



HKSE: 1263

栢能集團有限公司*
PC Partner Group Limited

Incorporated in the Cayman Islands with limited liability

2019
ANNUAL REPORT

* For identification purpose only



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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

WEBSITE

www.pcpartner.com

CHAIRMAN STATEMENT

Dear Shareholders,

It was a very tough year of the business in 2019. Revenue declined by 17.2% compared to last year and profit dropped significantly to a breakeven point. The video graphics cards (“VGA Cards”) market has gone through a very tough period of time since the digital coin prices crashed in 2018, it took more than a year for market to digest the excessive VGA Cards inventory from 2018 to the second half of 2019. Company had to take corrective actions to write down the slow moving inventory and cleared older generation of VGA Cards at a loss during the year. Fortunately, the business has been stepped into the traditional peak season from September and the market was no longer bother with the excessive inventory issue in the second half of the year, we were able to recover the loss incurred in the first half year and turned into a breakeven position for full year result.

Most of the business segments have performed better in the second half of the year with a stronger sales on brand businesses together with more orders from OEM customers. Newly launched series of VGA Cards under brand businesses in the second half of the year were also selling much better than the series launched in last year. The joint venture business on data center in China has only contributed HK\$17.4 million to the Company which was less than the projection since it took a longer time on setup, testing and fine-tuning the machine performance that originally expected. In addition, we have put very much effort to drive the inventory level down throughout the year and we will continue to be cautious on inventory management in future.

OUTLOOK

The COVID-19 related government restrictions on business operations, movement of people and transportation have begun to be lifted in different areas of China after an extension of the Chinese Lunar New Year holiday and the Company is in the progress on resumption of its manufacturing operation. Due to an ongoing quarantine measures enforcement and the speed at which our employees are able to return to work, a full return to normal levels of operations is not expected within a short period of time but we expect a gradual return towards normal production levels. We are also monitoring the impact of our supply chain and will take immediate action to minimize the impact of the material supplies that may disrupt the production.

As COVID-19 continues to spread to different regions and countries within a short period of time, uncertainty and disruption will increase. Movement restrictions may be further imposed in different countries besides China that will slowdown many business activities. However, a major part of our business is associated with high performance personal computers and gaming hardware and COVID-19 seems to have less impact on the demand for entertainment and work as more people are required to quarantine at home or to work at home to reduce potential infection of the virus. We have experienced a relatively stronger demand than expected which may be due to a potential shortage of product supply in the market. We expected a stronger business outlook in the second half of the year once there are more new product launches to drive a higher revenue and it is usually being the traditional peak season of the business.

The Group will continue to explore new business opportunities and have invested in the joint venture on data center and leasing equipment to provide computation power on artificial intelligence and deep learning applications in last year. Although the contribution in the setup year did not meet our expectation, we are still confident on the profit contribution in the long run.

We would not underestimate the challenge in this year since we do not know how bad the impact will be on the global economy by COVID-19, and the U.S. tariff issue has not yet come to the end. The Company's first priority is to ensure the health and safety of our employees, and to do whatever we can to improve the business performance. I like to thank all employees again for their support and dedication during the tough times, my fellow directors for their counsel and all shareholders, customers and suppliers for their understanding and support throughout the year.

WONG Shik Ho Tony

Chairman and Chief Executive Officer

Hong Kong, 27 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS



BUSINESS REVIEW

The Group is principally engaged in the design, manufacturing and trading of VGA Cards for Desktop computer, 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 products under its own brands, namely ZOTAC, Inno3D, and Manli. The business 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 recognized brands, including major providers of Automatic Teller Machines (“ATM”) and Point-Of-Sales (“POS”) systems, storage devices, and various types of industrial and consumer electronic products. Aside from VGA Cards and the EMS business, the Group manufactures and sells other PC related products such as computers, motherboards, and other products and further derives revenue from trading of products and components.

Management Discussion and Analysis



Business Performance

In 2019, the total revenue has recorded a decline of 17.2% and decreased by HK\$1,565.8 million, from HK\$9,122.3 million in 2018 to HK\$7,556.5 million in 2019. The decrease was mainly resulted from a decrease on sales of VGA Cards business by 18.5% as compared to last year. Besides the decline on sales of VGA Cards, both the EMS and the other PC related products and components have also recorded a decline in revenue by 10.3% and 12.6% respectively as compared to last year.

VGA Cards business has recorded a decline of HK\$1,349.2 million, or 18.5%, from HK\$7,273.6 million in 2018 to HK\$5,924.4 million in 2019. Both the ODM/OEM orders and the sales of own brand products have recorded a decline as compared to last year. Orders on ODM/OEM based VGA Cards decreased by HK\$74.5 million, or 3.1%, from HK\$2,388.0 million in 2018 to HK\$2,313.5 million in 2019. Own brand VGA Cards business decreased by HK\$1,274.7 million, or 26.1%, from HK\$4,885.6 million in 2018 to HK\$3,610.9 million in 2019. The market was still digesting the excessive channel inventory of VGA Cards after the prices of digital coins crashed in 2018 which has slowed down orders intake from ODM/OEM customers and also hurt the sales performance of own brand VGA Cards.

EMS business recorded a decline of HK\$72.2 million, or 10.3%, from HK\$700.7 million in 2018 to HK\$628.5 million in 2019. It was mainly due to less orders on ATM and POS systems since the orders from the customers dropped by HK\$70.3 million or 14.2% as compared to last year. Other PC related products and components business has dropped by HK\$144.4 million, or 12.6%, from HK\$1,148.0 million in 2018 to HK\$1,003.6 million in 2019. The decline was mainly resulted from a decline on demand of blockchain application systems during the year.

Both the brand business and the ODM/OEM business have recorded a decline for the year. Sales of brand business sector dropped by HK\$1,328.6 million, or 25.5%, from HK\$5,208.0 million in 2018 to HK\$3,879.4 million in 2019. The ODM/OEM businesses sector has also recorded a decline of revenue for HK\$237.2 million, or 6.1%, from HK\$3,914.3 million in 2018 to HK\$3,677.1 million in 2019. The excessive inventory of VGA Cards in the market was



the major issue that slowed down order intakes from ODM/OEM customers and affected sales performance of brand business. In addition, the U.S. tariff issue and the slowdown of the China economy did have an impact on sales of both the brand business sector and the ODM/OEM sector at different levels across different product segments.

Majority of the geographical regions experienced a drop of revenue for the year as compared to last year. The Europe, Middle East, Africa and India (“EMEAI”) region has recorded a drop of revenue by 42.3%. The Asia Pacific (“APAC”) region and the North and Latin America (“NALA”) region has recorded a drop of revenue by 16.8% and 9.6% respectively. The People’s Republic of China (“PRC”) region has recorded an increase in revenue by 6.6% for the year.

APAC Region

In the APAC region, the revenue decreased by HK\$592.3 million, or 16.8%, from HK\$3,515.2 million in 2018 to HK\$2,922.9 million in 2019. It was mainly due to a drop on demand of VGA Cards from ODM/OEM customers as the market was still digesting the excessive inventory of VGA Cards during the year. The own brand business was facing the same issue which has also slowed down the sales of own brand business in the region.

EMEAI Region

In the EMEAI region, the revenue amounted to HK\$1,326.9 million in 2019, represented a decrease of HK\$973.6 million, or 42.3%, as compared to HK\$2,300.5 million in 2018. The region was also hurt by the excessive inventory of VGA Cards in the channel market after the prices of digital coins crashed. In addition, the revenue was also affected by a decline in demand of blockchain application systems and less orders from major EMS customers.

Management Discussion and Analysis

NALA Region

In the NALA region, the revenue amounted to HK\$1,216.6 million in 2019, represented a decrease of HK\$129.3 million, or 9.6%, as compared to HK\$1,345.9 million in 2018. The decline was mainly due to decrease in orders from ODM/OEM customers together with sales decline on own brand business during the year.

PRC Region

In the PRC region, the revenue amounted to HK\$2,090.1 million in 2019, represented an increase of HK\$129.4 million, or 6.6%, as compared to HK\$1,960.7 million in 2018. The increase was mainly due to more ODM/OEM basis orders from project customers. However, the PRC region also faced the same excessive inventory challenge that caused a drop of revenue under the own brand business.

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 has operated in a fast moving and highly competitive environment and the product life cycle tends to be shortened over the years. New products introduction requires significant resources involvement from development, production, sales and marketing. The Group will be at risk and may lag behind the competition if it cannot respond promptly to the changing business environment. Technological change may impose an adverse impact on the business if the Group is unable to adopt new technologies and develop the relevant products to catch the market trend on timely basis. Talent is a key to success for technology company so that engineering and product development talents are critical to the Group. Lack of capable talents on design and development of new products is a risk to the Group on competitiveness. 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 develop new products efficiently against competition.

Business relationship with customers and suppliers are crucial for business success. The Group has established a long business partnership with both AMD and NVIDIA. The Group rides on the technologies from these technology leaders to develop own products and gain the know-how of the technologies on business development. Discontinuance of the business partnership would be a threat to the Group. The Group would continue to maintain a strategic business relationship with the technology partners, customers and suppliers, and continue to explore new cooperation opportunities in the industry.

The Group is not aware of any particular or important event that has occurred which would trigger a risk and uncertainty as of 31 December 2019.



FINANCIAL REVIEW

Revenue

The Group's total revenue decreased by HK\$1,565.8 million, or 17.2%, from HK\$9,122.3 million in 2018 to HK\$7,556.5 million in 2019. All the product segments have recorded a decline in revenue as compared to last year, revenue of VGA Cards product segment dropped the most out of all major product segments by HK\$1,349.2 million which represented 86.2% of the revenue decline for the year.

Revenue on VGA Cards decreased by HK\$1,349.2 million, or 18.5%, from HK\$7,273.6 million in 2018 to HK\$5,924.4 million in 2019. In which, revenue from ODM/OEM orders decreased by HK\$74.5 million, or 3.1%, from HK\$2,388.0 million in 2018 to HK\$2,313.5 million in 2019. Revenue from own brand VGA Cards business decreased by HK\$1,274.7 million, or 26.1%, from HK\$4,885.6 million in 2018 to HK\$3,610.9 million in 2019. The market was still digesting the excessive VGA Cards channel inventory after the prices of digital coins crashed in 2018 which slowed down the orders intake from ODM/OEM customers and also hurt the sales performance of own brand VGA Cards. The demand has contracted in China due to the slowdown of the China economy. In addition, United States imposed tariff on computer hardware made in China during the year also affected the consumer demand in the market.

Revenue derived from EMS business amounted to HK\$628.5 million in 2019, represented a decrease of HK\$72.2 million, or 10.3%, as compared to HK\$700.7 million in 2018. The decline was mainly due to less orders from customers during the year. Orders on ATM and POS systems contributed the most of the decline for HK\$70.3 million.

Revenue from other PC related products and components business decreased by HK\$144.4 million, or 12.6%, from HK\$1,148.0 million in 2018 to HK\$1,003.6 million in 2019. The decline was mainly resulted from a drop in demand of blockchain application systems and less revenue being generated on project based business during the year.

Gross Profit and Margin

The Group's gross profit in 2019 was HK\$516.3 million, represented a decrease of HK\$441.1 million, or 46.1%, as compared with HK\$957.4 million in 2018. Gross profit margin declined by 3.7% to 6.8% in 2019 as compared with 10.5% in 2018. Decline of the Group's gross profit margin was mainly due to a change of product mix and inventories written down to net realisable value for a total of HK\$341.3 million in 2019 as compared to HK\$204.4 million in 2018. The Group has taken proactive actions to clear slow moving inventories since the demand of VGA Cards dropped significantly after the prices of digital coins crashed in 2018 and the market was still digesting very much excessive inventory during the year.

Management Discussion and Analysis

To further tighten on cost control, the Group has spent less on conversion cost which included direct labour and production overheads for a total of HK\$82.4 million, or 24.3%, from HK\$339.6 million in 2018 to HK\$257.2 million in 2019. Conversion cost as a percentage to sales improved by 0.4% from 3.8% in 2018 to 3.4% in 2019.

Operating Expenses

Operating expenses, included selling and distribution expenses, administrative expenses, impairment loss on financial assets and finance costs, decreased by HK\$107.1 million, or 17.0%, from HK\$630.4 million in 2018 to HK\$523.3 million in 2019. The decline of the operating expenses was mainly resulted from further tight control on spending throughout the year.

Selling and distribution expenses reduced by HK\$44.2 million, or 31.0%, from HK\$142.6 million in 2018 to HK\$98.4 million in 2019. The savings mainly generated from a lower spending on marketing and exhibition activities, less sales commission paid, and a lower level of export logistic costs which aligned with a lower sales volume during the year.

Administrative expenses spent HK\$66.1 million less than last year, the spending declined by 15.1% from HK\$437.5 million in 2018 to HK\$371.4 million in 2019. Staff cost which represented approximately 69.2% of the total administrative expenses has reduced by HK\$66.3 million, or 20.5%, from HK\$323.4 million in 2018 to HK\$257.1 million in 2019. It was due to a reduction of workforce and reduction of performance bonus for management and staff as a result of underperformance in 2019. Other administrative expenses increased by HK\$0.2 million, or 0.2%, from HK\$114.1 million in 2018 to HK\$114.3 million in 2019, it was mainly due to increased depreciation of property, plant and equipment during the year.

Finance costs increased by HK\$3.2 million, or 6.4%, from HK\$50.3 million in 2018 to HK\$53.5 million in 2019. The higher finance costs was mainly due to both increase in interest rate and a higher utilization of bank loans to finance the business operation during the year.

Other revenue and other gains and losses decreased by HK\$0.8 million, or 7.8%, the loss from HK\$10.2 million in 2018 to HK\$9.4 million in 2019 was mainly due to more interest income earned during the year.

The impairment losses on financial assets increased by HK\$4.0 million, or 200.0%, from HK\$2.0 million in 2018 to HK\$6.0 million in 2019. The increase is mainly associated with increase in trade receivables and longer payment terms offered to customers in this year.

Share of profit of a joint venture with 50% interest established in the first half of the year has contributed a total of HK\$17.4 million of profit to the Group during the year.

Profit for the Year

The Group recorded a profit attributable to the owners of the Company of HK\$10.3 million in 2019 as compared with the profit attributable to owners of the Company of HK\$270.8 million in 2018.

Income tax credit of HK\$8.8 million recorded in 2019, it was mainly due to deferred tax assets being recognized for the year which offset income tax incurred under some of the operating entities.

Profit Attributable to Owners of the Company and Dividends

The profit attributable to owners of the Company for 2019 was HK\$10.3 million which resulted in basic earnings of HK\$3 cents per share. Profit attributable to owners of the Company was HK\$270.8 million with basic earnings of HK\$66 cents per share in the year of 2018. The directors of the Company (the "Directors") do not propose any final dividend for the year ended 31 December 2019.

LIQUIDITY AND FINANCIAL RESOURCES

Shareholders' Funds

Total Shareholders' funds have slightly increased by HK\$2.5 million, from HK\$877.3 million as at 31 December 2018 to HK\$879.8 million as at 31 December 2019.

Financial Position

Total non-current assets increased by HK\$662.8 million, or 612.6%, from HK\$108.2 million as at 31 December 2018 to HK\$771.0 million as at 31 December 2019. The change was mainly due to addition of property, plant and equipment incurred for leasing services amounted to HK\$151.8 million, capitalized operating leases as right-of-use assets amounted to HK\$156.1 million, interest in a joint venture in China amounted to HK\$143.8 million, and non-current portion of trade receivables amounted to HK\$212.9 million. Furthermore, deferred tax assets increased by HK\$19.2 million from HK\$6.7 million as at 31 December 2018 to HK\$25.9 million as at 31 December 2019.

The Group has a total current assets of HK\$3,260.8 million as at 31 December 2019 and HK\$4,249.8 million as at 31 December 2018. The Group's total current liabilities amounted to HK\$3,019.7 million as at 31 December 2019 and HK\$3,480.6 million as at 31 December 2018. The Group's current ratio, defined as total current assets over total current liabilities, decreased from 1.2 as at 31 December 2018 to 1.1 as at 31 December 2019.

The Group's cash and bank balances increased from HK\$813.5 million as at 31 December 2018 to HK\$906.9 million as at 31 December 2019. Borrowings reduced from HK\$1,709.6 million as at 31 December 2018 to HK\$1,475.4 million as at 31 December 2019. Due to the adoption of HKFRS 16, the Group has incurred current lease liabilities amounted to HK\$25.9 million and non-current lease liabilities amounted to HK\$132.4 million as at 31 December 2019. The Group's net debts to equity ratio (being debts including borrowings and lease liabilities minus cash and cash equivalents divided by total shareholders' funds) reduced from 102.2% as at 31 December 2018 to 82.7% as at 31 December 2019. The change was mainly due to reduction of borrowings which offset the additional lease liabilities as part of the debts in the calculation.

Trade and other receivables consisted of trade receivables at amortised cost and at fair value, together with other receivables, deposits and prepayment increased by HK\$491.2 million, or 53.8%, from HK\$912.3 million as at 31 December 2018 to HK\$1,403.5 million as at 31 December 2019. Trade receivables at amortised cost increased by HK\$493.9 million, or 59.2%, from HK\$833.7 million as at 31 December 2018 to HK\$1,327.6 million as at 31 December 2019. The increase was mainly due to the Group entered into installment payment terms with a customer and extended payment terms to some of the customers during the year. Trade receivables under factoring arrangement at fair value increased by HK\$8.8 million, or 21.3%, from HK\$41.4 million as at 31 December 2018 to HK\$50.2 million as at 31 December 2019. Other receivables, deposits and prepayment reduced by HK\$11.5 million, or 30.9%, from HK\$37.2 million as at 31 December 2018 to HK\$25.7 million as at 31 December 2019. The change was mainly due to less market fund receivables on brand business for HK\$8.4 million by end of the year.

Management Discussion and Analysis

Trade and other payables decreased by HK\$238.1 million, or 14.4%, from HK\$1,648.4 million as at 31 December 2018 to HK\$1,410.3 million as at 31 December 2019. In which, trade payables decreased by HK\$92.6 million, or 6.6%, from HK\$1,403.8 million as at 31 December 2018 to HK\$1,311.2 million as at 31 December 2019. The change was resulted from sales decline with a lower demand on material purchase in the year. Other payables decreased by HK\$145.5 million, or 59.5%, from HK\$244.6 million as at 31 December 2018 to HK\$99.1 million as at 31 December 2019. The change was mainly due to decrease in temporary receipts from customers of HK\$65.4 million and performance bonus provision of HK\$56.7 million at the end of 2019.

Under HKFRS 15, the Group is required to report provision of sales return warranty under refund liabilities in the current liabilities section and the relevant costs of return is reported under right of return assets in the current assets section. Right of return assets increased by HK\$11.3 million, or 43.5%, from HK\$26.0 million as at 31 December 2018 to HK\$37.3 million as at 31 December 2019. Refund liabilities increased by HK\$8.1 million, or 20.5%, from HK\$39.6 million as at 31 December 2018 to HK\$47.7 million as at 31 December 2019.

Advance payment from customers and volume rebates together with sales allowance under contract liabilities decreased by HK\$10.2 million, or 24.4%, from HK\$41.8 million as at 31 December 2018 to HK\$31.6 million as at 31 December 2019. The change was mainly due to less advance payment from customers by end of the year.

The Group has incurred less provisions on product warranties and returns by end of 2019 since the provisions reduced from HK\$28.2 million as at 31 December 2018 to HK\$18.7 million as at 31 December 2019. Current tax liabilities reduced from HK\$10.8 million as at 31 December 2018 to HK\$7.3 million as at 31 December 2019. Amount due to a related party slightly increased from HK\$2.1 million as at 31 December 2018 to HK\$2.7 million as at 31 December 2019.

Exposure to Fluctuation in Exchange Rates

As at 31 December 2019, 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, Euro, Korean Won, and Japanese Yen. The Group entered into several exchange forward contracts in 2018 and 2019.

Working Capital

Inventories of the Group as at 31 December 2019 were HK\$1,126.0 million which has decreased by HK\$1,371.5 million, or 54.9%, as compared with HK\$2,497.5 million as at 31 December 2018. Inventory turnover days increased from 86 days as at 31 December 2018 to 94 days as at 31 December 2019. The Group has an outsourcing production arrangement with a contract manufacturer in Taiwan to avoid the U.S. tariff on goods made in China that has caused a slowdown of the inventory turns since it took more time for material and logistic arrangement.

Trade receivables as at 31 December 2019 were HK\$1,377.8 million, increased by HK\$502.7 million, or 57.4%, as compared with HK\$875.1 million as at 31 December 2018. Trade receivables turnover days increased from 41 days as at 31 December 2018 to 54 days as at 31 December 2019. It was mainly due to the Group entered into installment payment terms with a customer and extended payment terms to some of the customers during the year.

Trade payables as at 31 December 2019 was HK\$1,311.2 million, decreased by HK\$92.6 million, or 6.6%, as compared with HK\$1,403.8 million as at 31 December 2018. Trade payable turnover days increased from 55 days as at 31 December 2018 to 70 days as at 31 December 2019 since some of the vendors have offered longer payment terms to the Group during the year.

Charges on Assets

As at 31 December 2019, 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's additions to property, plant and equipment during 2019 amounted to HK\$166.5 million.

Capital Commitments and Contingent Liabilities

As at 31 December 2019, total capital commitments amounted to HK\$0.033 million, and there was no material contingent liability or off balance sheet obligation.

Significant Acquisitions and Disposals of Investments

There was no significant acquisition or disposal of subsidiary.

Future Plans for Material Investments or Capital Assets

The Group has no plan for material investments or acquisitions of capital assets as at 31 December 2019, but will actively pursue opportunities for investments to enhance its profitability in the ordinary course of business.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group had 2,997 employees (2018: 3,513 employees). Employees are remunerated on the 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 the basic salary, medical benefits, provident fund, performance related bonuses may also be awarded to employees. The Company had adopted a Pre-IPO Share Option Scheme to recognize the contributions of and as retention incentive to the executive directors, certain management staff 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) in order to fulfil the requests from customers.

In 2019, 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 18.51 million kilowatt-hours in 2019, it was significantly lower than the electricity consumption of 21.43 million kilowatt-hours in 2018. It was mainly due to decrease on production output. The power consumption per every thousand dollar slightly decreased from 3.46 per kilowatt-hour in 2018 to 3.08 per kilowatt-hour in 2019. In 2020, 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 2018 and 2019, 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 2019, 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.

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 2019 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. 76 suppliers underwent our on-site audit in 2019. 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. Starting from 2016, 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 since 2016 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. Our top priority is to reduce the energy consumption and GHG emission per thousand dollars of our revenue. "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. Company has collected data on energy consumption and GHG emission and evaluated our performance based on the above policies.

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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 2019 and 2018 are as follows in the A1 Statistical Table:

A1 Statistical Table	Hazardous materials					Non-hazardous materials					
	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
2019 Discharged Volume	14,738.46	210,655	2.80	0.40	3.03	0.00	44.93	2.33	0.21	6.23	47.47
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

A1.2 GHG emissions

Our scope 1 GHG emission in 2018 was 239.44 tonnes of CO₂, while that in 2019 was 149.22 tonnes of CO₂, representing an decrease of 37.7%. This was mainly due to increase solar energy to generate electricity and reduced the consumption of diesel.

Our scope 2 GHG emission decreased by 13.6% from 16,893.27 tonnes of CO₂ in 2018 to 14,589.24 tonnes of CO₂ in 2019, which due to decrease on production capacity that consumed less 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 2019, scopes 1 and 2 GHG emissions total of 14,738.46 tonnes of CO₂, which was 14.0% less than the figure in 2018 of 17,132.71 tonnes of CO₂.

Scopes 1 and 2 GHG emissions per thousand dollars of revenue reduced by 10.7% from 0.0028 tonne of CO₂ in 2018 to 0.0025 tonne of CO₂ in 2019. 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 2019, we generated 6.23 tonnes of hazardous waste, 6.5% less than 6.66 tonnes in 2018. This was mainly due to the decrease in the amount of scrap tin as our production output decreased. The amount of hazardous waste generated per 100 million of dollars of revenue for 2019 was 0.1037 tonne, which fell as compared with 0.1074 tonne in 2018.

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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 2019, non-hazardous solid waste generated from the production process amounted to 47.47 tonnes, 11.3% less than 53.50 tonnes for 2018. Staff members are required to print and copy on both sides to reduce the use of plain paper. Household wastewater produced in 2019 decreased by 17.1% from 254,207 cubic metres in 2018 to 210,655 cubic metres in 2019 as the water is less consumed by employees for their 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 2019, non-hazardous solid waste generated per 100 million of revenue were 0.7899 tonnes, it was comparatively less than the non-hazardous waste in 2018; and household wastewater was 3,505.39 cubic meters, it was lower than the figure in 2018.

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 2019 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;
4. Retire of old machinery and equipment; and
5. Energy consumption is better managed.

With implementation of the above measurement together with reduction of production output, the Scopes 1 and 2 GHG emissions decreased from 0.0028 tonne of CO₂ per thousand Hong Kong dollars in 2018 to 0.0025 tonne of CO₂ per thousand Hong Kong dollars in 2019.

The statistical data is at A2 Statistical Table.

A2 Statistical Table	Year 2019	Year 2018
Scope 1—Direct GHG Emission	149.22	239.44
Stationary and mobile combustion	149.22	239.44
Scope 2—Indirect GHG Emission	14,589.24	16,893.27
Purchased electricity	14,589.24	16,893.27
Total scopes 1 and 2 emissions (tonne of CO ₂)	14,738.46	17,132.71
Total revenue (thousand HK dollars)	6,009,451	6,202,473
Emissions per thousand dollars of revenue (tonne of CO ₂ per thousand HK dollars)	0.0025	0.0028

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

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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 2019:

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.

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. Base on the practical situation, 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.

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PC Partner measured various energy consumption every year. In 2019, the electricity consumption was 18.51 million kilowatt-hours, natural gas was 4.41 ten thousands cubic metres, and diesel consumption was 2.99 tonnes. We have achieved 39.42 tonnes of standard coal per 100 million revenue in 2019. The statistics of energy consumption by type for 2018 and 2019 are shown in the following A3 Statistical Table.

Energy source	Unit of Measure	2019			2018		
		Industrial use	Non-industrial use	Total	Industrial use	Non-industrial use	Total
Electricity	10,000 KWH	1,704.34	146.38	1,850.72	2,004.00	139.00	2,143.00
Diesel	Tonnes	0.00	2.99	2.99	0.00	23.23	23.23
Natural gas	10,000 Cubic Metres	0.00	4.41	4.41	0.00	4.87	4.87
Petrol	Tonnes	0.00	21.19	21.19	0.00	22.49	22.49
Total (equivalent)	Tonnes of Standard Coal	2,094.63	274.09	2,368.72	2,462.92	302.54	2,765.46

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 2019 was 210,655 cubic metres and the consumption per 100 million of revenue was 3,505.39 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 2019, 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 equipment have been designed to enhance efficiency on energy consumption;
3. Retire of old machinery and equipment in order to enhance the electricity efficiency; and

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.

With concerted efforts, total energy consumption for 2019 amounted to 2,368.72 tonnes of standard coal, representing an decrease of 14.3% from 2,765.46 tonnes of standard coal for 2018. Energy consumption per HK\$100 million of revenue dropped from 44.59 tonnes of standard coal for 2018 to 39.42 tonnes for 2019, a drop of 11.6%.

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.

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.

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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 in which is replaced by OHSAS18001 in 2020.

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 2019.

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 2019, PC Partner's production bases employed approximately 2,027 employees, of which the numbers of male and female employees were approximately 1,136 and 891, respectively, accounting for approximately 56% and 44%, 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 19.6% in 2019, it was higher than the employee turnover rate of 12.6% in 2018. 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 audited our occupational health and safety management system in 2019.

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 2019.

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. There was no work-related accident in 2019. 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.

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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 2019, 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 2019 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 established 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 2019 have participated in such training. We also require the employees to complete at least 24 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 2019, 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 2019, the average annual training hours (excluding induction programme hours) completed per senior and junior employee were 22.79 hours and 19.72 hours, respectively.

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.

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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.

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 2019, on-site reviews have been conducted in 76 suppliers 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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. 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 2019, 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 2019.

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.

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 2019, 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 2019.

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 2019, 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 2019, 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.

Corporate Governance Report

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.

During the year, 4 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	4
Mr. WONG Fong Pak	4
Mr. LEUNG Wah Kan	4
Mr. HO Nai Nap	4
Mr. MAN Wai Hung	4
Non-executive Director	
Mrs. HO WONG Mary Mee-Tak	4
Independent Non-executive Directors	
Mr. IP Shing Hing	4
Mr. LAI Kin Jerome	4
Mr. CHEUNG Ying Sheung	4

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 shall then be eligible for 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 casual 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	√	√

Corporate Governance Report

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.

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 2019, 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 2018 (the "2018 Financial Statements");
- (2) reviewed the 2018 Financial Statements and discussed with the external auditor on any findings in relation to the 2018 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 2019 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.

Corporate Governance Report

Nomination Policy

The Company adopted a nomination policy in March 2019. In conjunction with 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 2019 Annual General Meeting and reviewed the board diversity policy and nomination policy of the Company during the year.

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

Member	Number of Attendance
Mr. WONG Shik Ho Tony	1
Mr. WONG Fong Pak	1
Mr. LEUNG Wah Kan	1
Mr. IP Shing Hing	1
Mr. LAI Kin Jerome	1

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 2019, they and their respective associates did not breach 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 on the Company's ability to continue as a going concern.

Corporate Governance Report

AUDITOR'S REMUNERATION

The remuneration paid and payable for the year ended 31 December 2019 to the Company's external auditor, BDO Limited, is set out as follows:

Service rendered to the Group	HK\$
Audit services	1,340,000
Non-audit services (note)	135,000

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.

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 2019.

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 requisitioner(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the Board shall be reimbursed to the requisitioner(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.

Corporate Governance Report

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 60, 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 70, 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 61, 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 64, 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 54, 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").

Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mrs. HO WONG Mary Mee-Tak, aged 70, 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 55 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 64, 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 71, 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.

Mr. CHEUNG Ying Sheung, aged 66, 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 59, *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 53, *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 58, *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 48, *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.

Directors and Senior Management

Mr. YANG Ho Ching, age 56, *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 54, 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 50, *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 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 53, *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 41, *Global Marketing Director*, is responsible for the marketing operations for ZOTAC business. 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 53, *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 of Hong Kong.

Mr. KIM Seong Pyo, age 57, *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 58, *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 50, *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 2019.

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 particulars of important events affecting the Group that have occurred since the end of the financial year 2019 (if any) as well as 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 "Chairman's Statement" on pages 6 to 7, "Management Discussion and Analysis" on pages 8 to 17 and "Environmental, Social and Governance Report" on pages 18 to 36 of this Annual Report respectively.

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 2019 are set out in the consolidated statement of comprehensive income on page 66 of this report.

The Board does not recommend the payment of final dividend for the year ended 31 December 2019.

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 32 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 69 and note 43 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2019 amounted to approximately HK\$672.8 million.

DONATIONS

Charitable and other donations made by the Group during the year amounted HK\$13,000.

Report of the Directors

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to shareholders by reason of their holding of the Company's securities.

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 41 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 2019.

	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
RESULTS					
Revenue	7,556,477	9,122,319	8,555,368	5,837,964	4,754,149
Profit/(loss) before income tax	983	316,859	358,973	157,672	(16,179)
Income tax	8,837	(46,877)	(26,900)	(7,610)	(2,327)
Profit/(loss) for the year	9,820	269,982	332,073	150,062	(18,506)
Attributable to:					
Owners of the Company	10,266	270,843	332,293	150,189	(18,460)
Non-controlling interests	(446)	(861)	(220)	(127)	(46)
	9,820	269,982	332,073	150,062	(18,506)
ASSETS AND LIABILITIES					
Total assets	4,031,773	4,357,972	4,098,979	2,904,408	2,305,835
Total liabilities	(3,152,050)	(3,480,648)	(2,890,939)	(1,971,214)	(1,528,292)
Total equity	879,723	877,324	1,208,040	933,194	777,543

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.

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

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities 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. The pre-IPO share option scheme was terminated on 24 December 2011. Particulars of the pre-IPO share option scheme and 2016 Share Option Scheme of the Company are set out in note 34 to the consolidated financial statements.

As at the date of this Annual Report, 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. HO Nai Nap, Mr. LAI Kin Jerome and Mr. CHEUNG Ying Sheung will retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Report of the Directors

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.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme as set out in this report, no equity-linked agreements were entered into by the Group, or existed during the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except as disclosed in note 37 to the consolidated financial statements, no transaction, arrangement or contract 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.

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

As at 31 December 2019, 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	26,639,750	7.16%
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	4,807,065	1.29%

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	—	—

Report of the Directors

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 2019, 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	26,639,750	7.16%
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:

	2019 %	2018 %
Sales		
– the largest customer	7%	8%
– five largest customers combined	24%	22%
Purchases		
– the largest supplier	58%	64%
– five largest suppliers combined	68%	72%

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 37 to 46 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.

Report of the Directors

AUDITOR

The financial statements for the year ended 31 December 2019 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, 27 March 2020

INDEPENDENT AUDITOR'S REPORT



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

25th Floor Wing On Centre
 111 Connaught Road Central
 Hong Kong

電話 : +852 2218 8288
 傳真 : +852 2815 2239
www.bdo.com.hk

香港干諾道中111號
 永安中心25樓

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 66 to 167, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019 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 (“HKSAAs”) 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(h), 5 and 25 to the consolidated financial statements

As at 31 December 2019, inventories net of provision for obsolescence of HK\$119,695,000, amounted to HK\$1,126,023,000 which represent approximately 27.9% of total assets of the Group. The inventories are 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:

During our audit, we conducted the following audit procedures, amongst others, to address this key audit matter:

- 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 or available market information subsequent to 31 December 2019 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(i)(ii), 5 and 21 to the consolidated financial statements

As at 31 December 2019, the Group had trade receivables measured at amortised cost of HK\$1,338,011,000, and accumulated impairment losses of HK\$10,411,000 has been made over the balance.

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:

During our audit, we conducted the following audit procedures, amongst others, to address this key audit matter:

- 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 HKSAAs 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 HKSAAs, 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, 27 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Revenue	6, 7	7,556,477	9,122,319
Cost of sales		(7,040,163)	(8,164,874)
Gross profit		516,314	957,445
Other revenue and other gains and losses	8	(9,417)	(10,203)
Selling and distribution expenses		(98,420)	(142,611)
Administrative expenses		(365,464)	(435,487)
Impairment losses on financial assets		(5,960)	(2,034)
Finance costs	9	(53,499)	(50,251)
Share of profit of a joint venture		17,429	—
Profit before income tax	10	983	316,859
Income tax	11	8,837	(46,877)
Profit for the year		9,820	269,982
Other comprehensive income, after tax			
Items that will not be reclassified to profit or loss:			
Changes in fair value of equity instruments at FVTOCI		(507)	(4,727)
Gain on disposal of financial assets at FVTOCI		—	5,259
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign subsidiaries		(1,824)	(1,794)
Exchange differences on translating a joint venture		(5,154)	—
Reclassification adjustments for a foreign subsidiary disposed of during the year		16	—
Total comprehensive income for the year		2,351	268,720
Profit for the year attributable to:			
— Owners of the Company		10,266	270,843
— Non-controlling interests		(446)	(861)
		9,820	269,982
Total comprehensive income for the year attributable to:			
— Owners of the Company		2,792	269,581
— Non-controlling interests		(441)	(861)
		2,351	268,720
		HK\$	HK\$
Earnings per share	15		
— Basic		0.03	0.66
— Diluted		0.03	0.66

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Non-current assets			
Property, plant and equipment	16	215,480	84,313
Right-of-use assets	2(a)(i), 17	156,106	—
Intangible assets	18	6,355	6,355
Interest in a joint venture	20	143,835	—
Other financial asset	19	10,386	10,893
Trade receivables	21	212,897	—
Deferred tax assets	23	25,944	6,655
Total non-current assets		771,003	108,216
Current assets			
Inventories	25	1,126,023	2,497,524
Trade and other receivables	21	1,190,592	912,314
Right of return assets	24	37,271	25,955
Derivative financial assets	22	—	464
Cash and bank balances	26	906,884	813,499
Total current assets		3,260,770	4,249,756
Total assets		4,031,773	4,357,972
Current liabilities			
Trade and other payables	27	1,410,321	1,648,464
Refund liabilities	28	47,725	39,557
Contract liabilities	29	31,629	41,823
Amount due to a related party	37(i)	2,683	2,090
Borrowings	30	1,475,412	1,709,646
Provision	31	18,670	28,243
Lease liabilities	2(a)(i), 33	25,904	—
Obligations under finance leases	33	—	18
Current tax liabilities		7,329	10,758
Total current liabilities		3,019,673	3,480,599
Net current assets		241,097	769,157
Total assets less current liabilities		1,012,100	877,373

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Total non-current liabilities			
Lease liabilities	2(a)(i), 33	132,377	—
Obligations under finance leases	33	—	49
NET ASSETS		879,723	877,324
Capital and reserves			
Share capital	32	37,209	37,209
Reserves		842,585	840,078
Equity attributable to owners of the Company		879,794	877,287
Non-controlling interests		(71)	37
TOTAL EQUITY		879,723	877,324

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 2019

	Equity attributable to owners of the Company											
	Share capital	Share premium	Translation reserve	Merger reserve	Other reserve	Legal reserve	Financial asset at FVTOCI reserve	Share-based payment reserve	Retained profits	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 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 differences on translating foreign subsidiaries	—	—	(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 and 1 January 2019	37,209	165,033	388	6,702	21,776	3,799	(4,727)	—	647,107	877,287	37	877,324
Profit for the year	—	—	—	—	—	—	—	—	10,266	10,266	(446)	9,820
Other comprehensive income												
— exchange differences on translating foreign subsidiaries	—	—	(1,821)	—	(3)	—	—	—	—	(1,824)	—	(1,824)
— exchange differences on translating a joint venture	—	—	(5,154)	—	—	—	—	—	—	(5,154)	—	(5,154)
— changes in fair value of equity instruments at FVTOCI	—	—	—	—	—	—	(507)	—	—	(507)	—	(507)
— Reclassification adjustments for a foreign subsidiary disposed of during the year	—	—	11	—	—	—	—	—	—	11	5	16
Total comprehensive income	—	—	(6,964)	—	(3)	—	(507)	—	10,266	2,792	(441)	2,351
Transfer to legal reserve	—	—	—	—	—	2,594	—	—	(2,594)	—	—	—
Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	(285)	(285)	285	—
Capital contributed by non-controlling interests	—	—	—	—	—	—	—	—	—	—	48	48
At 31 December 2019	37,209	165,033	(6,576)	6,702	21,773	6,393	(5,234)	—	654,494	879,794	(71)	879,723

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

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 appropriated 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) reserves appropriated 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 obtaining approval 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 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Operating activities			
Profit before income tax		983	316,859
Adjustments for:			
Depreciation of property, plant and equipment		34,869	21,365
Depreciation of right-of-use assets		27,870	—
Impairment of intangible asset		—	1,090
Interest income		(5,438)	(3,441)
Net fair value gains on derivative financial instruments		(486)	(971)
Interest expense		53,499	50,251
Bad debts written off		162	160
Gain on disposal of property, plant and equipment		(160)	(149)
Property, plant and equipment written off		46	—
Impairment losses on financial assets		5,960	2,034
Provision for obsolete inventories		13,669	83,655
(Reversal of provision)/provision for product warranties and returns, net		(3,598)	16,026
Share of net profit of a joint venture		(17,429)	—
Gain on disposal of a subsidiary		(21)	—
Operating profit before working capital changes		109,926	486,879
Inventories		1,092,337	(1,231,785)
Right of return assets		(11,316)	2,118
Trade and other receivables		(497,755)	271,733
Amount due from a related party		—	1,762
Trade and other payables		4,133,183	8,683,813
Refund liabilities		8,168	6,004
Contract liabilities		(9,868)	(34,571)
Amount due to a related party		593	2,090
Provision for product warranties and returns		(5,975)	(10,880)
Cash generated from operations		4,819,293	8,177,163
Interest paid		(53,499)	(50,251)
Income tax paid		(13,870)	(59,558)
Net cash generated from operating activities		4,751,924	8,067,354
Investing activities			
Payments to acquire property, plant and equipment		(14,612)	(46,830)
Proceeds from disposal of property, plant and equipment		349	210
Payments to acquire right-of-use assets		(21)	—
Interest received		5,438	3,441
Acquisition of subsidiary, net of cash acquired		—	90
Investment in a joint venture	20	(18,146)	—
Net cash received on settlement of derivative financial instruments		950	507
Disposal of a subsidiary, net of cash disposed	42	(72)	—
Proceeds from disposal of financial assets at FVTOCI		—	26,251
Net cash used in investing activities		(26,114)	(16,331)

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Financing activities			
Issue of new shares		—	2,126
Capital contribution from non-controlling interests		48	694
Dividends paid to owners of the Company		—	(227,260)
Proceeds from bank loans		—	598,275
Repayment of bank loans		(348,307)	—
Repayment of import loans		(4,242,717)	(8,679,045)
Proceeds from discounted bills and factoring loans		8,191	59,429
Repayment of discounted bills and factoring loans		(18,235)	(66,944)
Repayment of principal of lease liabilities/obligations under finance leases		(25,677)	(18)
Purchase of own shares		—	(375,313)
Net cash used in financing activities		(4,626,697)	(8,688,056)
Net increase/(decrease) in cash and cash equivalents		99,113	(637,033)
Cash and cash equivalents at beginning of year		813,045	1,453,361
Effect of exchange rate changes on cash and cash equivalents		(5,726)	(3,283)
Cash and cash equivalents at end of year, representing Cash and bank balances (net of pledged time deposit)	26	906,432	813,045

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 bases 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 2019

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 2019.

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, Business Combinations
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 11, Joint Arrangements
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 12, Income Taxes
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 23, Borrowing Costs

The impact of the adoption of HKFRS 16 Leases has been summarised below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any material impact on the Group’s accounting policies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2019 (continued)

(i) *Impact of the adoption of HKFRS 16*

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases (“HKAS 17”), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease (“HK(IFRIC)-Int 4”), HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee’s perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor’s perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group’s accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to sections (ii) to (iv) of this note.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised the right-of-use assets as at 1 January 2019 at the amount equal to the lease liabilities as at 1 January 2019, adjusted by the amount of any prepayments or accrued lease payments relating to those leases recognised in the consolidated statement of financial position as at 31 December 2018. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2019 (continued)

(i) Impact of the adoption of HKFRS 16 (continued)

The following table summarised the impact of transition to HKFRS 16 on consolidated statement of financial position as at 31 December 2018 to that as at 1 January 2019 (increase/(decrease)):

	HK\$'000
Consolidated statement of financial position as at 1 January 2019	
Right-of-use assets	168,529
Decrease in property, plant and equipment	(36)
Increase in total assets	168,493
Lease liabilities (non-current) (note)	144,680
Lease liabilities (current) (note)	23,813
Increase in total liabilities	168,493

Note: The amounts exclude current portion and non-current portion of obligations under finance leases amounted to HK\$18,000 and HK\$49,000 respectively. Upon adoption of HKFRS 16, obligations under finance leases were reclassified to lease liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2019 (continued)

(i) Impact of the adoption of HKFRS 16 (continued)

The following reconciliation explains how the operating lease commitments disclosed under HKAS 17 as at 31 December 2018 could be reconciled to the lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019:

Reconciliation of operating lease commitments to lease liabilities

	HK\$'000
Operating lease commitments as at 31 December 2018	43,278
Less: short term leases for which lease terms end within 31 December 2019	(2,915)
Add: lease payments for the additional periods when the Group considers it reasonably certain that it would exercise the extension options	154,927
Less: total future interest expenses	(26,797)
Add: finance lease liabilities as at 31 December 2018	67
Total lease liabilities as at 1 January 2019	168,560

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is 3.7%.

The analysis of the net book value of the Group's right-of-use assets by class of underlying assets at the end of the year and at the date of adoption of HKFRS 16 is as follows:

Analysis of the net book value of right-of-use assets	31 December 2019 HK\$'000	1 January 2019 HK\$'000
Properties leased for own use, carried at depreciated cost	155,492	167,871
Plant and equipment carried at depreciated cost	614	658
	156,106	168,529

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2019 (continued)

(i) Impact of the adoption of HKFRS 16 (continued)

The remaining contractual maturities of the Group's lease liabilities at the end of the year and at the date of adoption of HKFRS 16 are as follows:

	31 December 2019		1 January 2019	
	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000
Not later than 1 year	25,904	31,547	23,831	29,131
Later than 1 year and not later than 2 years	21,649	26,396	21,175	26,225
Later than 2 years and not later than 5 years	58,681	68,200	50,738	61,756
Later than 5 years	52,047	54,914	72,816	78,245
	132,377	149,510	144,729	166,226
	158,281	181,057	168,560	195,357
Less: total future interest expenses		(22,776)		(26,797)
Present value of lease liabilities		158,281		168,560

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2019 (continued)

(i) *Impact of the adoption of HKFRS 16 (continued)*

Impact on the financial results and cash flows of the Group

After the initial recognition of the right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liabilities, and the depreciation of the right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on profit before income tax in the Group's consolidated statement of comprehensive income, as compared to the results if HKAS 17 had been applied during the year.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows and operating cash outflows respectively, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated statement of cash flows.

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2019 (continued)

(i) Impact of the adoption of HKFRS 16 (continued)

Impact on the financial results and cash flows of the Group (continued)

	2019				2018
	Amounts reported under HKFRS 16 HK\$'000	Add back: HKFRS 16 depreciation and interest expense HK\$'000	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (note 1) HK\$'000	Hypothetical amounts for 2019 as if under HKAS 17 HK\$'000	Compared to amounts reported for 2018 under HKAS 17 HK\$'000
Financial results for year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Finance costs	(53,499)	5,527	–	(47,972)	(50,251)
Profit before income tax	983	33,397	(31,186)	3,194	316,859
Profit for the year	9,820	33,397	(31,186)	12,031	269,982

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2019 (continued)

(i) Impact of the adoption of HKFRS 16 (continued)

Impact on the financial results and cash flows of the Group (continued)

	2019 Estimated amounts related to operating leases as if under HKAS 17 (notes 1 & 2) HK\$'000	Hypothetical amounts for 2019 as if under HKAS 17 HK\$'000	2018 Compared to amounts reported for 2018 under HKAS 17 HK\$'000	
Line items in the consolidated statement of cash flows for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	4,819,293	(31,186)	4,788,107	8,177,163
Interest element of lease rentals paid	(5,527)	5,527	—	—
Net cash generated from operating activities	4,751,924	(25,659)	4,726,265	8,067,354
Capital element of lease rentals paid	(25,677)	25,659	(18)	(18)
Net cash used in financing activities	(4,626,697)	25,659	(4,601,038)	(8,688,056)

Notes:

- The “estimated amounts related to operating leases” is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.
- In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 had still applied.

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2019 (continued)

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for each lease component and any associated non-lease components as a single lease component for all leases.

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of whether they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on a straight-line basis over the lease terms.

The Group recognised a right-of-use asset and a lease liability at the date of adoption of HKFRS 16, i.e. 1 January 2019.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2019 (continued)

(iii) Accounting as a lessee (continued)

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Under the cost model, the Group measures the right-to-use asset at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2019 (continued)

(iv) Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised the right-of-use assets as at 1 January 2019 at the amount equal to the lease liabilities as at 1 January 2019, adjusted by the amount of any prepayments or accrued lease payments relating to those leases recognised in the consolidated statement of financial position as at 31 December 2018. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified as operating leases under HKAS 17 at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as at that date.

The Group has also applied the following practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months from the date of initial application (1 January 2019) and accounted for those leases as short-term leases and (iii) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int 4.

The Group has also leased its office equipment which previously was classified as finance lease under HKAS 17. As the Group has elected to adopt the cumulative effect approach over the adoption of HKFRS 16, for the finance lease under HKAS 17, the right-of-use asset and the corresponding lease liability at 1 January 2019 was the carrying amount of the lease asset and lease liability under HKAS 17 immediately before that date. For the lease, the Group has accounted for the right-of-use asset and the lease liability applying HKFRS 16 from 1 January 2019.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2019 (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 has 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 – Long-term Interests in Associates and Joint Ventures

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.

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2019 (continued)

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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.

Amendments to HKFRS 3	Definition of a Business ¹
Amendments to HKAS 1 and HKAS 8	Definition of Material ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²

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

² The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

Amendments to HKFRS 3 – Definition of a Business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a “substantive process”.

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of “outputs” and a “business” to focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKAS 1 and HKAS 8 – Definition of Material

The amendments clarify the definition and explanation of “material”, aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

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 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.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

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 2019

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) Joint arrangements

The Group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

- (i) Joint ventures: where the Group has rights to only the net assets of the joint arrangement; or
- (ii) Joint operations: where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- (i) The structure of the joint arrangement;
- (ii) The legal form of joint arrangements structured through a separate vehicle;
- (iii) The contractual terms of the joint arrangement agreement; and
- (iv) Any other facts and circumstances (including any other contractual arrangements).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Joint arrangements (continued)

Joint ventures are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amounts are adjusted for the Group's share of the post-acquisition change in the joint ventures' net assets except that losses in excess of the Group's interest in the joint ventures are not recognised unless there is an obligation to make good those losses.

Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

(d) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) 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 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
Machinery leased out under operating lease	5 years or over the lease terms, whichever the shorter

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount. Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If the lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) 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
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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.

(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(p)).

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Intangible assets (continued)

(ii) Impairment (continued)

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;
- 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Leasing

Accounting policies applied from 1 January 2019

(i) The Group as a lessee

All leases (irrespective of whether they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on a straight-line basis over the lease terms.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Under the cost model, the Group measures the right-to-use asset at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Leasing (continued)

Accounting policies applied from 1 January 2019 (continued)

(ii) The Group as a lessor

The Group has leased out its machinery under property, plant and equipment to a number of tenants. Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of the machinery are classified as operating leases. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the machinery and the present value of the minimum lease payments not amounting to substantially all the fair value of the machinery, that it retains substantially all the significant risks and rewards incidental to ownership of these machinery which are leased out and accounts for the contracts as operating leases. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease terms.

Accounting policies applied until 31 December 2018

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 a 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.

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

(h) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial instruments

(i) **Financial assets**

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("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 entirety 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.

Fair value through profit or loss ("FVTPL"): Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, 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 FVTPL, 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 FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial instruments (continued)

(i) *Financial assets (continued)*

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 ("FVTOCI") 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.

(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.

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For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial instruments (continued)

(ii) Impairment loss on financial assets (continued)

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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial instruments (continued)

(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.

(j) Revenue recognition

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.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Revenue recognition (continued)

(i) *Sales of video graphics cards (“VGA Cards”), electronics manufacturing services (“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.

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 for specific customers. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. At the same time, the Group has a right to recover the product when customers exercise their right of return. Consequently, the Group recognises a right of return asset and a corresponding adjustment to cost of sales. The Group uses its accumulated historical experience to estimate sales amount of returned goods as refund liability. At the end of each reporting period, the refund liability is re-measured arising from any changes in expectations about the amount of refunds with corresponding adjustments as revenue (or reductions of revenue). The right of return asset is recognised by reference to the former carrying amount of the products less any expected costs to recover those products including potential decrease in the value to the Group of returned products. At the end of each reporting period, the carrying amount of the right of return asset is re-measured arising from any changes in expectations about products to be returned. It is considered highly probable that a significant reversal in the cumulative revenue recognised will not occur given the consistent level of returns over previous years.

(ii) *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.

Rental income from operating leases is recognised in accordance with the accounting policy set out in note 4(g)(ii).

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

(k) Contract assets and contract liabilities

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Contract costs

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.

(m) 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.

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.

Notes to the Consolidated Financial Statements

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Impairment of non-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 and right-of-use assets;
- intangible assets with finite useful lives; and
- investment in a subsidiary and a joint venture.

If the recoverable amount (i.e. the greater of the fair value less cost of disposal 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) 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.

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.

(r) 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.

(s) 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.

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For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) 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.

(u) Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of key management personnel of the Group or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Related parties (continued)

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.

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 (including right-of-use assets)

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 the higher of value in use calculations and fair value less cost of disposal. 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 cost of disposal 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.

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For the year ended 31 December 2019

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

Useful lives of property, plant and equipment (including right-of-use assets) 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.

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 asset (note 19)
- Trade receivables at FVTPL (note 21(b))

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

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

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.

Impairment of trade receivables

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 each 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 39(a).

Warranty provision and refund liabilities

As explained in notes 28 and 31, 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.

Determining the lease term of contracts with extension options – the Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised by the Group.

The Group has several lease contracts that include extension options which are exercisable at the discretion of the Group. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise the extension option. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control. The Group typically exercises its option to renew for these leases of properties used for production because there will be a significant negative effect on production if a replacement asset is not readily available and there was significant customisation to the leased asset. The majority of extension options held are exercisable only by the Group and not by the respective lessor. Upon the application of HKFRS 16 and at the date of initial application of HKFRS 16, the Group assessed and concluded that it is reasonably certain that the Group will exercise extension options included in all of the lease arrangements of which the additional periods covered by extension options ranged from 1 to 7 years. Such assessment and conclusion has resulted in an increase in recognised lease liabilities and right-of-use assets of HK\$154,927,000 at the initial application of HKFRS 16.

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

Estimating the incremental borrowing rate – the Group as lessee

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (“IBR”) of the relevant lessee to measure lease liabilities. The IBR is the rate of interest that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the lessee would have to pay, which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease such as when leases are not in the subsidiary’s functional currency. The Group estimates the IBR using observable inputs such as market interest rates when available.

To determine the IBR, the Group:

- Where possible, use recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, and
- Makes adjustments specific to the lease, e.g. term, country, currency and security.

Recognition of deferred tax assets

Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. The Group has recognised HK\$20,933,000 (2018: HK\$Nil) as deferred tax assets due to tax losses carried forward. These losses relate to subsidiaries that have taxable temporary difference or tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. Further details on deferred tax are disclosed in note 23.

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:

	2019 HK\$'000	2018 HK\$'000
Design, manufacturing and trading of electronics and PC parts and accessories	7,556,477	9,122,319

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 services, 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 31 December	Design, manufacturing and trading of electronics and PC parts and accessories	
	2019 HK\$'000	2018 HK\$'000
Primary geographical markets		
Asia Pacific ("APAC")	2,922,853	3,515,172
North and Latin America ("NALA")	1,216,637	1,345,881
PRC	2,090,055	1,960,727
Europe, Middle East, Africa and India ("EMEA")	1,326,932	2,300,539
	7,556,477	9,122,319
Major products/services		
VGA Cards	5,924,392	7,273,614
EMS	628,462	700,738
Other PC related products and components	1,003,623	1,147,967
	7,556,477	9,122,319
Brand and non-brand businesses		
Brand businesses	3,879,437	5,208,042
Non-brand businesses	3,677,040	3,914,277
	7,556,477	9,122,319
Timing of revenue recognition		
At a point in time	7,556,477	9,122,319

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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	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
APAC	2,922,853	3,515,172	24,198	12,986
NALA	1,216,637	1,345,881	24,080	24,530
PRC	2,090,055	1,960,727	686,065	53,110
EMEA	1,326,932	2,300,539	330	42
	7,556,477	9,122,319	734,673	90,668

(c) Information about the major customer

During the years ended 31 December 2019 and 2018, none of the customers contributed 10% or more of the Group's revenue.

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.

	2019 HK\$'000	2018 HK\$'000
Contract liabilities (note 29)	31,629	41,823

The contract liabilities mainly relate to the advance consideration received from customers and volume rebates and sales allowances to customers. HK\$20,845,000 of the contract liabilities as at 1 January 2019 and HK\$64,580,000 of the contract liabilities as at 1 January 2018 has been recognised as revenue for the year ended 31 December 2019 and 2018 respectively from performance obligations satisfied when the goods were sold.

8. OTHER REVENUE AND OTHER GAINS AND LOSSES

	2019 HK\$'000	2018 HK\$'000
Government grants (note)	1,014	1,700
Interest income	5,438	3,441
Net exchange losses	(23,341)	(23,039)
Net fair value gains on derivative financial instruments	486	971
Gain on disposal of property, plant and equipment	160	149
Sundry income	2,971	6,575
Rental income	3,834	—
Gain on disposal of subsidiary (note 42)	21	—
	(9,417)	(10,203)

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

9. FINANCE COSTS

	2019 HK\$'000	2018 HK\$'000
Interest on bank advances and other borrowings	47,972	50,251
Interest on lease liabilities	5,527	—
	53,499	50,251

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10. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	2019 HK\$'000	2018 HK\$'000
Inventories recognised as expense (note (a))	7,040,163	8,164,874
Staff costs (note 12)	368,785	480,202
Auditor's remuneration	1,696	1,923
Bad debts written off	162	160
Depreciation of property, plant and equipment	34,869	21,365
Depreciation of right-of-use assets	27,870	—
Impairment of intangible asset (note 18)	—	1,090
Impairment losses on financial assets (note 39(a))	5,960	2,034
Short-term lease expenses	4,772	—
Low-value assets leases expenses	96	—
Operating lease payments on plant and machinery	—	242
Operating lease payments on premises	—	33,815
Property, plant and equipment written off	46	—
(Reversal of provision)/provision for product warranties and returns, net (note 31)	(3,598)	16,026
Research and development expenditure (note (b))	38,465	56,802

Note:

- (a) Included in the figures disclosed above is write down of inventories to net realisable value of approximately HK\$341,277,000 (2018: HK\$204,390,000) of which approximately HK\$112,461,000 (2018: HK\$ Nil) is related to the inventories transferred to a joint venture as set out in note 20.
- (b) The research and development expenditure for the year represents HK\$38,465,000 (2018: HK\$56,802,000) relating to depreciation of plant and machinery and office equipment and right-of-use assets 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.

11. INCOME TAX

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

	2019 HK\$'000	2018 HK\$'000
Current tax — Hong Kong		
— provision for the year	2	35,743
— (over)/under provision in respect of prior year	(2,136)	267
Current tax — PRC		
— provision for the year	9,507	3,164
— under provision in respect of prior year	300	163
Current tax — others		
— provision for the year	2,725	4,703
— under provision in respect of prior year	54	3,048
	10,452	47,088
Deferred tax		
— origination and reversal of temporary differences (note 23)	(19,289)	(211)
Income tax (credit)/expense	(8,837)	46,877

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, if the entity has one or more connected entity, the two-tiered profit tax rates would only apply to the one which is nominated to be chargeable at the two-tiered rates. Hong Kong profits tax of the nominated entity is calculated at 8.25% on assessable profits up to HK\$2 million and 16.5% on any part of assessable profits over HK\$2 million. For those entities which do not qualify for two-tiered profits tax rates, a profits tax rate of 16.5% on assessable profits shall remain in calculating Hong Kong profits tax. For the years ended 31 December 2019 and 2018, Hong Kong profits tax is calculated in accordance with the two-tiered profits tax rates regime. 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.

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11. INCOME TAX (CONTINUED)

- (a) The amount of income tax (credit)/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 for three years from 2018 to 2020 and the applicable PRC enterprise income tax rate for the year is 15% (2018: 15%). Other PRC subsidiaries of the Company are subject to PRC enterprise income tax at a statutory rate of 25% (2018: 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 2019.

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:

	2019 HK\$'000	2018 HK\$'000
Profit before income tax	983	316,859
Tax calculated at Hong Kong profits tax rate	162	52,282
Effect of different tax rates of subsidiaries operating in other jurisdictions	605	3,147
Tax effect of non-taxable net income relating to offshore operation	(559)	(13,578)
Tax effect of expenses not deductible for tax purposes	4,422	5,765
Tax effect of revenue not taxable for tax purposes	(6,979)	(3,829)
Tax effect of tax losses and deductible temporary differences not recognised	3,894	3,339
Utilisation of tax losses and deductible temporary differences previously not recognised	(4,976)	(2,708)
(Over)/under provision in respect of prior year	(1,782)	3,478
Tax rebate and tax concession	(3,774)	(305)
Others	150	(714)
Income tax (credit)/expense	(8,837)	46,877

12. STAFF COSTS

	2019 HK\$'000	2018 HK\$'000
Staff costs (including directors' emoluments) comprise:		
Wages and salaries	331,171	444,181
Pension contribution	4,021	3,892
Social insurance	21,236	18,149
Provision for long services payment, annual leave and others	12,357	13,980
	368,785	480,202

13. EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The emoluments paid or payable to each of the ten (2018: ten) directors and chief executive were as follows:

Year ended 31 December 2019

Name of directors	Fees HK\$'000	Basic salaries HK\$'000	Discretionary bonuses HK\$'000	Pension contribution HK\$'000	Housing and other allowances and benefits in kind HK\$'000	Total HK\$'000
Executive Directors						
Mr. WONG Shik Ho Tony	–	3,979	168	18	602	4,767
Mr. WONG Fong Pak	–	3,719	32	–	–	3,751
Mr. LEUNG Wah Kan	–	3,807	122	18	30	3,977
Mr. MAN Wai Hung	–	2,008	–	18	54	2,080
Mr. HO Nai Nap	–	2,208	55	18	–	2,281
Non-executive Directors						
Mrs. HO WONG Mary Mee-Tak	60	–	–	–	–	60
Mr. CHIU Wing Yui (note (ii))	60	–	–	–	–	60
Mr. IP Shing Hing	240	–	–	–	–	240
Mr. LAI Kin Jerome	240	–	–	–	–	240
Mr. CHEUNG Ying Sheung	240	–	–	–	–	240
	840	15,721	377	72	686	17,696

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

(a) Directors' emoluments (continued)

Year ended 31 December 2018

Name of directors	Fees HK\$'000	Basic salaries HK\$'000	Discretionary bonuses HK\$'000	Pension contribution HK\$'000	Housing and other allowances and benefits in kind HK\$'000	Total HK\$'000
Executive Directors						
Mr. WONG Shik Ho Tony	—	3,826	8,503	18	586	12,933
Mr. WONG Fong Pak	—	3,576	2,379	—	4	5,959
Mr. LEUNG Wah Kan	—	3,660	4,708	18	43	8,429
Mr. MAN Wai Hung	—	1,920	2,133	18	53	4,124
Mr. HO Nai Nap	—	2,112	2,901	18	—	5,031
Non-executive Directors						
Mrs. HO WONG Mary Mee-Tak	60	—	—	—	—	60
Mr. CHIU Wing Yui (note (ii))	60	—	—	—	—	60
Mr. IP Shing Hing	240	—	—	—	—	240
Mr. LAI Kin Jerome	240	—	—	—	—	240
Mr. CHEUNG Ying Sheung	240	—	—	—	—	240
	840	15,094	20,624	72	686	37,316

Notes:

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

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, four (2018: three) were directors of the Company whose emoluments are included in the disclosure in note 13(a) above and the remaining one (2018: two) highest paid individuals were senior management personnel whose emoluments are included in the band of HK\$2,000,001, to HK\$2,500,000 in the disclosure in note 13(c) below.

Emoluments paid or payable to the remaining one (2018: two) highest paid individuals who were senior management personnel during the year are as follows:

	2019 HK\$'000	2018 HK\$'000
Salaries, allowances and other benefits	2,076	2,217
Discretionary bonuses	—	10,172
Retirement benefit scheme contributions	18	18
	2,094	12,407

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 (2018: HK\$Nil). In addition, none of the directors waived or agreed to waive any emoluments during the year (2018: None).

(c) Senior management's emoluments

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

	2019 No. of individuals	2018 No. of individuals
HK\$Nil to HK\$1,000,000	7	2
HK\$1,000,001 to HK\$1,500,000	4	9
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	2	—
HK\$6,000,001 to HK\$6,500,000	—	2

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14. DIVIDENDS

	2019 HK\$'000	2018 HK\$'000
2018 Final dividend paid — HK\$Nil per share (2018: 2017 Final dividend paid — HK\$0.28 per share)	—	124,934
2019 Interim dividend paid — HK\$Nil per share (2018: 2018 Interim dividend paid — HK\$0.275 per share)	—	102,326
Dividends paid for the year	—	227,260

The directors of the Company do not propose a final dividend for the years ended 31 December 2019 and 2018.

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the years ended 31 December 2019 and 2018 is based on the following data:

Profit	2019 HK\$'000	2018 HK\$'000
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	10,266	270,843
Number of shares	2019	2018
Weighted average number of ordinary shares for the purpose of basic earnings per share	372,093,668	409,461,750
Effect of dilutive potential ordinary shares: — share options	—	387,165
Weighted average number of ordinary shares for the purpose of diluted earnings per share	372,093,668	409,848,915

16. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings	Leasehold improvements	Plant and machinery	Office and testing equipment	Furniture and fixtures	Motor vehicles	Moulds	Machinery leased out under operating leases	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:									
At 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
Impact of adoption of HKFRS 16	—	—	—	(89)	—	—	—	—	(89)
At 1 January 2019	25,184	37,183	283,540	80,002	2,483	5,673	7,799	—	441,864
Additions	—	529	2,553	7,880	12	803	2,835	151,836	166,448
Disposals/written off	—	(3,330)	(2,105)	(3,818)	(641)	(1,204)	—	—	(11,098)
Exchange adjustments	(131)	(20)	—	(53)	(10)	—	—	—	(214)
At 31 December 2019	25,053	34,362	283,988	84,011	1,844	5,272	10,634	151,836	597,000
Accumulated depreciation:									
At 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
Impact of adoption of HKFRS 16	—	—	—	(53)	—	—	—	—	(53)
At 1 January 2019	1,042	31,405	246,635	68,674	1,756	4,165	3,910	—	357,587
Depreciation	331	1,448	10,007	11,005	251	1,101	3,713	7,013	34,869
Written back on disposals/written off	—	(3,330)	(2,047)	(3,793)	(619)	(1,074)	—	—	(10,863)
Exchange adjustments	(7)	(14)	—	(44)	(8)	—	—	—	(73)
At 31 December 2019	1,366	29,509	254,595	75,842	1,380	4,192	7,623	7,013	381,520
Net book value:									
At 31 December 2019	23,687	4,853	29,393	8,169	464	1,080	3,011	144,823	215,480
At 31 December 2018	24,142	5,778	36,905	11,364	727	1,508	3,889	—	84,313

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17. RIGHT-OF-USE ASSETS

	Land and buildings (note) HK\$'000	Motor vehicles HK\$'000	Office and testing equipment HK\$'000	Total HK\$'000
At 1 January 2019	167,871	239	419	168,529
Additions	18,357	398	—	18,755
Depreciation	(27,469)	(160)	(241)	(27,870)
Effect of modification to lease terms	(3,189)	—	—	(3,189)
Disposal	—	(27)	—	(27)
Foreign exchange movement	(78)	(14)	—	(92)
At 31 December 2019	155,492	436	178	156,106

At 31 December 2018, the net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases (see note 16):

	2018 HK\$'000
Office and testing equipment	36

Note: The Group has lease contracts for factory and offices, which are mainly located in PRC and Hong Kong. The lease terms of contracts are generally from 1 to 10 years which include the period covered by extension options. Certain lease contracts have extension options as set out in note 5.

18. INTANGIBLE ASSETS

	Brand name HK\$'000	Non- contractual customer lists and relationship HK\$'000	Goodwill HK\$'000	Total HK\$'000
Cost:				
At 1 January 2018	6,196	10,074	—	16,270
Acquisition of subsidiary	—	—	1,530	1,530
At 31 December 2018, 1 January 2019 and 31 December 2019	6,196	10,074	1,530	17,800
Accumulated amortisation and impairment:				
At 1 January 2018	281	10,074	—	10,355
Impairment	1,090	—	—	1,090
At 31 December 2018, 1 January 2019 and 31 December 2019	1,371	10,074	—	11,445
Carrying amount:				
At 31 December 2019	4,825	—	1,530	6,355
At 31 December 2018	4,825	—	1,530	6,355

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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18. 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 three-year period. Cash flows beyond the three-year period are extrapolated using the long-term growth rate stated below.

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

	2019	2018
Profit margin (average of next three years)	3.03%	5.99%
Long-term growth rate	2%	2%
Growth rate for 2020 (2018: 2019)	6%	-25%
Growth rate for 2021 to 2022 (2018: 2020 to 2023)	6%	5%
Discount rate	22.88%	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 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 2019. 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.

18. INTANGIBLE ASSETS (CONTINUED)

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 are as follows:

	2019	2018
Profit margin (average of next five years)	0.83%	3.15%
Long-term growth rate	2%	2%
Growth rate for 2020 (2018: 2019 to 2023)	5%	5%
Growth rate of 2021 to 2022	6%	—
Growth rate for 2023 to 2024	4%	—
Discount rate	11.83%	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 2019. Accordingly, no provision for impairment loss for goodwill is considered necessary.

19. OTHER FINANCIAL ASSET

	2019 HK\$'000	2018 HK\$'000
Equity investment measured at FVTOCI — Non-current		
— Preferred stock in Dreamscape Immersive Inc. (note)	10,386	10,893
Total	10,386	10,893

Note:

This is an investment in 1% interest of preferred stock in a private company incorporated in the United States of America. It is not accounted for under the equity method as the Group does not have the power to participate in the formulation of its operating and financial policies, evidenced by the lack of any direct or indirect involvement at board level. The Group do not have the right to appoint any directors in the board.

The Group has irrevocably elected at initial recognition to measure the investment at fair value through other comprehensive income upon adoption of HKFRS 9 as it is a strategic investment. No dividends were received on this investment during the year (2018: Nil).

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20. INTEREST IN A JOINT VENTURE

	2019 HK\$'000
Investment	131,560
Share of profit of a joint venture	17,429
Exchange realignment	(5,154)
	143,835

The Group and another independent third party formed a sino-foreign equity joint venture enterprise in the PRC on 25 March 2019 and each has 50% interest in the joint venture, FuZhou Partner Cloud Technology Co., Limited ("Partner Cloud"). The primary activity of Partner Cloud is the leasing of servers and projects involving cloud computing, container cloud and deep learning in the PRC.

The Group contributed cash of US\$2,317,200 (approximately HK\$18,146,000) and VGA Cards of US\$14,482,800 (approximately HK\$113,414,000). The other joint venture partner contributed computer servers and accessories of US\$16,800,000 (approximately HK\$131,560,000).

The contractual arrangement provides the Group with only the rights to the net assets of the joint arrangement, with the rights to the assets and obligation for the liabilities of the joint arrangement resting primarily with Partner Cloud. Under HKFRS 11 this joint arrangement is classified as a joint venture and has been included in the consolidated financial statements using the equity method.

20. INTEREST IN A JOINT VENTURE (CONTINUED)

Summarised financial information of the joint venture, adjusted for any differences in accounting policies, is presented below:

	2019 HK\$'000
As 31 December	
Current assets	110,375
Non-current assets	183,712
Current liabilities	(6,417)
Non-current liabilities	—
Net assets	287,670
<i>Included in the above amounts are:</i>	
Cash and cash equivalents	111
Current financial liabilities (excluding trade and other payable)	—
Non-current financial liabilities (excluding other payable and provision)	—
Period ended 31 December	
Revenue	161,837
Profit for the period	34,857
<i>Included in the above amounts are:</i>	
Depreciation and amortisation	37,255
Interest income	17
Interest expense	—
Income tax expense	(11,619)

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21. TRADE AND OTHER RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Trade receivables at amortised cost	1,338,011	839,973
Less: Accumulated impairment losses	(10,411)	(6,238)
Trade receivables at amortised cost, net (note (a))	1,327,600	833,735
Trade receivables at fair value through profit or loss (note (b))	50,177	41,373
Other receivables (note (c))	7,134	15,600
Deposits and prepayments	20,557	22,633
Less: Accumulated impairment losses	(1,979)	(1,027)
	18,578	21,606
	1,403,489	912,314
Less: Trade receivables — non-current portion (note (d))	(212,897)	—
Trade and other receivables — current portion	1,190,592	912,314

As at 31 December 2019 and 31 December 2018, the Group entered into trade receivables factoring arrangement and transferred certain trade receivables to banks. 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 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. During the year ended 31 December 2018, interest is charged at 1.96% to 3.43% on the proceeds received from the banks until the date the debtors pay. As at 31 December 2019, the Group had no outstanding bills discounted with full recourse with banks. During the year ended 31 December 2019, interest is charged at 2.61% to 3.72% on the proceeds received from the banks until the date the debtors pay.

21. TRADE AND OTHER RECEIVABLES (CONTINUED)

As at 31 December 2018, 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:

	2019 HK\$'000	2018 HK\$'000
Within 1 month	469,729	435,571
Over 1 month but within 3 months	494,129	362,748
Over 3 months but within 1 year	361,968	33,117
Over 1 year	1,774	2,299
	1,327,600	833,735

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

The credit period on sale of goods is 30 to 90 days (2018: 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 39(a).

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21. TRADE AND OTHER RECEIVABLES (CONTINUED)

Notes: (continued)

(b)

	2019 HK\$'000	2018 HK\$'000
Trade receivables at fair value through profit or loss	50,177	41,373

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

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 2019, the Group had drawn approximately HK\$7,051,000 (2018: 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 Group is also exposed to credit risk in relation to these trade receivables. The maximum exposure at the end of reporting period is HK\$50,177,000 (2018: HK\$41,373,000).

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:

	2019 HK\$'000	2018 HK\$'000
Within 1 month	22,428	32,264
Over 1 month but within 3 months	26,157	9,109
Over 3 months but within 1 year	1,592	—
	50,177	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:

	2019 HK\$'000	2018 HK\$'000
Not past due	38,604	41,285
Within 1 month past due	11,530	88
Over 1 month but within 3 months	43	—
	50,177	41,373

(c) The balance includes market fund receivables of HK\$1,000 (2018: HK\$8,377,000) and a claim of HK\$2,454,000 (2018: HK\$2,467,000) under an insurance policy as detailed in note 27(b).

21. TRADE AND OTHER RECEIVABLES (CONTINUED)

Notes: (continued)

- (d) During the year ended 31 December 2019, the Group entered into a sales contract with a customer for sale of VGA Cards under which the sales amount will be paid by the customer in instalments the last of which will fall in May 2021. As at 31 December 2019, the total outstanding balance due from the customer amounted to HK\$540,462,000 of which HK\$212,897,000 will be due beyond one year which is discounted at 3.1% and included under non-current assets. The sales contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months and is accounted for in accordance with the Group's accounting policy set out in note 4(j). Interest income of HK\$3,904,000 was recognised for the year and included under note 8.

22. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 HK\$'000	2018 HK\$'000
Derivative financial assets		
Foreign exchange forward contracts	—	464

Notional amount	Trade dates	Contracted exchange rates	Fair value	
			2019 HK\$'000	2018 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

All the contracts have been terminated during the year ended 31 December 2019 and a gain of HK\$486,000 was recognised for the year and included under "net fair value gains on derivative financial instruments" under note 8.

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 as at 31 December 2018.

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23. 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 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 and 1 January 2019	493	6,162	—	6,655
(Charged)/credited to profit or loss	(452)	(1,192)	20,933	19,289
Exchange difference	—	—	—	—
At 31 December 2019	41	4,970	20,933	25,944

Deferred tax asset has not been recognised for the followings:

	2019 HK\$'000	2018 HK\$'000
Unused tax losses	4,355	39,654
Other deductible temporary differences	34,733	18,812
	39,088	58,466

The PRC subsidiaries of the Company are subject to PRC withholding income tax at a statutory rate of 10% (2018: 10%) on any dividend declared.

No deferred tax asset has been recognised in respect of the unused tax losses of HK\$4,355,000 (2018: HK\$39,654,000) 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\$2,393,000 (2018: HK\$5,186,000) could be carried forward indefinitely. Remaining losses amounting to approximately HK\$1,962,000 (2018: HK\$34,468,000) will expire in 2029.

The temporary difference associated with investment in subsidiaries for which deferred tax liabilities have not been recognised amounted to approximately HK\$54,268,000 (2018: HK\$50,973,000). The Group has determined that the undistributed profits of its subsidiaries will not be distributed in the foreseeable future.

24. RIGHT OF RETURN ASSETS

	2019 HK\$'000	2018 HK\$'000
Right of return assets	37,271	25,955

The right of return assets represent the Group's right to recover products from customers where customers exercise their right of return within two to three years from the date of sales ("Warranty Period"). The Group uses its accumulated historical experience to estimate the sales amount of returned goods. The Group's accounting policy of right of return assets is set out in note 4(j)(i).

25. INVENTORIES

	2019 HK\$'000	2018 HK\$'000
Raw materials	525,276	1,400,709
Work in progress	14,831	50,627
Finished goods	705,611	1,167,587
	1,245,718	2,618,923
Less: Provision for obsolete inventories	(119,695)	(121,399)
	1,126,023	2,497,524

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26. CASH AND BANK BALANCES

	2019 HK\$'000	2018 HK\$'000
Cash and bank balances	906,884	813,499
Less: Pledged time deposit	(452)	(454)
Cash and cash equivalents in the consolidated statement of cash flows	906,432	813,045

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

	2019 HK\$'000	2018 HK\$'000
Renminbi	92,999	71,268
Japanese Yen	6,899	4,508
Taiwan Dollars	2,018	2,256
United States Dollars	564,153	545,709
Hong Kong Dollars	222,080	172,662
Korean Won	17,638	14,308
Euro	625	997
Others	20	1,337
	906,432	813,045

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.

27. TRADE AND OTHER PAYABLES

	2019 HK\$'000	2018 HK\$'000
Trade payables	1,311,199	1,403,836
Other payables and accruals (notes (a), (b))	99,122	244,628
	1,410,321	1,648,464

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

Notes:

- (a) As at 31 December 2019, other payables and accruals mainly comprised sundry creditors 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\$6,439,000 in respect of the abovementioned demand, of which HK\$2,454,000 is covered by insurance policy (note 21).

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

	2019 HK\$'000	2018 HK\$'000
At 1 January	6,473	6,461
Additional provision	—	—
Exchange difference	(34)	12
At 31 December	6,439	6,473

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27. 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:

	2019 HK\$'000	2018 HK\$'000
Within 1 month	394,288	221,915
Over 1 month but within 3 months	755,159	948,799
Over 3 months but within 1 year	156,146	229,326
Over 1 year	5,606	3,796
	1,311,199	1,403,836

28. REFUND LIABILITIES

	2019 HK\$'000	2018 HK\$'000
Refund Liabilities	47,725	39,557

The refund liabilities relate to customer's right of return of defective products within the Warranty Period. At the point of sales, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. The Group uses its accumulated historical experience to estimate the sales amount of returned goods.

29. CONTRACT LIABILITIES

	2019 HK\$'000	2018 HK\$'000
Contract liabilities arising from:		
Sale of goods	31,629	41,823

29. CONTRACT LIABILITIES (CONTINUED)

Movements in contract liabilities

	2019 HK\$'000	2018 HK\$'000
At 1 January	41,823	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	(20,845)	(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	(12,271)	(11,814)
Increase in contract liabilities as a result of advance consideration received from customers	11,529	28,296
Increase in contract liabilities as a result of volume rebates and sales allowances to customers	11,784	13,527
Decrease in contract liabilities as a result of disposal of a subsidiary during the year (note 42)	(327)	—
Exchange difference	(64)	—
At 31 December	31,629	41,823

30. BORROWINGS

	2019 HK\$'000	2018 HK\$'000
Bank loans — guaranteed	248,569	597,703
Import loans — guaranteed	1,226,843	1,101,899
Discounted bills	—	10,044
	1,475,412	1,709,646

All the above borrowings are denominated in HK\$ and the repayment schedules based on the agreed terms of repayment granted by banks are as follows:

	2019 HK\$'000	2018 HK\$'000
Within 1 year	1,475,412	1,560,294
Over 1 year but within 2 years	—	149,352
	1,475,412	1,709,646

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30. BORROWINGS (CONTINUED)

- (i) At 31 December 2019, the above borrowings bear interest at effective interest rates ranging from 1.0% per annum over cost of funds (2018: 0.9% per annum over cost of funds) to 1.5% per annum over cost of funds (2018: 1.5% per annum over cost of funds) for the year.
- (ii) Some of the Group's banking facilities are secured by bank deposits of HK\$452,000 (2018: HK\$454,000).
- (iii) The discounted bills as at 31 December 2018 are secured by the Group's trade receivables as disclosed in note 21.
- (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.

31. PROVISION

	2019 HK\$'000	2018 HK\$'000
Provision for product warranties		
At 1 January	28,243	28,576
Reclassification under HKFRS 15	—	(5,479)
At 1 January (as restated)	28,243	23,097
(Reversal)/additional provision, net	(3,598)	16,026
Utilisation	(5,975)	(10,880)
Net movement for the year	(9,573)	5,146
At 31 December	18,670	28,243

Under the terms of certain sales agreements of the Group, the Group will rectify any product defects arising within the Warranty Period. Provision is therefore made for the best estimate of the expected settlement of warranty under such sales agreements. The amount of provision takes into account the Group's recent claim experience and is only made where a warranty claim is probable.

32. SHARE CAPITAL

	2019		2018	
	Number of shares	Amount HK\$'000	Number of shares	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	372,093,668	37,209	444,843,668	44,484
Share options exercised	—	—	1,950,000	195
Purchase of own shares for cancellation	—	—	(74,700,000)	(7,470)
At 31 December	372,093,668	37,209	372,093,668	37,209

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.

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33. LEASES

HKFRS 16 was adopted on 1 January 2019 without restatement of comparative figures. An explanation of the transitional requirements that were applied as at 1 January 2019 are set out in note 2. The accounting policies applied subsequent to the date of initial application, 1 January 2019 are disclosed in note 4(g).

Nature of leasing activities (in the capacity as lessee)

The Group leases a number of properties in the jurisdictions where it operates. The terms of property leases vary from jurisdictions, although they all tend to be tenant repairing with rent reviews every 1 to 10 years and many have break clauses. The Group also leases certain items of office and testing equipment and motor vehicles. All leases comprise only fixed payments over the lease terms.

Lease liabilities

	Land and buildings HK\$'000	Office and testing equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At 1 January 2019	167,871	450	239	168,560
Additions	18,336	—	398	18,734
Interest expense	5,513	10	4	5,527
Disposal	—	—	(27)	(27)
Effect of modification to lease terms	(3,189)	—	—	(3,189)
Lease payments	(30,801)	(240)	(163)	(31,204)
Foreign exchange movements	(106)	—	(14)	(120)
At 31 December 2019	157,624	220	437	158,281

33. LEASES (CONTINUED)

Lease liabilities (continued)

Future lease payments are due as follows:

	Minimum lease payments 31 December 2019 HK\$'000	Interest 31 December 2019 HK\$'000	Present value 31 December 2019 HK\$'000
Not later than 1 year	31,547	5,643	25,904
Later than 1 year and not later than 2 years	26,396	4,747	21,649
Later than 2 years and not later than 5 years	68,200	9,519	58,681
Later than 5 years	54,914	2,867	52,047
	181,057	22,776	158,281

	Minimum lease payments 1 January 2019 (note (i)) HK\$'000	Interest 1 January 2019 (note (i)) HK\$'000	Present value 1 January 2019 (note (i)) HK\$'000
Not later than 1 year	29,131	5,300	23,831
Later than 1 year and not later than 2 years	26,225	5,050	21,175
Later than 2 years and not later than 5 years	61,756	11,018	50,738
Later than 5 years	78,245	5,429	72,816
	195,357	26,797	168,560

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33. LEASES (CONTINUED)

Lease liabilities (continued)

The lease liabilities recognised by the Group as at 31 December 2018 relating to finance leases of office equipment are as follows:

	Minimum lease payments 31 December 2018 (note (i)) HK\$'000	Interest 31 December 2018 (notes (i) and (ii)) HK\$'000	Present value 31 December 2018 (note (i)) HK\$'000
Not later than 1 year	18	—	18
Later than 1 year and not later than 2 years	18	—	18
Later than 2 years and not later than 5 years	31	—	31
	67	—	67

Notes:

- (i) The Group has initially applied HKFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. These liabilities have been aggregated with the brought forward balances relating to the above leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to the above leases previously classified as finance leases. See note 2(a)(i) for further details about transition.
- (ii) The interest expense is not recognised due to immateriality.

The present value of future lease payments are analysed as:

	2019 HK\$'000	2018 HK\$'000
Current liabilities	25,904	18
Non-current liabilities	132,377	49
	158,281	67

Disclosures under HKFRS 16

	2019 HK\$'000
Short term lease expense	4,772
Low value lease expense	96
Aggregate undiscounted commitments for short term leases	359

33. LEASES (CONTINUED)

Operating leases – lessee

The lease payments recognised as an expenses are as follows:

	2018 HK\$'000
Minimum leases payments	34,057

The total future minimum lease payments are due as follows:

	2018 HK\$'000
Within 1 year	36,816
Over 1 year but within 5 years	6,462
	43,278

Operating leases – lessor

The Group leases out a number of items of machinery under operating leases. The leases typically run for an initial period of 3 years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are entirely variable based on the actual usage of the machinery by the lessee. The rental income during the year ended 31 December 2019 was HK\$3,834,000 (2018: HK\$Nil).

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34. SHARE-BASED PAYMENT

Pursuant to written resolutions of the shareholders of the Company passed on 14 December 2011, the Company has adopted a Pre-IPO Share Option Scheme, the scheme is to recognise and acknowledge the contributions to the growth of the Group of, and to provide incentives and rewards to, certain directors, executives, employees and consultants of the members of the Group. The Pre-IPO Share Option Scheme was terminated on 24 December 2011 and no new share option scheme was adopted until 2016. A new share option scheme (the “2016 Share Option Scheme”) was adopted by the Company on 17 June 2016. Similar to the Pre-IPO Share Option Scheme, the primary purpose of the 2016 Share Option Scheme is to provide incentives or rewards to eligible participants.

2016 Share Option Scheme

a) Purpose of the 2016 Share Option Scheme

The purpose of the 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.

b) Participants of the 2016 Share Option Scheme

The Board may, at its absolute discretion, invite any employees, proposed employees, directors, advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners or service providers of any member of the Group, and any company wholly owned by one or more persons belonging to any of the above classes of participants to take up Options to subscribe for Shares.

c) Maximum number of Shares available for subscription

The maximum number of shares in respect of which options may be granted under the 2016 Share Option Scheme is 18,000,000 shares, representing 4.3% of issued share capital of the Company as at the date of adoption of the 2016 Share Option Scheme.

34. SHARE-BASED PAYMENT (CONTINUED)

2016 Share Option Scheme (continued)

d) Total Maximum Entitlement of each Eligible Participant

The total number of shares issued and to be issued upon exercise of the Options granted to each participant (including both exercised and outstanding Options) in any 12-month period must not exceed 1% of the shares in issue from time to time.

e) Duration of the 2016 Share Option Scheme

The 2016 Share Option Scheme shall be valid and effective for a period of 10 years from the effective date.

f) Option Period

Unless otherwise determined by the Board at their absolute discretion, there is no requirement of a minimum period for which an option must be held or a performance target which must be achieved before an Option can be exercised.

g) Payment of Acceptance of an Option

The offer of a grant of share options under the 2016 Share Option Scheme may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK\$1.00 in total by the grantee.

h) Subscription Price

The subscription price in respect of any particular option shall be, such price as determined by the Board in its absolute discretion at the time of the grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the Option) but in any case the subscription price must be at least the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share. Without prejudice to the generality of the foregoing, the Board may grant options in respect of which the subscription price is fixed at different prices for certain periods during the option period.

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34. SHARE-BASED PAYMENT (CONTINUED)

2016 Share Option Scheme (continued)

i) *The remaining life of the 2016 Share Option Scheme*

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

	Weighted average exercise price HK\$	Directors '000	Employees '000	Total '000
Outstanding at 1 January 2018	1.09	600	1,350	1,950
Lapsed during the year	—	—	—	—
Exercised during the year	1.09	(600)	(1,350)	(1,950)
Outstanding at 31 December 2018, 1 January and 31 December 2019	—	—	—	—
Exercisable at 31 December 2018, 1 January and 31 December 2019	—	—	—	—

Details of movements in number of share options granted to the directors of the Company are as follows:

Director	At 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2018, 1 January and 31 December 2019
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)	—	—

34. SHARE-BASED PAYMENT (CONTINUED)

2016 Share Option Scheme (continued)

i) *The remaining life of the 2016 Share Option Scheme (continued)*

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.

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35. NOTE SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents comprise:

	2019 HK\$'000	2018 HK\$'000
Cash available on demand	906,432	813,045

(b) Non-cash transactions:

During 2019, the following significant non-cash transactions took place:

- (i) capital contribution of inventory items of HK\$113,414,000 to the joint venture as detailed in note 20; and
- (ii) utilisation of inventory items of HK\$151,836,000 for machinery leasing business as detailed in note 33.

(c) Reconciliation of liabilities arising from financing activities:

	Borrowings (note 30) HK\$'000	Lease liabilities (note 33) HK\$'000
At 31 December 2018	1,709,646	67
Impact on initial application of HKFRS16 (note 2(a)(i))	—	168,493
At 1 January 2019	1,709,646	168,560
Repayment of bank loans	(348,307)	—
Proceeds from discounted bills and factoring loans	8,191	—
Repayment of discounted bills and factoring loans	(18,235)	—
Repayment of lease liabilities	—	(25,677)
Repayment of import loans	(4,242,717)	—
Total changes from financing cash flows:	(4,601,068)	(25,677)
Other changes:		
Decrease in trade payables	4,371,130	—
Addition	—	18,734
Effect of modification to lease terms	—	(3,189)
Disposal	—	(27)
Exchange difference	(4,296)	(120)
Total other changes	4,366,834	15,398
At 31 December 2019	1,475,412	158,281

35. NOTE SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Reconciliation of liabilities arising from financing activities: (continued)

	Borrowings (note 30) HK\$'000	Obligations under finance leases HK\$'000
At 1 January 2018	1,350,956	85
Proceeds from bank loans	598,275	—
Proceeds from discounted bills and factoring loans	59,429	—
Repayment of discounted bills and factoring loans	(66,944)	—
Repayment of lease liabilities	—	(18)
Repayment of import loans	(8,679,045)	—
Total changes from financing cash flows:	(8,088,285)	(18)
Other changes:		
Decrease in trade payables	8,448,375	—
Exchange difference	(1,400)	—
Total other changes	8,446,975	—
At 31 December 2018	1,709,646	67

36. CAPITAL COMMITMENTS

At 31 December 2019, the Group had the following capital commitments contracted for but not provided in respect of:

	2019 HK\$'000	2018 HK\$'000
Acquisition of property, plant and equipment	33	1,264

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37. RELATED PARTIES DISCLOSURES

During the year, the Group entered into the following significant transactions with its related parties:

(i) Amount due to a related party

Amount due to a related party is unsecured, interest-free and repayable on demand. Maximum amount due from a related party during the year was HK\$1,177,000 (2018: HK\$80,575,000). The credit period on sales of good is 30 days (2018: 30 days) from the invoice date.

	2019 HK\$'000	2018 HK\$'000
(ii) Related parties transactions		
Related party controlled by a subsidiary's key management personnel		
— sales	(30,039)	(152,932)
— service income	(458)	—
— commission expense	5,700	3,226
— agency fee expense	564	564
Related company owned by a director of the Company		
— rental expense	840	815
Director of a subsidiary		
— rental expense	248	216

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.

38. CAPITAL MANAGEMENT

The capital structure of the Group consists of debts, which includes the borrowings disclosed in note 30 and the lease liabilities disclosed in note 33 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:

	2019 HK\$'000	2018 HK\$'000
Debts	1,633,693	1,709,713
Cash and bank balances	(906,884)	(813,499)
Net debts	726,809	896,214
Total equity	879,723	877,324
Net debt to equity ratio	82.6%	102.2%

39. 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, 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 arranged credit insurance coverage for certain customers.

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For the year ended 31 December 2019

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

As at 31 December 2019, the Group has a certain concentration of credit risk as 39.2% (2018: 5.1%) and 51.3% (2018: 26.1%) of the total trade receivables 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 2019:

	Expected loss rate	Gross carrying amount	Expected credit loss
	%	HK\$'000	HK\$'000
Not past due	0.324%	1,081,377	3,507
Within 1 month past due	0.135%	192,655	260
Over 1 month but within 3 months past due	1.027%	43,048	442
Over 3 months but within 1 year past due	8.763%	14,425	1,264
Over 1 year past due	75.899%	6,506	4,938
		1,338,011	10,411

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

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.

As at 31 December 2019, the Group held pledges of landed properties for certain of these balances amounted to HK\$Nil (2018: HK\$6,646,000) while the fair value of pledged landed properties amounted to HK\$Nil (2018: HK\$25,561,000). The Group does not have the right to sell or re-pledge the properties held as collateral in the absence of default by customers.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2019 HK\$'000	2018 HK\$'000
At 1 January	6,238	7,543
Impairment losses recognised during the year	5,008	2,034
Amounts written off during the year	(884)	(3,343)
Exchange difference	49	4
At 31 December	10,411	6,238

The following significant changes in the gross carrying amounts of trade receivables contributed to the increase in the loss allowance during 2019:

- Origination of new trade receivables net of those settled resulted in an increase in loss allowance of HK\$5,008,000;
- A write-off of trade receivables with a gross carrying amount of HK\$884,000 resulted in a decrease in loss allowance of HK\$884,000.

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 2019 were determined to be immaterial.

The loss allowance for deposits and prepayments are based on the Group's past history and existing market conditions, as well as forward-looking estimates at the end of each reporting period.

Movement in the loss allowance account in respect of deposits and prepayments during the year is as follows:

	2019 HK\$'000	2018 HK\$'000
At 1 January	1,027	1,027
Impairment losses recognised during the year	952	—
At 31 December	1,979	1,027

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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.

	Carrying amount HK\$'000	Total contractual undiscounted cash flows 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 2019					
Trade and other payables	1,410,321	1,410,321	1,410,321	—	—
Borrowings	1,475,412	1,475,412	1,475,412	—	—
Lease liabilities	158,281	181,057	31,547	26,396	123,114
Total	3,044,014	3,066,790	2,917,280	26,396	123,114
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

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.

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

	Carrying amount HK\$'000	Total contractual discounted cash flows HK\$'000	Within 1 year HK\$'000	Over 1 year but within 2 years HK\$'000
31 December 2019	1,475,412	1,484,931	1,484,931	–
31 December 2018	1,709,646	1,724,916	1,571,354	153,562

(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:

	2019		2018	
	Effective interest rate (per annum)	HK\$'000	Effective interest rate (per annum)	HK\$'000
Variable rate borrowings:				
Bank loans	3.53%	248,569	3.80%	597,703
Import loans	3.33%	1,226,843	3.36%	1,101,899
Discounted bills	– %	–	1.10%	10,044
		1,475,412		1,709,646
Fixed rate borrowings:				
Lease liabilities	3.7%	158,281	Nil	67

At 31 December 2019, 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 2019 by approximately HK\$6,160,000 (2018: HK\$7,138,000) 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 2018.

39. 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 2019 and 2018 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.

	2019 Renminbi HK\$'000	2018 Renminbi HK\$'000	2019 Euro HK\$'000	2018 Euro HK\$'000
Trade and other receivables	11,974	46,814	283	357
Cash and bank balances	57,587	58,475	361	479
Trade and other payables	(12,576)	(8,823)	(2,157)	(1,659)
Lease liabilities	(429)	—	—	—
Overall net exposure	56,556	96,466	(1,513)	(823)

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For the year ended 31 December 2019

39. 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 2019		
Renminbi	5%	2,361
Euro	5%	(63)
As at 31 December 2018		
Renminbi	5%	4,027
Euro	5%	(34)

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 2018.

40. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

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

	2019 Carrying amount HK\$'000	2018 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	50,177	41,373
Financial assets at amortised cost		
– Cash and cash equivalents	906,432	813,045
– Trade and other receivables	1,342,996	857,156
Financial assets at fair value through other comprehensive income:		
– Unlisted equity investments	10,386	10,893
Financial liabilities		
Financial liabilities measured at amortised cost		
– Trade and other payables	1,407,470	1,646,250
– Refund liabilities (note (a)(a))	47,725	39,557
– Contract liabilities (note (a)(b))	13,031	13,527
– Amount due to a related party	2,683	2,090
– Borrowings	1,475,412	1,709,646
– Lease liabilities	158,281	67

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).

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40. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (CONTINUED)

	Group 2019			
	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	–	–	–	–
– Trade receivables at fair value through profit or loss	–	50,177	–	50,177
Financial assets at fair value through other comprehensive income				
– Unlisted equity investments	–	–	10,386	10,386
	–	50,177	10,386	60,563
	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 were no transfers between levels during the year.

40. 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	
	2019 HK\$'000	2018 HK\$'000
At 1 January	10,893	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)	(507)	(4,727)
At 31 December	10,386	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 to a related party, trade and other payables and borrowings.

Due to their short term nature, the carrying values of cash and cash equivalents, trade and other receivables, amount due 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\$18,598,000 relating to receipt in advance from customers are not financial liabilities and excluded from above.

Notes to the Consolidated Financial Statements

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40. 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 2019, 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\$796,000 (2018: HK\$838,000).

41. PARTICULARS OF SUBSIDIARIES

As at 31 December 2019, 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

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41. 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		Principal activities
				Directly	Indirectly	
Zotac Europe GmbH	Germany 25 September 2012	Germany	EUR25,000	—	100%	Provision of technical support service
PC Vision Limited (note ii)	Hong Kong 14 June 2013	Hong Kong	HK\$6,500,000	—	100%	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
Skyfield 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	—	100%	Holding of intellectual properties
Zotac Nippon Corporation	Japan 5 September 2018	Japan	JPY50,000,000	—	80%	Trading of computer accessories and computer

Remark: # All equity interest of InnoPartner Pte. Limited was sold on 12 December 2019.

Notes:

- (i) All subsidiaries established in the PRC are wholly foreign owned enterprises.
- (ii) Non-controlling interest of PC Vision Limited was acquired for cash consideration of HK\$1 during the year.

42. DISPOSAL OF SUBSIDIARY

On 11 December 2019, the Group disposed of its subsidiary Innopartner Pte. Limited which is engaged in the research and development of new products. The net assets of Innopartner Pte. Limited at the date of disposal were as follows:

	At 11 December 2019
	HK\$'000
Inventories	5
Trade and other receivables	409
Cash and cash equivalents	72
Trade and other payables	(196)
Contract liabilities	(327)
	(37)
Release of cumulative exchange differences on translation of foreign operations	11
Non-controlling interest	5
	(21)
Gain on disposal of subsidiary included in profit for the year in the consolidated statement of comprehensive income	21
Cash consideration	—
Net cash outflow arising on disposal:	
Cash consideration	—
Cash and cash equivalents disposed of	(72)
	(72)

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43. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	2019 HK\$'000	2018 HK\$'000
Non-current assets		
Investment in a subsidiary	532,690	532,690
Current assets		
Prepayments and other receivables	338	229
Amounts due from subsidiaries	181,258	199,561
Cash and cash equivalents	673	1,523
Total current assets	182,269	201,313
Current liabilities		
Accruals	557	21,017
Amounts due to subsidiaries	4,345	—
Total current liabilities	4,902	21,017
Net current assets	177,367	180,296
NET ASSETS	710,057	712,986
Capital and reserves		
Share capital	37,209	37,209
Reserves (note)	672,848	675,777
TOTAL EQUITY	710,057	712,986

On behalf of the Board

WONG Shik Ho Tony
Director

WONG Fong Pak
Director

43. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019 (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 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 and 1 January 2019	165,033	495,778	—	14,966	675,777
Loss for the year	—	—	—	(2,929)	(2,929)
At 31 December 2019	165,033	495,778	—	12,037	672,848

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.

44. NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

The outbreak of COVID-19 since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's business and operations. All the Group's manufacturing operations in China have resumed but not yet returned to the normal level of operations due to ongoing quarantine enforcement measures and restrictions on movement of people and transportation. There is also disruption to the Group's supply chain and management is closely monitoring the situation and is taking appropriate measures to minimise any potential disruption to production. As at the date of this report, COVID-19 has not resulted in material impact to the Group's financial position. Depending on the development and spread of COVID-19 subsequent to the date of this report, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of this report.

45. COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform with changes in presentation in the current year.

46. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 27 March 2020.

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