	2018			
	Weighted average exercise price HK$	Directors '000	Employees '000	Total '000
Outstanding at the beginning of the year	1.09	600	1,350	1,950
Lapsed during the year	—	—	—	—
Exercised during the year	1.09	(600)	(1,350)	(1,950)
Outstanding at the end of the year	—	—	—	—
Exercisable at the end of the year	—	—	—	—

30. SHARE-BASED PAYMENT (CONTINUED)

(b) 2016 Share Option Scheme (continued)

	2017			
	Weighted average exercise price HK$	Directors '000	Employees '000	Total '000
Outstanding at the beginning of the year	1.12	6,000	13,870	19,870
Lapsed during the year	1.46	—	(2,470)	(2,470)
Exercised during the year	1.09	(5,400)	(10,050)	(15,450)
Outstanding at the end of the year	1.09	600	1,350	1,950
Exercisable at the end of the year	1.46	—	—	—
Exercisable at the end of the year	1.09	600	1,350	1,950

The weighted averaged share price at the date of exercise for share options exercised during the year was HK$4.84 (2017: HK$2.75).

Details of movements in number of share options granted to the directors of the Company are as follows:

	2018				
Director	**Beginning of year**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**End of year**
Mr. WONG Shik Ho Tony	–	–	–	–	–
Mr. WONG Fong Pak	–	–	–	–	–
Mr. LEUNG Wah Kan	**600,000**	–	**(600,000)**	–	–
Mr. MAN Wai Hung	–	–	–	–	–
Mr. HO Nai Nap	–	–	–	–	–
Total	**600,000**	–	**(600,000)**	–	–

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30. SHARE-BASED PAYMENT (CONTINUED)

(b) 2016 Share Option Scheme (continued)

	2017				
Director	Beginning of year	Granted during the year	Exercised during the year	Lapsed during the year	End of year
Mr. WONG Shik Ho Tony	1,200,000	—	(1,200,000)	—	—
Mr. WONG Fong Pak	1,200,000	—	(1,200,000)	—	—
Mr. LEUNG Wah Kan	1,200,000	—	(600,000)	—	600,000
Mr. MAN Wai Hung	1,200,000	—	(1,200,000)	—	—
Mr. HO Nai Nap	1,200,000	—	(1,200,000)	—	—
Total	6,000,000	—	(5,400,000)	—	600,000

The inputs into the model were as follows:

	"Pre-IPO Share Option Scheme" Employees and directors As at 14 December 2011	**"2016 Share Option Scheme" Employees and directors As at 26 August 2016**
Weighted average share price	1.60	1.09
Weighted average exercise price	1.46	1.09
Expected volatility	50.16% to 50.76%	61.38% to 65.72%
Expected life	4.079 to 5.081 years	1.84 to 2.35 years
Risk-free interest rate	0.663% to 0.839%	0.453% to 0.469%
Early exercise behaviour	220%	220% to 280%
Expected dividend yield	5%	5.230% to 5.272%

The expected volatility is based on the historical volatility on publicly available information.

The risk-free interest rate was determined with reference to the yield rate of the Hong Kong Exchange Fund Notes with duration similar to the expected life of the options.

The options under the "2016 Share Option Scheme" were expected to be exercised when the share price of the underlying security of the options rises ranging from 220% to 280% of the exercise price while the options under the "Pre-IPO Share Option Scheme" were expected to be exercised when the share price of the underlying security of the options rises to 220% of the exercise price.

Share options were granted under a service condition. This condition has not been taken into account in grant date fair value measurement of the services received. There were no market conditions associated with the share options granted.

31. NOTE SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents comprise:

	2018 HK$'000	2017 HK$'000
Cash available on demand	**813,045**	1,425,359
Short-term deposits	–	28,002
Significant non-cash transactions are as follows:		
Financing activities		
Assets acquired under finance leases	–	90
Termination of finance leases	–	(38)
	–	52

(b) Reconciliation of liabilities arising from financing activities:

	Borrowings (note 26) HK$'000	**Obligations under finance leases** HK$'000
At 1 January 2018	1,350,956	85
Proceeds from bank loans	597,703	—
Proceeds from discounted bills and factoring loans	59,493	—
Repayment of discounted bills and factoring loans	(66,960)	—
Repayment of obligations under finance leases	—	(18)
Total changes from financing cash flows:	590,236	(18)
Other changes:		
Net repayment from import loans	(231,546)	—
Total other changes	(231,546)	—
At 31 December 2018	1,709,646	67

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31. NOTE SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities: (continued)

	Borrowings (note 26) HK$'000	**Obligations under finance leases** HK$'000
At 1 January 2017	987,555	51
Proceeds from discounted bills and factoring loans	80,687	—
Repayment of discounted bills and factoring loans	(81,834)	—
Repayment of obligations under finance leases	—	(18)
Total changes from financing cash flows:	(1,147)	(18)
Other changes:		
Net proceeds from import loans	364,548	—
New finance leases	—	90
Termination of finance leases	—	(38)
Total other changes	364,548	52
At 31 December 2017	1,350,956	85

32. CAPITAL COMMITMENTS

At 31 December 2018, the Group had the following capital commitments contracted for but not provided in respect of:

	2018 **HK$'000**	2017 HK$'000
Acquisition of property, plant and equipment	**1,264**	2,542

33. RELATED PARTIES DISCLOSURES

During the year, the Group entered into the following significant transactions with its related parties:

(i) Amount due from/(to) a related party

Amount due from/(to) a related party is unsecured, interest-free and repayable on demand. Maximum amount due from a related party during the year was HK$80,575,000 (2017: HK$21,984,000). The credit period on sales of good is 30 days (2017: 30 days) from the invoice date.

	2018 HK$'000	2017 HK$'000
(ii) Related parties transactions		
Related party controlled by a subsidiary's key management personnel		
— sales	(152,932)	(373,032)
— commission expense	3,226	3,896
— agency fee expense	564	607
Related company owned by a director of the Company		
— rental expense	815	780
Director of a subsidiary		
— rental expense	216	208
Director of the Company		
— rental expense	—	208

Rental expenses were charged according to the agreements.

The directors are of the opinion that these transactions were conducted on normal business terms and in the ordinary course of business.

Members of key management during the year comprised the directors only whose remuneration is set out in note 13.

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34. CAPITAL MANAGEMENT

The capital structure of the Group consists of debts, which includes the borrowings disclosed in note 26 and the obligations under finance leases and equity of the Group, comprising share capital, reserves and retained earnings disclosed in consolidated statement of changes in equity. Management reviews the capital structure on a semi-annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital.

The Group has a target gearing ratio of below 100% determined as the proportion of net debt to equity.

The gearing ratio at the end of each reporting period was as follows:

	2018 **HK$'000**	2017 HK$'000
Debts	**1,709,713**	1,351,041
Cash and bank balances	**(813,499)**	(1,453,815)
Net debts	**896,214**	(102,774)
Total equity	**877,324**	1,208,040
Net debt to equity ratio	**102.2%**	N/A

35. FINANCIAL RISK MANAGEMENT

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:

(a) 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 and amount due from a related party, individual credit evaluations are performed on all customers requiring credit over a certain amount. Ongoing evaluations are performed on monthly basis. For receivables with balances that are more than 3 months overdue, further credit will only be granted under management's approval, otherwise, the customers are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers except for those mentioned below, however the Group has purchased credit insurance for certain customers.

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

As at 31 December 2018, the Group has a certain concentration of credit risk as 5.1% (2017: 5.8%) and 26.1% (2017: 24.8%) of the total trade receivables and amount due from a related party were due from the Group's largest customer and the five largest customers respectively.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate	**Gross carrying amount**	**Expected credit loss**
	%	HK$'000	HK$'000
Not past due	0.019%	577,449	111
Within 1 month past due	0.054%	194,511	106
Over 1 month but within 3 months past due	0.594%	40,568	241
Over 3 months but within 1 year past due	7.500%	20,921	1,569
Over 1 year past due	64.546%	6,524	4,211
		839,973	6,238

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

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35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 4(h)(ii)). At 31 December 2017, trade receivables of HK$7,543,000 was determined to be impaired. The ageing analysis of trade receivables that were not considered to be impaired was as follows:

	2017 HK$'000
Neither past due nor impaired	843,191
Within 1 month past due	212,150
Over 1 month but within 3 months past due	31,369
Over 3 months but within 1 year past due	13,287
Over 1 year past due	57,829
	1,157,826

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record. Based on past experience, the directors consider that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. As at 31 December 2018, the Group held pledges of landed properties for certain of these balances amounted to HK$6,646,000 (2017: HK$61,299,000) while the fair value of pledged landed properties amounted to HK$25,561,000 (2017: HK$69,728,000). The Group does not have the right to sell or re-pledge the properties held as collateral in the absence of default by customers.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2018 HK$'000	2017 HK$'000
At 31 December under HKAS 39	**7,543**	7,333
Impact on initial application of HKFRS 9 (note 2(a)A)	**—**	—
Adjusted balance at 1 January	**7,543**	7,333
Impairment losses recognised during the year	**2,034**	6,508
Amounts written off during the year	**(3,343)**	(6,325)
Exchange difference	**4**	27
At 31 December	**6,238**	7,543

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

The following significant changes in the gross carrying amounts of trade receivables contributed to the increase in the loss allowance during 2018:

— Origination of new trade receivables net of those settled resulted in an increase in loss allowance of HK$2,034,000;

— A write-off of trade receivables with a gross carrying amount of HK$3,343,000 resulted in a decrease in loss allowance of HK$3,343,000.

The credit risk on cash and bank balances and derivative financial assets are limited because the counterparties are banks with high credit-rating assigned by international credit-rating agencies.

Other receivables measured at amortised costs are subject to the ECLs model and the loss allowances are limited to 12-month ECLs as there has not been a significant increase in credit risk since initial recognition. The ECLs of other receivables as at 31 December 2018 were determined to be immaterial.

(b) 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.

The following table details the Group's remaining contractual maturities for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause can be exercised at the bank's sole discretion. The analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity dates for other financial liabilities are based on the agreed repayment dates.

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35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within 1 year HK$'000	Over 1 year but within 2 years HK$'000	More than 2 years HK$'000
At 31 December 2018					
Trade and other payables	**1,648,464**	**1,648,464**	**1,648,464**	**–**	**–**
Borrowings	**1,709,646**	**1,709,646**	**1,709,646**	**–**	**–**
Obligations under finance leases	**67**	**67**	**18**	**18**	**31**
Total	**3,358,177**	**3,358,177**	**3,358,128**	**18**	**31**
At 31 December 2017					
Trade and other payables	1,487,961	1,487,961	1,487,961	–	–
Borrowings	1,350,956	1,350,956	1,350,956	–	–
Obligations under finance leases	85	85	18	18	49
Total	2,839,002	2,839,002	2,838,935	18	49

The below table summarises the maturity analysis of bank borrowings with a repayment on demand clause based on agreed scheduled repayments. Taking into account the Group's financial position, the directors do not consider that it is probable that the banks will exercise their discretion to demand immediate repayment. The directors believe that such bank borrowings will be repaid in accordance with the scheduled repayment dates.

	Carrying amount HK$'000	Total contractual discounted cash flow HK$'000	Within 1 year HK$'000	Over 1 year but within 2 years HK$'000
31 December 2018	**1,709,646**	**1,724,916**	**1,571,354**	**153,562**
31 December 2017	1,350,956	1,353,219	1,353,219	–

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) 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 following table details the interest rate profile of the Group's borrowings:

	2018		2017	
	Effective interest rate (per annum)	**HK$'000**	Effective interest rate (per annum)	HK$'000
Variable rate borrowings:				
Bank loans	**3.80%**	**597,703**	— %	—
Import loans	**3.36%**	**1,101,899**	2.34%	1,333,445
Discounted bills	**1.10%**	**10,044**	1.10%	17,511
		1,709,646		1,350,956
Fixed rate borrowings:				
Obligations under finance lease	**Nil**	**67**	Nil	85

At 31 December 2018, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax for the year ended 31 December 2018 by approximately HK$7,138,000 (2017: HK$5,641,000) respectively.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for the borrowings in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis as 2017.

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35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) 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 Renminbi and Euro.

The following table details the Group's exposure at 31 December 2018 and 2017 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.

	2018 Renminbi HK$'000	2017 Renminbi HK$'000	**2018 Euro HK$'000**	2017 Euro HK$'000
Trade and other receivables	**46,814**	68,163	**357**	396
Cash and bank balances	**58,475**	82,746	**479**	6,465
Trade and other payables	**(8,823)**	(27,308)	**(1,659)**	(480)
Overall net exposure	**96,466**	123,601	**(823)**	6,381

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Currency risk (continued)

The following table indicates the approximate change in the Group's profit after income tax and retained profits and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit for the year and other equity where the HK$ weakens against the relevant currency. For a strengthening of the HK$ against the relevant currency, there would be an equal and opposite impact on the profit for the year and other equity, and the balances below would be negative.

	Increase in foreign exchange rates	Effect on profit after income tax HK$'000
As at 31 December 2018		
Renminbi	**5%**	**4,027**
Euro	**5%**	**(34)**
As at 31 December 2017		
Renminbi	5%	5,160
Euro	5%	266

The sensitivity analysis has been determined assuming that the change in foreign exchange rate had occurred at the end of the reporting period and had been applied to each of the group entities; exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rate over the periods until the next annual reporting date. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit for the year and equity measured in the respective functional currencies, translated into HK$ at the exchange rate ruling at the end of reporting period for presentation purposes. The analysis is performed on the same basis as 2017.

36. SUBSEQUENT EVENT

Formation of Joint Venture Company in the PRC

On 12 January 2019, PC Partner Wealth Investment Limited ("PC Partner Wealth"), a wholly-owned subsidiary of the Company, entered into a Letter of Intent for the formation of a sino-foreign equity joint venture company in the People's Republic of China ("JV Company"). The JV Company, being 50% owned by PC Partner Wealth, was established on 18 January 2019 with a total registered capital of US$33,600,000. PC Partner Wealth has contributed US$16,800,000, US$2,317,200 of which in cash and US$14,482,800 in kind by way of GPU cards. It will principally invest in cloud computing, container cloud and deep learning projects.

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37. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

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

	2018 Carrying amount HK$'000	2017 Carrying amount HK$'000
Financial assets		
Financial assets at fair value through profit or loss		
— Derivatives	464	—
— Trade receivables at fair value through profit or loss	41,373	—
Loans and receivables		
— Cash and cash equivalents	—	1,453,361
— Trade and other receivables	—	1,168,619
— Amount due from a related party	—	1,762
Financial assets at amortised cost		
— Cash and cash equivalents	813,045	—
— Trade and other receivables	857,156	—
Available-for-sale investments	—	36,612
Financial assets at fair value through other comprehensive income:		
— Unlisted equity investments	10,893	—
Financial liabilities		
Financial liabilities measured at amortised cost		
— Trade and other payables	1,646,250	1,268,885
— Refund liabilities (note (a)(a))	39,557	—
— Contract liabilities (note (a)(b))	13,527	—
— Amount due to a related party	2,090	—
— Borrowings	1,709,646	1,350,956
— Obligations under Finance leases	67	85

37. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (CONTINUED)

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Group 2018			
	Level 1 HK$'000	Level 2 HK$,000	Level 3 HK$,000	Total HK$'000
Financial assets at fair value through profit or loss				
— Derivatives	—	464	—	464
— Trade receivables at fair value through profit or loss	—	41,373	—	41,373
Financial assets at fair value through other comprehensive income				
— Unlisted equity investments	—	—	10,893	10,893
	—	41,837	10,893	52,730

There are no financial instruments carried at fair value as at 31 December 2017.

There were no transfers between levels during the period

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

37. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (CONTINUED)

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

Unlisted equity investments	Financial assets at FVTOCI (2018)/ Available-for-sale financial assets (2017)	
	2018 **HK$'000**	2017 HK$'000
At 31 December under HKAS 39	**—**	—
Impact on initial application of HKFRS 9	**36,612**	—
Adjusted balance at 1 January	**36,612**	—
Disposal of financial assets	**(20,992)**	—
Total gains or losses:		
— in other comprehensive income (included in changes in fair value of financial assets at FVTOCI)	**(4,727)**	—
At 31 December	**10,893**	—

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, amount due from/(to) a related party, trade and other payables, borrowings, and obligations under finance leases.

Due to their short term nature, the carrying values of cash and cash equivalents, trade and other receivables, amount due from/(to) a related party, trade and other payables approximate to their fair values.

Notes:

(a) Refund liabilities represent the estimated cash refund resulting from goods returned from customers during the Warranty Period.

(b) Contract liabilities included in above represent the estimated volume rebate to be settled in cash to customers. Contract liabilities of HK$28,296,000 relating to receipt in advance from customers are not financial liabilities and excluded from above.

37. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (CONTINUED)

(b) Financial instruments measured at fair value

The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 2 and level 3 financial instruments, as well as the relationship between key observable inputs and fair value are set out below.

Information about level 2 fair value measurements

The fair value of currency forward contracts is determined based on the forward exchange rate at the reporting date.

The fair value of trade receivables at fair value through profit or loss is determined based on the weighted-average discount rates applicable to trade receivables factored without recourse during the year.

Information about level 3 fair value measurements

The fair value of the unlisted equity investment in Dreamscape Immersive Inc. is estimated using market approach.

Significant unobservable input

Discount for lack of marketability	35%

The fair value of unlisted equity investment in Dreamscape Immersive Inc. is determined using the price-to-sales ratios of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability. As at 31 December 2018, it is estimated that with all other variables held constant, a decrease/increase in discount for lack of marketability by 5% would have increased/decreased the Group's other comprehensive income by HK$838,000 (2017: HK$Nil).

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38. PARTICULARS OF SUBSIDIARIES

As at 31 December 2018, the particulars of the Company's principal subsidiaries, all of which are companies with limited liability, are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Place of operations	Issued and fully paid-up share capital/ registered capital	Attributable equity interest held		Principal activities
				Directly	Indirectly	
PC Partner Holdings Limited	BVI 2 May 1997	Hong Kong	US$4,264,757	100%	–	Investment holding
Active Smart Limited	Hong Kong 15 February 1994	Hong Kong	HK$10,000	–	100%	Trading of computer parts
Ask Technology Group Limited	Hong Kong 10 March 2008	Hong Kong	HK$10,000	–	100%	Trading of computer accessories
Double Hero Petroleum Factory Limited	Hong Kong 16 August 1994	Hong Kong	HK$50,000	–	100%	Trading of computer parts
Innovision Multimedia Limited	Hong Kong 6 February 1998	Hong Kong	HK$10,000	–	100%	Trading of computer accessories
Manli Technology Group Limited	Hong Kong 10 March 2008	Hong Kong	HK$10,000	–	100%	Trading of computer accessories and computers
Zotac Holdings Limited (previously known as "Zotac International Limited" and "PC Partner International Limited")	BVI 10 July 2003	Hong Kong	US$20,000,000	–	100%	Investment holding
PC Partner Limited	Hong Kong 12 February 1988	Hong Kong	HK$26,520,000	–	100%	Design, manufacture and sale of computer accessories and computers
Zotac International (Macao Commercial Offshore) Limited	Macau 20 September 2006	Macau	MOP100,000	–	100%	Trading of computer accessories and computers
Zotac Korea Co., Ltd.	Korea 12 May 2010	Korea	KRW559,820,000	–	100%	Trading of computer accessories and computers
Zotac USA Inc. (Nevada)	United States of America (USA) 9 October 2007	USA	US$200,000	–	100%	Trading of computer accessories and computers
東莞栢能電子科技有限公司 (note i)	PRC 10 July 2009	PRC	US$21,298,265	–	100%	Subcontracting of computer accessories and computers
索泰(東莞)電子科技有限公司 (note i)	PRC 20 June 2016	PRC	RMB600,000	–	100%	Trading of computer accessories and computers

38. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place and date of incorporation/ establishment	Place of operations	Issued and fully paid-up share capital/ registered capital	Attributable equity interest held Directly	Attributable equity interest held Indirectly	Principal activities
Zotac Europe GmbH	Germany 25 September 2012	Germany	EUR25,000	–	100%	Provision of technical support service
PC Vision Limited	Hong Kong 14 June 2013	Hong Kong	HK$6,500,000	–	96.4%	Design and sale of computer accessories
PC Partner Wealth Investment Limited	Hong Kong 12 August 2013	Hong Kong	HK$20,000,000	–	100%	Investment holding
VRSense Solutions Ltd	BVI 14 September 2016	Hong Kong	US$2,000,000	–	100%	Investment holding
Excelsior Technology Limited	BVI 18 July 1997	Hong Kong	US$1	–	100%	Investment holding
Skyield Limited	BVI 2 January 2001	Hong Kong	US$1	–	100%	Investment holding
Zotac Technology Limited	Hong Kong 20 July 2005	Hong Kong	HK$150,000,000	–	100%	Trading of computer accessories and computer
Max Profit Limited	BVI 23 March 1998	Hong Kong	US$1	–	100%	Investment holding
卓能(東莞)數碼技術有限公司 (note i)	PRC 11 December 2017	PRC	RMB1,000,000	–	100%	Trading of computer accessories and computer
Zotac International Limited	Hong Kong 30 October 2017	Hong Kong	HK$1 (note ii)	–	100%	Holding of intellectual properties
Innopartner Pte. Limited	Singapore 28 August 2017	Singapore	SGD850,000	–	80%	Research and development of new Products
Zotac Nippon Corporation	Japan 5 September 2018*	Japan	JPY 50,000,000	–	80%	Trading of computer accessories and computer

Remark: * Date of investment

Notes:

(i) All subsidiaries established in the PRC are wholly foreign owned enterprises.

(ii) The authorised share capital is HK$1,000,000 of which HK$1 was paid up as at 31 December 2018 and up to the date of this annual report.

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39. BUSINESS ACQUISITION DURING THE YEAR

On 5 September 2018, the Group acquired, for cash injection of HK$2,800,000, 80% of the equity interest of Zotac Nippon Corporation which is principally engaged in trading of electronic components in Japan.

The fair value of identifiable assets and liabilities of the acquiree as at the date of acquisition were:

	HK$'000
Property, plant and equipment	158
Cash and cash equivalents	90
Trade and other receivables	2,800
Trade and other payables	(1,461)
	1,587
Less: Non-controlling interest (20%)	(317)
	1,270
Cash	2,800
Goodwill (note 17)	1,530

An analysis of the cash flows in respect of the acquisition of Zotac Nippon Corporation is as follows:

	HK$'000
Cash consideration paid	—
Cash and cash equivalents acquired	90
Net inflow of cash and cash equivalents included in cash flows from investing activities	90

The transaction cost of the acquisition is immaterial.

39. BUSINESS ACQUISITION DURING THE YEAR (CONTINUED)

The fair value of trade and other receivables as at date of acquisition amounted to approximately HK$2,800,000. The gross contractual amount of trade and other receivables is HK$2,800,000, of which no balance was expected to be uncollectible.

The Group has elected to measure the non-controlling interest in Zotac Nippon Corporation at its proportionate share of its identifiable net assets.

Since the acquisition date, Zotac Nippon Corporation has contributed HK$2,150,000 to the Group's revenue and loss of HK$1,311,000 to the consolidated profit for the year ended 31 December 2018 upon the completion of the acquisition. If the acquisition had occurred on 1 January 2018, Group's revenue and profit would have been HK$9,122,354,000 and HK$268,091,000 respectively. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future performance.

The goodwill of HK$1,530,000, which is not deductible for tax purpose, comprises the acquired workforce and the value of expected synergies arising from the combination of the acquired business with the existing operations of the Group.

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40. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	2018 HK$'000	2017 HK$'000
Non-current assets		
Investment in a subsidiary	**532,690**	532,690
Current assets		
Prepayments and other receivables	**229**	225
Amounts due from subsidiaries	**199,561**	182,846
Cash and cash equivalents	**1,523**	31,662
Total current assets	**201,313**	214,733
Current liabilities		
Accruals	**21,017**	34,472
Total current liabilities	**21,017**	34,472
Net current assets	**180,296**	180,261
NET ASSETS	**712,986**	712,951
Capital and reserves		
Share capital	**37,209**	44,484
Reserves (note)	**675,777**	668,467
TOTAL EQUITY	**712,986**	712,951

On behalf of the Board

WONG Shik Ho Tony
Director

WONG Fong Pak
Director

40. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018 (CONTINUED)

Note:

Movements of the reserves of the Company are as follows:

	Share premium HK$'000	Other reserve (note) HK$'000	Share-based payment reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2017	142,086	495,778	4,103	6,173	648,140
Shares issued under share option scheme	20,371	—	(5,076)	—	15,295
Profit for the year	—	—	—	82,987	82,987
Dividend paid (note 14)	—	—	—	(80,715)	(80,715)
Equity settled share-based transactions (note 30)	—	—	2,760	—	2,760
Lapse of share options	—	—	(1,142)	1,142	—
At 31 December 2017 and 1 January 2018	162,457	495,778	645	9,587	668,467
Shares issued under share option scheme	2,576	—	(645)	—	1,931
Profit for the year	—	—	—	600,482	600,482
Dividend paid (note 14)	—	—	—	(227,260)	(227,260)
Purchase of own shares	—	—	—	(367,843)	(367,843)
At 31 December 2018	165,033	495,778	—	14,966	675,777

Note: Other reserve of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the Reorganisation underwent in December 2011.

41. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 22 March 2019.

PROPERTY INTERESTS HELD BY THE GROUP

Description	Group interest	Use	Tenure
2396 Bateman Avenue, Irwindale, California, USA	100%	For workshop and ancillary office purposes	Medium-term lease