PCPartner®
HKSE: 1263

栢能集團有限公司*
PC Partner Group Limited

Incorporated in the Cayman Islands with limited liability

Annual Report 2017

*For identification purpose only

CONTENTS

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

COMPANY PROFILE

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

Troutman Sanders
34/F., Two Exchange Square
8 Connaught Place
Central Hong Kong

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

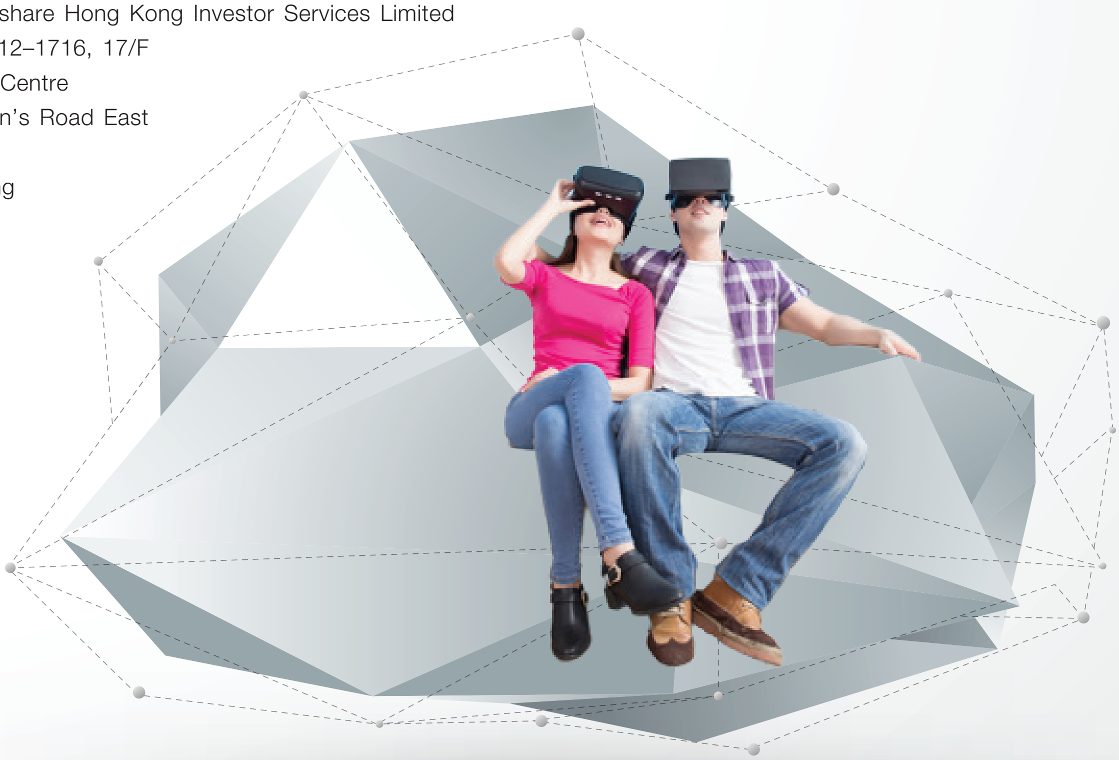
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17/F
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

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

WEBSITE

www.pcpartner.com



CHAIRMAN'S STATEMENT

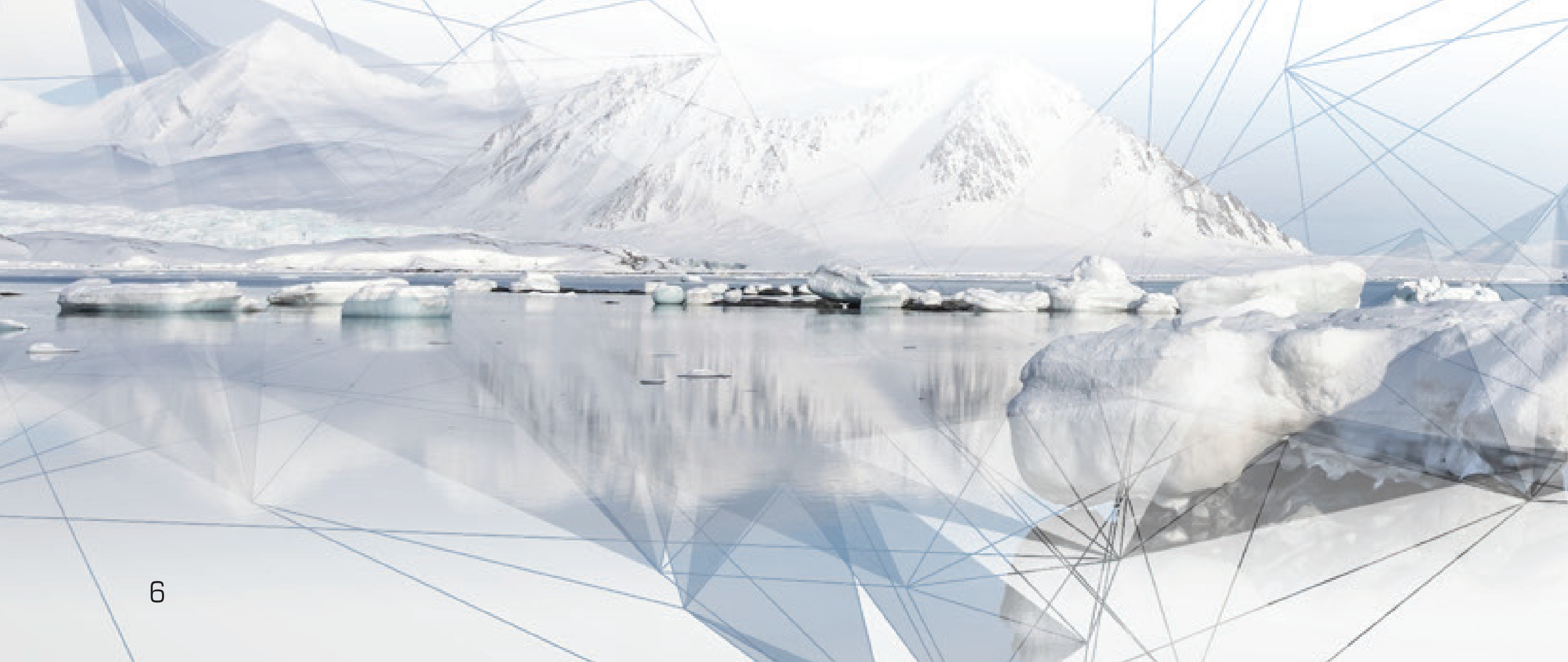
Dear Shareholders,

We have achieved another successful year with revenue over one billion in US Dollar and net profit recorded more than double from the previous year. The encouraging share price performance during financial year 2017 also reflects PC Partner Group Limited (the "Company")'s strong financial results and a high confidence from shareholders and investors in the Company's future.

RESULTS AND PERFORMANCE

Revenue for the year ended 31 December 2017 increased by 46.5% over the corresponding period of 2016 to HK$8.6 billion; in which, sales on video graphics cards segment increased by 59.2% over the corresponding period of 2016 to HK$7.2 billion. The ratio on sales of video graphics cards to total revenue increased from 77.1% in 2016 to 83.7% in 2017. Sales on other PC related products and components segment increased by 32.1% over 2016 to HK$865.5 million while revenue from electronics manufacturing services ("EMS") business has recorded a drop of 22.9% to HK$524.8 million in 2017.

Branding business has achieved a strong growth rate of 43.8% over 2016 to HK$4.9 billion in 2017. Three years compound annual growth rate ("CAGR") of the branding business was 34.5% by end of 2017. This is due to growing popularity of eSports around the world, which generated a higher demand on computer gaming hardware. Original Equipment Manufacturer ("OEM") business has also achieved a remarkable growth rate of 50.4% to HK$3.6 billion in 2017, which was mainly due to the strong demand of video graphics cards on blockchain application and platform since the Company and its subsidiaries (together "the Group") has engaged with customers in this business sector from the second half of 2017. The three years CAGR of the OEM business was 33.6% by end of 2017.



Gross profit margin increased from 10.1% in 2016 to 10.7% in 2017. The price increase caused by shortage of supply of video graphics cards in the channel market as well as graphics cards sold to customers on blockchain application and platform contributed a better gross profit margin than the traditional OEM business in 2017. Profit for the year has increased by more than double from HK$150.1 million in 2016 to HK$332.1 million in 2017.

The Board is recommending a final dividend of HK28.0 cents per share. Together, with the interim dividend of HK4.0 cents per share, this will result in a full-year dividend of HK32.0 cents per share, against HK17.9 cents per share in 2016 which included a special dividend of HK3.6 cents per share, an increase of HK14.1 cents per share or 78.8%.

OUTLOOK

Computer gaming is one of the largest entertainment industries in the world. The growing popularity of eSports, new computer games, and advance of new technologies like virtual reality and mixed reality will drive a further growth on gaming hardware. We will continue to invest on our branding business, especially on ZOTAC, with more new gaming products and participate in more eSports events across different regions and countries in order to promote the brand. We will further develop our ZOTAC CUP, an emerging on-line gaming competition platform, so as to let more gamers to enjoy playing games on our gaming platform as well as increase the market recognition of ZOTAC brand.

Our OEM business has also achieved a substantial growth in 2017, which was mainly contributed by a strong demand on video graphics cards from blockchain application and platform. Orders on blockchain application and platform will be very likely to continue to represent a certain portion of our revenue on top of the revenue from our existing OEM business in future.

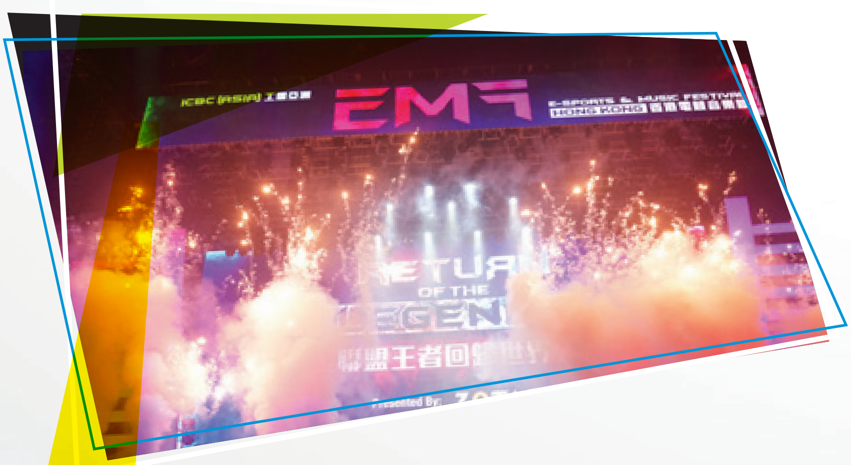
We continue to invest on talents to come up with more innovative product ideas and designs in order to enhance our competitiveness and to invest into automation in our manufacturing plants in order to assure the operation to be cost effective and meeting the market demand. We also continue to delegate resources on environmental, social and corporate responsibilities in the operating locations in order to strive for our best to protect the environment and fulfill our social and corporate responsibilities.

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

WONG Shik Ho Tony
Chairman and Chief Executive Officer

Hong Kong, 28 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS



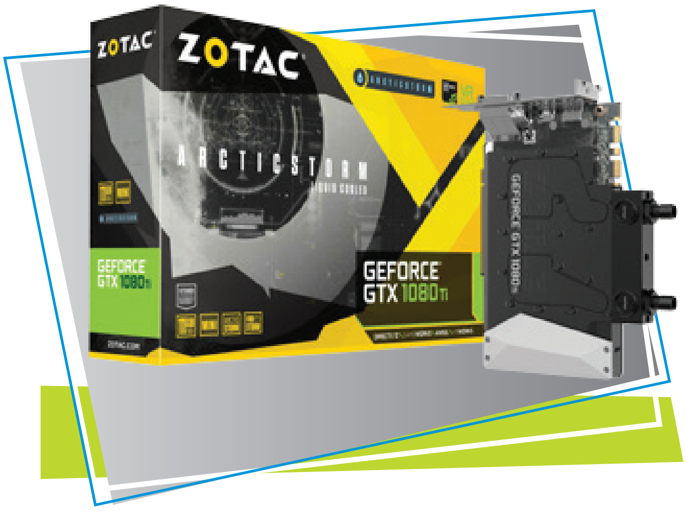
BUSINESS REVIEW

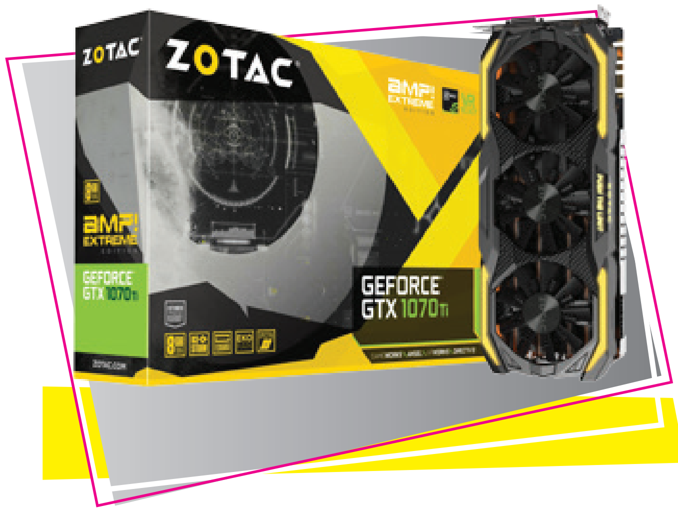
The Group is principally engaged in the design, manufacturing and trading of video graphics cards for desktop PCs, electronics manufacturing services ("EMS"), and manufacturing and trading in other PC related products and components.

The Group manufactures video graphics cards for Original Design Manufacturer/Original Equipment Manufacturer ("ODM/OEM") customers and also manufactures and market video graphics cards and other PC products under its own brands, namely ZOTAC, Inno3D, and Manli. The relationships with NVIDIA and AMD, the two globally dominant graphic processing unit ("GPU") suppliers, enable the Group to develop cost-competitive, high performance products and solutions to serve its customers. Video graphics 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, wearable fitness devices, etc.. Aside from video graphics cards and the EMS business, the Group manufactures and sells other PC related products such as mini-PCs, motherboards, and further derives revenue from trading products and components.

Management Discussion and Analysis





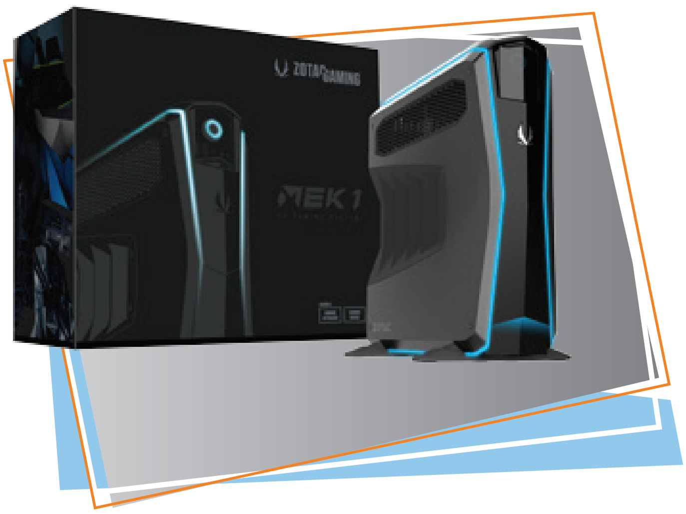
Business Performance

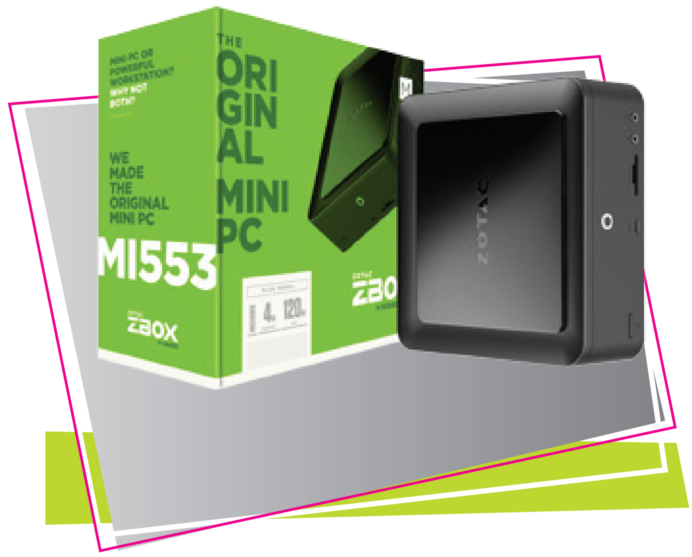
Revenue for 2017 increased by 46.5% year over year from HK$5,838.0 million in 2016 to HK$8,555.4 million in 2017; of which, revenue from video graphics cards segment increased by 59.2% from HK$4,502.1 million in 2016 to HK$7,165.1 million in 2017. Sales on other PC related products and components segment increased by 32.1% from HK$655.0 million in 2016 to HK$865.5 million 2017; which has fully offset the decline of EMS business with a sales drop of 22.9% to HK$524.8 million in 2017.

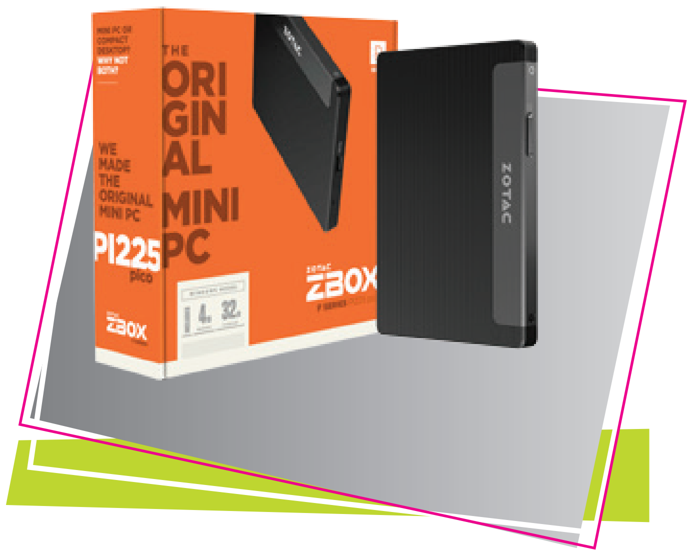
Revenue from own brands video graphics cards segment increased by HK$1,498.1 million, or 47.3%, from HK$3,168.4 million in 2016 to HK$4,666.5 million in 2017. It was mainly due to a strong demand of video graphics cards from the channel markets and the growing popularity of eSports which has driven a higher demand on gaming hardware including video graphics cards. Orders on ODM/OEM basis video graphics cards business increased by HK$1,164.9 million or 87.3%, from HK1,333.7 million in 2016 to HK$2,498.6 million in 2017. It was mainly attributable to the strong demand from customers on blockchain application and platform from the second half of 2017.

Revenue from EMS business recorded a decline of HK$156.1 million, or 22.9%, from HK$680.9 million in 2016 to HK$524.8 million in 2017. The decline was resulted from less orders obtained from customers and new customers have not yet picked up to replace the downsizing of orders from existing customers. Revenue from other PC related products and components business has achieved a growth of HK$210.5 million, or 32.1%, from HK$655.0 million in 2016 to HK$865.5 million in 2017. It was due to an increase on trading revenue and sales of some new products in 2017.

Revenue from brand businesses have achieved a 43.8% growth rate from HK$ 3,427.7 million in 2016 to HK$4,930.5 million in 2017. This is due to the growing popularity of eSports around the world which generated a higher demand on computer gaming hardware. Brand businesses represented 57.6% of the Group's revenue in 2017 and it represented 58.7% of the Group's revenue in 2016 due to OEM businesses have achieved a high growth rate in comparison with 2016. ZOTAC, the core brand of the Group, contributed HK$3,884.8 million which represented 78.8% of the sales of overall brand businesses, accounting for 45.4% of the total Group's revenue for the year of 2017.







All geographical regions reported a strong year over year sales growth rate in 2017. Asia Pacific ("APAC") region has recorded a year over year sales growth rate at 52.9% to HK$3,619.0 million in 2017. Europe, Middle East, Africa and India ("EMEAI") region and People's Republic of China ("PRC") region have achieved a year over year sales growth rate of 83.8% and 33.9% respectively in 2017. North and Latin America ("NALA") region has recorded a year over year sales growth rate at 13.6% in 2017.

APAC Region

In the APAC region, the revenue significantly increased by HK$1,251.4 million, or 52.9%, from HK$2,367.6 million in 2016 to HK$3,619.0 million in 2017. It was mainly due to an increase of orders from both ODM/OEM basis customers, especially new customers on blockchain application and platform, and own brands products.

EMEAI Region

In the EMEAI region, the revenue amounted to HK$1,742.1 million in 2017, representing an increase of HK$794.3 million, or 83.8%, as compared to HK$947.8 million in 2016. The growth of the above regions were mainly attributable to brand businesses' growth as well as strong demand on orders from customers on blockchain application and platform.

NALA Region

In the NALA region, the revenue significantly increased from HK$900.9 million in 2016, representing an increase of HK$122.2 million, or 13.6%, to HK$1,023.1 million in 2017, which was mainly attributable to the increase of sales from own brands products.

PRC Region

In the PRC region, the revenue recorded a growth to HK$2,171.2 million in 2017, representing an increase of HK$549.5 million, or 33.9%, as compared to HK$1,621.7 million in 2016. It was mainly attributable to a stronger brand awareness on ZOTAC and additional orders from new customers on blockchain application and platform.

Business Compliance

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

Principal Risks and Uncertainties

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

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

The Group is not aware of any particular important event which has occurred and would trigger risk and uncertainty as of 31 December 2017.

FINANCIAL REVIEW

Revenue

The Group's total revenue increased by HK$2,717.4 million, or 46.5%, from HK$5,838.0 million in 2016 to HK$8,555.4 million in 2017. It was mainly due to an increase in revenue of both business segments, video graphics cards and other PC related products and components, that offset the decline of EMS business. The own brand businesses recorded a year over year growth rate at 43.8%, which was attributable to a strong demand on video graphics cards from the channel market. OEM business also achieved a high growth rate at 50.4% over 2016 due to new customers placed orders for blockchain application and platform usage.

Revenue from the video graphics cards business has increased by HK$2,663.0 million, or 59.2%, from HK$4,502.1 million in 2016 to HK$7,165.1 million in 2017. It was attributable to the strong growth of revenue of both own brand video graphics cards and video graphics cards on ODM/OEM basis of HK$1,498.1 million and HK$1,164.9 million respectively.

Due to shortage of supply of Random Access Memory ("RAM") and the RAM cost kept on going up on video graphics cards in the second half of 2017, prices have increased continuously on own brand video graphics cards. Sales of own brand video graphics cards increased by HK$1,498.1 million, or 47.3%, from HK$3,168.4 million in 2016 to HK$4,666.5 million in 2017. Orders on ODM/OEM contract manufacturing businesses increased by HK$1,164.9 million, or 87.3%, from HK$1,333.7 million in 2016 to HK$2,498.6 million in 2017. It was mainly attributable to a higher demand on video graphics cards from new customers for blockchain application and platform usage.

Revenue derived from the EMS business amounted to HK$524.8 million in 2017, representing a decrease of HK$156.1 million, or 22.9%, as compared to HK$680.9 million in 2016. The change was mainly resulted from less orders from existing customers and orders from new customers could not cover the reduced orders from existing customers. Revenue from other PC related products and components business increased by HK$210.5 million, or 32.1%, from HK$655.0 million in 2016 to HK$865.5 million in 2017. The growth was mainly contributed by the increase on component trading and new products launched.

Gross Profit and Margin

The Group's gross profit in 2017 was HK$916.0 million, representing an increase of HK$325.3 million, or 55.1% as compared with HK$590.7 million in 2016. Gross profit margin increased by 0.6 percentage point to 10.7% as compared with 10.1% in 2016. It was mainly due to a higher gross profit margin being achieved on price increase on branded video graphics cards and a better gross profit margin by selling video graphics cards to new ODM/OEM basis customers.

Material consumption to sales reduced from 86.7% in 2016 to 86.3% in 2017. This contributed 0.4% savings on material consumption which was mainly resulted from price increase on products as well as high margin on ODM/OEM basis orders from customers. The Group has spent more on direct labour and conversion costs of HK$73.6 million, or 39.6% from HK$185.8 million in 2016 to HK$259.4 million in 2017; of which, outsourced subcontracting fees increased by HK$23.6 million to HK$47.0 million in 2017 which was due to additional outsourcing arrangement to speed up the delivery of orders from customers. Direct labour plus conversion costs as a percentage on sales reduced by 0.2 percentage point to 3.0% in 2017.

Profit for the Year

The Group recorded a profit for the year attributable to owners of the Company of HK$332.3 million in 2017 as compared with a profit of HK$150.2 million in 2016. It was mainly attributable to a significant increase in gross profit being contributed by sales increase and with a lower percentage on operating expenses to revenue in 2017. The profit to revenue ratio increased from 2.6% in 2016 to 3.9% in 2017.

Other revenue and other gains and losses increased by HK$28.2 million over 2016 to HK$12.1 million in 2017. It was mainly due to over HK$20.4 million on exchange loss in 2016 but the Group recorded an exchange gain in 2017.

Operating expenses increased by HK$152.1 million, or 36.5%, from HK$417.0 million in 2016 to HK$569.1 million in 2017. Operating expenses as a percentage of revenue has decreased by 0.4 percentage point from 7.1% in 2016 to 6.7% in 2017.

Selling and distribution expenses increased by HK$51.7 million, or 63.1%, from HK$81.9 million in 2016 to HK$133.6 million in 2017. The spending as a percentage of revenue has increased by 0.2 percentage point from 1.4% in 2016 to 1.6% in 2017. The increment of the selling and distribution expenses was mainly associated with more air freight shipment due to channel market shortage of video graphics cards and additional spending on marketing such as exhibition costs and eSports activities being organized under ZOTAC brand. In addition, more sales related expenses such as commission and compensation being spent due to the increase in sales in 2017.

Administrative expenses increased by HK$90.6 million or 28.2% from HK$320.9 million in 2016 to HK$411.5 million in 2017; staff costs represented 74.9% out of the total administrative expenses for the year under review. Staff costs have increased by HK$41.0 million, or 15.3%, from HK$267.3 million in 2016 to HK$308.3 million in 2017. It was mainly due to increase in performance bonus as net profit achieved to a much higher level and also increased headcount under engineering, sales, marketing, and product management to support business growth for future.

Finance costs increased by HK$9.8 million, or 69.0%, from HK$14.2 million in 2016 to HK$24.0 million in 2017. It was mainly resulted from increase in interest rates and a higher utilisation of bank borrowings during the year. Finance costs as a percentage of revenue has increased from 0.2% in 2016 to 0.3% in 2017.

Income tax expenses increased by HK$19.3 million, or more than three times, from HK$7.6 million in 2016 to HK$26.9 million in 2017. It was mainly resulted from more profit generated by entities in Hong Kong, PRC, and Korea during the year under review.

Profit Attributable to Owners of the Company and Dividends

Profit attributable to owners of the Company for 2017 was HK$332.3 million which resulted in basic earnings of HK76 cents per share, which was significantly higher than profit attributable to owners of the Company of HK$150.2 million in 2016 and basic earnings of HK36 cents per share. The Directors proposed a final dividend of HK28.0 cents per share for the year ended 31 December 2017, which is estimated to be HK$124.6 million in total.

LIQUIDITY AND FINANCIAL RESOURCES

Shareholders' Funds

Total shareholders' funds have increased by HK$274.8 million, or 29.4%, from HK$933.4 million as at 31 December 2016 to HK$1,208.2 million as at 31 December 2017.

Financial Position

Total non-current assets increased by HK$22.8 million, or 26.9%, from HK$84.9 million as at 31 December 2016 to HK$107.7 million as at 31 December 2017. The increase was mainly due to an investment of US$2.0 million in a virtual reality company in the United States. The Group has achieved a higher level of property, plant and equipment and deferred tax assets as at 31 December 2017 in comparison to the values as at 31 December 2016.

The Group has total current assets of HK$3,991.3 million as at 31 December 2017 and HK$2,819.6 million as at 31 December 2016. The Group's total current liabilities amounted to HK$2,890.9 million as at 31 December 2017 and HK$1,971.1 million as at 31 December 2016. The Group's current ratio, defined as total current assets over total current liabilities, remains at 1.4 as at 31 December 2016 and 31 December 2017.

The Group's cash and bank balances increased from HK$790.3 million as at 31 December 2016 to HK$1,453.8 million as at 31 December 2017. Based on the borrowings of HK$1,351.0 million as at 31 December 2017 and HK$987.6 million as at 31 December 2016, and total equity of HK$1,208.0 million as at 31 December 2017 and HK$933.2 million as at 31 December 2016, the Group's net debts to equity ratio (being debts minus cash and bank balances divided by total equity) turned from a net debts to equity position at 21.1% as at 31 December 2016 to a net cash position as at 31 December 2017. The change was mainly due to an increase in cash and bank balances arising from advance payment and faster collection from customers as at 31 December 2017.

Other receivables mainly consisted of deposits and prepayments. Other receivables increased by HK$4.8 million, or 20.3%, from HK$23.6 million as at 31 December 2016 to HK$28.4 million as at 31 December 2017. The increment was mainly due to additional rental deposits paid and prepayment on leasehold improvement for the Dongguan factory. Other payables and accruals increased by HK$297.8 million or 224.9%, from HK$132.4 million as at 31 December 2016 to HK$430.2 million as at 31 December 2017. The significant increase on other payables and accruals was due to deposit received from customers for ordering video graphic cards.

Exposure to Fluctuation in Exchange Rates

As at 31 December 2017, the Group was exposed to currency risk primarily through sales and purchases that were denominated in currencies other than the functional currency of the operations to which they relate. The currencies giving rise to the risk are primarily Renminbi and Euro. The Group entered into one foreign exchange forward contract during the year (2016: several).

Working Capital

Inventories of the Group as at 31 December 2017 were HK$1,349.5 million, increased by HK$68.0 million, or 5.3%, as compared with HK$1,281.5 million as at 31 December 2016. The inventory turnover days decreased from 73 days as at 31 December 2016 to 63 days as at 31 December 2017. The high level of inventories as at 31 December 2017 was aligned with increase of business scale and the raw materials and finished goods were reserved to fulfill backlog orders for first quarter of next year.

Trade receivables as at 31 December 2017 were HK$1,157.8 million, increased by HK$433.6 million, or 59.9%, as compared with HK$724.2 million as at 31 December 2016. Increase in trade receivables was in-line with sales increase for the year under review. Trade receivable turnover days decreased from 42 days as at 31 December 2016 to 40 days as at 31 December 2017.

Trade payables as at 31 December 2017 was HK$1,057.7 million, increased by HK$229.6 million, or 27.7%, as compared with HK$828.1 million as at 31 December 2016. Increase in trade payables was in-line with sales increase for the year under review. Trade payable turnover days decreased from 49 days as at 31 December 2016 to 45 days as at 31 December 2017.

Charge on Assets

As at 31 December 2017, bank deposit of HK$0.5 million was pledged to banks to secure general banking facilities granted to the Group.

Capital Expenditure

The Group spent HK$18.8 million on capital expenditure in 2017. All of these capital expenditures were financed by internal resources and the proceeds from the initial public offering.

Capital Commitments

As at 31 December 2017, total capital commitments amounted to HK$2.5 million.

Contingency

On 29 December 2017, ZiiLabs Inc., Ltd. ("ZiiLabs"), a Bermuda corporation, filed a complaint with the United States International Trade Commission ("Commission") against two wholly-owned subsidiaries of the Company, namely, Zotac International (Macao Commercial Offshore) Limited and Zotac USA, Inc. (collectively "Zotac"), Zotac's GPU supplier Nvidia Corporation ("Nvidia") and others (collectively, "Respondents") for an infringement of ZiiLabs's US patents ("Patents") by the Respondents' graphics processors and/or products containing the same ("Complaint"). The Patents are generally related to graphics rendering technology and GPU architectures.

Upon ZiiLabs' request, the Commission has commenced an investigation as to the Complaint ("Investigation"). Certain of Nvidia's graphic cards and GPU products are being accused of infringing the Patents and Zotac is also under the Investigation because certain Zotac products contain the said GPU. Zotac denied that there was any infringement of the Patents. Zotac has appointed US lawyers to handle the Investigation and has already filed a response to the Complaint as per the Commission's request.

Based on the aforesaid patent infringement allegations, ZiiLabs requested the Commission to grant reliefs against the Respondents, including a limited exclusion order prohibiting an importation of the alleged Patent infringing products. There was no claim of damages by ZiiLabs and no provision has been made in the consolidated financial statements.

As the Investigation is at an early stage, there is insufficient information to assess outcome of the Compliant. Management is of the view that its impact on the Group's revenue would be immaterial but would implement measures to reduce any negative impact on the Group.

Significant Acquisitions and Disposals of Investments

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

Future Plans for Material Investments or Capital Assets

The Group had no plan for material investment or acquisition of capital asset as at 31 December 2017, but will actively pursue opportunities for investments to enhance its profitability in the ordinary course of business.

USE OF PROCEEDS

The aggregate net proceeds from the Offering (as defined in the Company's prospectus dated 29 December 2011), based on an offer price of HK$1.6 per offer share was HK$109.0 million. The Group intended to apply such net proceeds as set forth in the prospectus dated 29 December 2011, namely HK$46.0 million for expansion of production capacity, HK$24.0 million for promotion and development of new products and brand name, HK$24.0 million for research and development, HK$5.0 million for upgrading the existing Enterprise Resources Planning ("ERP") system and IT resources, and HK$10.0 million for the Group's working capital and general corporate purposes. As at 31 December 2017, the Group has applied HK$46.0 million on expansion of production facilities, HK$24.0 million on promotion and development of new products and brand name, HK$24.0 million on research and development, HK$5.0 million on ERP system upgrade project, and HK$10.0 million for the Group's working capital and general corporate purposes. All the net proceeds from the Offering have been fully applied.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, the Group had 3,539 employees (2016: 2,889 employees). Employees are remunerated on basis of their individual performance and prevailing industry practice. Compensation policies and remuneration packages of the employees are reviewed at least once a year. In addition to basic salary, medical benefits, provident fund and performance related bonuses may also be awarded to employees. The Company has adopted a Pre-IPO Share Option Scheme to recognise the contributions of and as retention incentive to the executive directors, certain management 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) and ATF16949 (Automotive Quality System) in order to fulfill the requests from customers.

In 2017, 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 has been on the decline as we consistently enhance energy efficiency. Overall power consumption has been declined from 19.53 million kilowatt-hours in 2014 to 16.61 million kilowatt-hours in 2016. Due to increase of production capacity, the power consumption has been increased to 18.67 million kilowatt-hours. The power consumption per every thousand dollar reduced from 4.42 per kilowatt-hour in 2016 to 3.45 per kilowatt-hour in 2017, which was due to our continue efforts on improving the efficiency on energy consumption. In 2018, efforts will be continued to improve energy utilisation, such as enhancing our production lines, developing automatic production equipment and using energy-saving LED lights, in order to boost 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 2016 and 2017, 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 2017, PC Partner was persistent in protecting labour and human rights 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 2017 by assessing their performance in terms of environmental compliance, occupational health and safety, labour and ethics through various means including on-site audit and self-assessment. Over 85 suppliers underwent our on-site audit in 2017. We will join hands with our suppliers to further efforts in improving our performance in terms of environmental compliance, product liability, occupational health and safety, labour and ethics and will offer management, technological and training supports to our suppliers.

A. SUSTAINABLE DEVELOPMENT OF THE ENVIRONMENT

As a commitment to use its endeavour to promote the sustainable development of the environment during its manufacturing process, PC Partner has set goals, formulated plans and carried out statistical analysis and audits to reduce energy and water consumption, carbon emission and waste disposal. Our environmental management system is established and implemented and the environmental impact of our operations is managed as required by the industry-leading ISO14001 Environmental Management System. In 2017, 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 by assisting our suppliers to carry out the annual supervisory audit under the environmental management system and the occupational health and safety management system. Internal audit was also conducted in 2017 according to the ISO14001 Environmental Management System and the OHSAS18001 Occupational Health and Safety Management System in order to ensure the ongoing effectiveness of and improvements in the systems. On the other hand, we were audited by a number of clients under the ISO14001 and OHSAS18001 standards and well-recognised for our compliance.

A1. Emissions

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

Both the production of products and offering of services require the use of energy, which leads to GHG emissions. In order to reduce such emissions, PC Partner identifies the utilisation and boosts the efficiency of energy and steps up the audit of management systems, and collects data on the scopes 1 and 2 GHG emissions on a regular basis based on our current technological level. Our top priority is to reduce the energy consumption and GHG emission per thousand dollars of our turnover. “Energy consumption per thousand dollars of revenue” and “GHG emission per thousand dollars of revenue” are measures that correlate with the amount of economic activities and provide more useful references to our performance as compared with indicator comparisons. In 2017, we have collected data on energy consumption and GHG emission and evaluated our performance based on the above policies.

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

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

A1.1 Types of emissions and respective emissions data

We carried out statistical analysis of each type of discharge on an annual basis to keep track of the movement in the respective amount of discharge. The statistics on different types of discharge for 2017 are as follows in the A1 Statistical Table:

A1 Statistical Table				Hazardous materials			Non-hazardous materials		
Type of discharge	GHG	Household wastewater	Hazardous liquid waste	Discarded clothes	PCB trims and scraps	Scrap tin	Waste paper	Waste plastic	Metals
Unit of Measure	Tonne of CO_2	m^3	Tonne	Tonne	Tonne	Tonne	Tonne	Tonne	Tonne
2017 Discharged Volume	14,947.48	83,187	1.00	0.43	4.70	0.13	54.22	2.39	0.24
2016 Discharged Volume	13,303.68	77,441	0.52	0.08	3.88	2.40	36.90	2.70	0.24

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

A1.2 GHG emissions

Our scope 1 GHG emission in 2016 was 212.59 tonnes of CO_2, while that in 2017 was 232.63 tonnes of CO_2, representing an increase of 9.4%. This was mainly due to increase on production capacity which consumed more natural gas for generating electricity with generators.

Our scope 2 GHG emission increased by 12.4% from 13,091.09 tonnes of CO_2 in 2016 to 14,714.85 tonnes of CO_2 in 2017, which due to increase on production capacity that consumed additional electricity on production. However, we have adopted power consumption technologies (i.e. using LED lights and optimising the production process), managing the use of electricity to drive the power consumption rate down per ten thousand dollar. In 2017, scopes 1 and 2 GHG emissions totaled 14,947.48 tonnes of CO_2, which was 12.4% more than the figure in 2016 of 13,303.68 tonnes of CO_2.

Scopes 1 and 2 GHG emissions per thousand dollars of revenue reduced by 20.0% from 0.0035 tonne of CO_2 in 2016 to 0.0028 tonne of CO_2, in 2017, and this showed that we have achieved the target of a 1% drop in scopes 1 and 2 GHG emissions per thousand dollars of revenue for 2017 as compared with that for 2016. 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 2017, we generated 6.26 tonnes of hazardous waste, 9.0% less than 6.88 tonnes for 2016. This was mainly due to the decrease in the amount of scrap tin as our production techniques have improved. The amount of hazardous waste generated per 100 million of dollars of revenue for 2017 was 0.1158 tonne, which fell significantly as compared with 0.1833 tonne for 2016.

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 2017, non-hazardous solid waste generated from the production process amounted to 56.85 tonnes, 42.7% more than 39.84 tonnes for 2016. Household wastewater produced in 2017 increased by 7.4% from 77,441 cubic metres in 2016 to 83,187 cubic metres in 2017. Staff members are required to print and copy on both sides to reduce the use of plain paper.

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 2017, non-hazardous solid waste and household wastewater generated per 100 million of revenue were 1.05 tonnes and 1,539.36 cubic meters respectively, both of which exhibited a drop as compared with those for 2016.

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. Scrap tin are recast into tin bars (recovery rate: 90%) for reuse to reduce wastage.

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 2017 are as follows:

1. Improve soldering at surface mount technology process in order to save electricity;

2. Layout of our workshops and production lines are improved according to the capacity of our products to enhance energy efficiency;

3. Modification and maintenance of equipment with heavy energy consumption, such as air-conditioners and air compressors, are stepped up;

4. Retire on machinery and equipment; and

5. Energy consumption is better managed.

Due to the statistic data of the company's GHG emissions was mainly came from energy consumption, we delegate our focus and efforts on improving of energy consumption efficiency in order to reduce the GHG emissions. In 2017, we executed the above practice and achieved a 20.0% reduction from 0.0035 tonne of CO_2 per thousand Hong Kong dollars in 2016 to 0.0028 tonne of CO_2 per thousand Hong Kong dollars in 2017 on Scopes 1 and 2 GHG emissions. The statistical data is at A2 Statistical Table.

A2 Statistical Table	**Year 2017**	**Year 2016**
Total scopes 1 and 2 emissions (tonne of CO_2)	14,947.48	13,303.68
Total revenue (thousand HK dollars)	5,403,812	3,754,034
Emissions per thousand dollars of revenue (tonne of CO_2 per thousand HK dollars)	0.0028	0.0035

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

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

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

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

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

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

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 2017:

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;

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;

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

PC Partner measured various energy consumption every year. In 2017, the electricity consumption was 18.67 million kilowatt-hours, natural gas was 4.25 ten thousands cubic metres, and diesel consumption was 30.77 tonnes. We have achieved 44.87 tonnes of standard coal per 100 million revenue. The statistics of energy consumption by type for 2016 and 2017 are shown in the following A3 Statistical Table.

A3 Statistical Table		**2017**			**2016**		
Energy source	**Unit of Measure**	**Industrial use**	**Non-industrial use**	**Total**	**Industrial use**	**Non-industrial use**	**Total**
Electricity	10,000 KWH	1,762.72	103.94	1,866.66	1,561.35	99.32	1,660.67
Diesel	Tonnes	2.68	28.09	30.77	0.84	29.67	30.51
Natural gas	10,000 Cubic Metres	0.00	4.25	4.25	0.00	3.62	3.62
Petrol	Tonnes	0.00	19.92	19.92	0.00	17.32	17.32
Total (equivalent)	Tonnes of Standard Coal	2,170.29	254.51	2,424.80	1,920.12	238.93	2,159.05

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 2017 was 83,187 cubic metres and the consumption per 100 million of revenue was 1,539.36 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*

To assess energy use efficiency and achieve our annual energy use efficiency target (a decrease of 2.0% in energy consumption per unit of revenue from 2016 to 2017) across the Company, we have taken initiatives to strengthen energy management and refine energy use. In 2017, we have carried out the following projects:

1. An energy management centre has been set up to monitor the energy use of the Company's facilities;

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

3. The layout of the plants and production lines has been optimised according to the production capacity of the Company's products to reduce hauling time and improve energy use efficiency; and

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

With concerted efforts, total energy consumption for 2017 amounted to 2,424.80 tonnes of standard coal, representing an increase of 12.3% from 2,159.05 tonnes of standard coal for 2016. Energy consumption per HK$100 million of revenue dropped from 57.51 tonnes of standard coal for 2016 to 44.87 tonnes for 2017, a drop of 22.0%.

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. Our water efficiency improvement target for 2017 was a decrease in water consumption per unit of production volume of 2.0% as compared with 2016. According to our statistics, water consumption per HK$100 million of revenue fell from 2,062.89 cubic metres for 2016 to 1,539.36 cubic metres for 2017, a drop of 25.4%.

A2.5 *Total packaging materials used*

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

B. SOCIETY

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

B1. Employment

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

We conduct annual internal audit of the Company's occupational safety, hygiene, labour, ethics, human rights and other social responsibilities in accordance with the requirements of the OHSAS18001 and EICC standards. The results of such annual audit are submitted to the management for review so as to analyses the Company's performance and possible improvement in terms of social responsibilities. We conducted one internal audit under OHSAS18001 and one internal audit under EICC in 2017.

In April 2015, Version 5.0 of the EICC standards came into effect. This version introduced numerous changes to the labour section to strengthen labour protection, align with United Nations' principles in this area, 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 2017, PC Partner's production bases employed over 2,200 employees, in which the numbers of male and female employees were approximately 1,300 and 900, respectively, accounting for approximately 59.1% and 40.9%, respectively. The number of male employees increased by over 200 and the female employees remain at the same level in compare to 2016.

B1.2 Employee turnover rate and its analysis

It is one of PC Partner's 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. In 2017, our employee turnover rate was 10.9%. In particular, the turnover rate of male employees and female employees were 13.8% and 8.9%, respectively. The age group exhibiting the highest employee turnover rate, which was 12.6%, was the 18–40 age group. The employee turnover rate was less in 2016 at 11.9%; in which, the male employees and female employees turnover rates were 14.8% and 8.9% respectively.

B2. Health and Safety

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

We assure the consistent implementation of all health and safety policies with clear procedures, division of responsibilities, distinct requests and broad staff training. Occupational health and safety events are organised according to an evaluation of the sources of health and safety hazards. We make sure that all the staff, ranging from the management to frontline staff, understand the duties of their jobs. As a part of our commitment towards staff health and safety, we have also launched various health and safety training courses to enhance staff health and safety awareness. The occupational health and safety management system is also audited every year to ensure its continual effectiveness. Several customers have also reviewed our occupational health and safety management system in 2017.

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 2017.

B2.2 Lost days due to work injury

We eliminate the potential risks on our premises and in our activities and, in turn, work injuries by identifying and managing such risks. However, accidents may still occur due to negligent operation and management on the part of the staff. Not only do such accidents cause personal injuries to the staff, they result in the loss of working time as well. In 2017, a total of 2 work-related accidents were noted which was less than the 3 work-related accidents in 2016. The accidents were minor injuries mainly due to negligent operation by the relevant employee. We have investigated and evaluated the causes of such accidents and made corresponding improvements. The Company has formulated work injury handling policies in compliance with local laws and regulations to provide strong support for the injured staff and thus effectively protect their physical health, mental well-being and interests. We also investigated the causes of the accidents and formulated corresponding improvement measures in order to prevent future occurrences.

B2.3 Occupational health and safety measures adopted

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

1. identify each activities required in our business operation as a whole;

2. identify the potential occupational health and safety risks of each activity;

3. determine the level of such occupational health and safety risks pursuant to a consistent system;

4. determine the required responses for each risk level;

5. formulate and strictly execute remedies and preventive measures for the risk of each activity; and

6. formulate an occupational health and safety management checklist to facilitate daily management.

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

B3. Development and Training

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

Moving along with the society, we have allocated specific resources to training so that the employees can flexibly and quickly adapt to social changes, achieve career development and create more opportunities for our own business development. In 2017, we carried on the 6 SIXGMA certification programme to comprehensively improve our quality through enhancing the quality control ability of the relevant officers and technicians. We also continued to roll out an internal education certification project targeting at frontline staff in 2017 to increase their comprehensive knowledge in factory management and expertise, thereby facilitating their career development.

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

B3.1 Employee training

PC Partner requires new employees to participate in induction programmes in accordance with its training policies so as to make sure that the new employees are capable to handle their jobs. The time of the induction programmes are 24 hours. All new employees joining us in 2017 have participated in such training. We also require the employees to complete at least 20 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 2017, 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 2017, the average annual training hours (excluding induction programme hours) completed per senior and junior employee were 25.5 hours and 20 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.

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, fulfills 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 fulfill 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 fulfill 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 fulfill 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 fulfill 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 fulfill our requirements in terms of social responsibility and to stimulate improvements.

The suppliers of the Company are widely distributed although around 81% 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 fulfill 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 2017, over 85 suppliers have been subject to on-site review and we had conducted 80 suppliers review in 2016.

B6. Product Liability

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

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

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

We keep abreast of and study the laws and regulations relating to our products in order to take appropriate actions to comply with their requirements. In 2017, 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 2017, 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. As at the end of 2017, all employees of PC Partner have undertaken training on protecting intellectual property rights.

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 2017, PC Partner did not receive any complaint of incompliance or any case of corruption and bribery committed by its employees. PC Partner will assess the ethical risks of each position to determine which position may induce incompliance by the relevant employee. With respect to positions with high risk, we arrange training for the relevant employees and require the employees to enter into an anti-corruption warranty, thereby fully informing them of the possible consequences of corruption. PC Partner has designated specific officers to receive complaints about business ethics and deal with any related incompliance.

B8. Community Investment

The Company operates a balanced community participation programme, under which it conducts collaborative projects with different stakeholders (such as employees, members of local communities, non-profit partners, citizens, schools and governments). Such projects include co-operating with schools to nurture local talents, supporting stricken community members by donations, serving underprivileged groups by volunteering events and protecting the environment. In 2017, we participated in various community services such as donating to stricken people, carrying on the co-operation with the School of Electrical and Information Engineering of Hunan University of Technology to train its interns, and visiting underprivileged groups in the communities. The Company devoted 24 man-days to volunteering in 2017.

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 2017, the Company has complied with the code provisions set out in the Corporate Governance Code (the "Code") as contained in Appendix 14 of 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. For the year ended 31 December 2017, 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 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 considers that vesting the roles of chairman and chief executive officer simultaneously in Mr. WONG is beneficial to the business prospects and management of the Group. The roles of the respective executive directors and senior management, who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to a strong and balanced management organisation that enables the Group to operate effectively. The Board currently comprises of 5 Executive Directors, 1 Non-executive Director and 3 Independent Non-executive Directors and therefore has sufficient independent elements in its composition.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

BOARD OF DIRECTORS

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

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

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

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

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

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

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

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

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

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

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

BOARD COMMITTEES

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

Audit Committee

The Company has established 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 system and risk management 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, 4 Audit Committee meetings were held and the attendance of each committee member is set out below:

Member	**Number of Attendance**
Mr. LAI Kin Jerome	4
Mr. IP Shing Hing	4
Mr. CHEUNG Ying Sheung	4

During the meetings held in 2017, 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 2016 (the "2016 Financial Statements");

(2) reviewed the 2016 Financial Statements and discussed with the external auditor's on any findings in relation to the 2016 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 2017 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 has established the Remuneration Committee on 21 December 2011 with written terms of reference. The primary duties of the Remuneration Committee are to make recommendations to our 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 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.

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 2017 Annual General Meeting and reviewed the Board Diversity Policy of the Company during the year.

Investment Committee

The Board has set up 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, 2 Investment Committee meetings were held and the attendance of each committee member is set out below:

Member	Number of Attendance
Mr. WONG Shik Ho Tony	2
Mr. WONG Fong Pak	2
Mr. LEUNG Wah Kan	2
Mr. IP Shing Hing	2
Mr. LAI Kin Jerome	2

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, for the year ended 31 December 2017, they and their respective associates have not breached any of the terms of undertaking contained in the non-competition deed dated 21 December 2011 as disclosed in the prospectus of the Company dated 29 December 2011.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S REMUNERATION

The remuneration paid and payable for the year ended 31 December 2017 to the Company's external auditor, BDO Limited, is set out as follows:

Service rendered to the Group	HK$
Audit services	1,250,000
Non-audit services (note)	115,000

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 system and risk management system to safeguard the interest of shareholders and the Group's assets. The Board has reviewed the effectiveness of the internal control system and risk management system 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 2017.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an extraordinary general meeting

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

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

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

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

Procedures for raising enquires

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

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

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

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

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

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

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. WONG Shik Ho Tony, aged 58, 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 video graphics 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 68, 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 59, 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 62, 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, and its subsidiaries ("ASK Group"). He is responsible for the general management, including product and sales of ASK Group. 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 52, 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.

Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mrs. HO WONG Mary Mee-Tak, aged 68, 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 53 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 62, 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 the 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 69, 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 64, 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 of Hong Kong (the "University") in 1980 and is currently a professor of Electrical and Electronic Engineering. 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 Ltd. 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. LEE Wing Chung, age 52, *Executive Director of Manli Technology Group Limited*, is responsible for the operational management of the Manli Technology Group Limited. Mr. Lee co-founded Manli Technology Company Limited in 1996 and joined the Group in April 2008. He holds a Bachelor Degree in Science from Hong Kong Baptist University and has over 15 years of general management experience. Mr. Lee has resigned from his position of Executive Director of Manli Technology Group Limited with effect from 1 January 2018.

Mr. KWONG Kwok Kuen, age 57, *Director of Sales — EMEAI Region*, is responsible for the Group's sales and marketing of ZOTAC motherboards, video graphics 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 51, *Director of Program Management — Graphics, SSD and Memory Procurement*, is responsible for account servicing and program management of the Group's video graphics 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 56, *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 46, *Director of Sales — APAC Region*, is responsible for the Group's sales and marketing of motherboards, video graphics 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 54, *General Manager*, is responsible for the Group's video graphics 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 52, 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 48, *Chief Financial Officer*, is responsible for overall financial, accounting, legal and information technology functions of the Group. He is also the President of Zotac USA, a wholly owned subsidiary of the Group in USA. Mr. Lau joined the Group in October 2010. Prior to joining the Group, he has worked for ROLEX (HONGKONG) LIMITED, Johnson Electric International Limited, Linyi Shansong Biological Products Company Limited, Oracle Systems Hong Kong Limited, e2e Business Solutions Limited and Deloitte Touche Tohmatsu. Mr. Lau is a member of American Institute of Certified Public Accountants and a member of Hong Kong Institute of Certified Public Accountants. Mr. Lau is graduated from the University of Windsor, Canada, with a Bachelor Degree in Commerce and the University of Western Ontario, Canada, with a Bachelor Degree in Science. He also holds a Master Degree in Business Administration and a Master Degree in Business Systems from the University of Manchester and the Monash University respectively.

Ms. LEE Siu Wai, age 55, *Director of Procurement* for the Group, is responsible for the Group's overall procurement and purchasing activities. She has over 25 years of extensive experience in purchasing. Prior to joining the Group in July 1997, she was the Purchasing Section Manager of AST Research (Far East) Limited.

Mr. CHOW Pak Keung, age 51, *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 39, *Global Marketing Director*, is responsible for the marketing operations for ZOTAC International. Ms. Chuang has more than 15 years' experience in corporate marketing and communication across diverse industries. Prior to joining the Group in 2014, Ms. Chuang has worked for Acer Incorporations, Shuttle Computer, EVGA, and Newegg Incorporations House Brand, Rosewill. Ms. Chuang holds a Master Degree in Integrated Marketing Communication from Florida State University, and Bachelor Degree in Journalism Communication from Fu Jen Catholic University in Taiwan.

Mr. FONG Wing Fai, age 51, *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 Hong Kong University.

Mr. KIM Seong Pyo, age 55, *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 56, *Business Development Director* for the EMEA 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 more than 26 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. WANG Yu Shan, age 49, *General Manager* of PC Vision Limited, a wholly owned subsidiary of the Group. Mr. Wang joined PC Vision Limited in 2014 bringing with him over 27 years' experience in graphic display application and LCD panel related industries. Prior to joining the Group, Mr. Wang has worked for Lung Hwa Electronics, Triplex, AMI Tech as well as Sapphire Technology. Mr. Wang holds a Bachelor Degree in Electronic Engineering from Oriental Institute of Technology.

Mr. WEI Yick Siu, Andrew, age 48, 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 2017.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The Group is principally engaged in the design, development and manufacturing of video graphics cards for desktop PCs, electronics manufacturing service, 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 to the consolidated financial statements.

BUSINESS REVIEW

Details of the operation of the Company's principal business during the year, as required by Schedule 5 to the Companies Ordinance, including an indication of likely future development in the Group's business, an analysis of key performance indicators, a description of the principal risks and uncertainties facing the Group, and the Group's environmental policies and performance are set out under the sections "Management Discussion and Analysis" on pages 8 to 16 and "Environmental, Social and Governance Report" on pages 17 to 33 of this Annual Report respectively.

There is no important event affecting the Group that has occurred after the year ended 31 December 2017. 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 2017 are set out in the consolidated statement of comprehensive income on page 62 of this report.

The Board recommends the payment of final dividend of HK$0.28 per share to shareholders whose names appear on the register of members of the Company at the close of business on 3 July 2018.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 26 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out on page 65 and note 37 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2017 amounted to approximately HK$667.8 million.

DONATIONS

Charitable and other donations made by the Group during the year amounted HK$82,000.

PROPERTY, PLANT AND EQUIPMENT

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

INFORMATION ON SUBSIDIARIES

Particulars of the subsidiaries are set out in note 36 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 2017.

	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Revenue	**8,555,368**	5,837,964	4,754,149	4,895,192	4,803,097
Profit/(loss) before income tax	**358,973**	157,672	(16,179)	64,955	85,955
Income tax expense	**(26,900)**	(7,610)	(2,327)	(13,606)	(12,810)
Profit/(loss) for the year	**332,073**	150,062	(18,506)	51,349	73,145
Attributable to:					
Owners of the Company	**332,293**	150,189	(18,460)	51,349	73,145
Non-controlling interests	**(220)**	(127)	(46)	—	—
	332,073	150,062	(18,506)	51,349	73,145
ASSETS AND LIABILITIES					
Total assets	**4,098,979**	2,904,408	2,305,835	2,400,613	2,492,343
Total liabilities	**(2,890,939)**	(1,971,214)	(1,528,292)	(1,584,790)	(1,710,700)
Total equity	**1,208,040**	933,194	777,543	815,823	781,643

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 LISTED SECURITIES OF THE COMPANY

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. Particulars of the pre-IPO share option scheme and 2016 Share Option Scheme of the Company are set out in note 28 to the consolidated financial statements.

As at the date of this Annual Report, the share options under the Pre-IPO share option scheme were expired. The total number of shares available for issue under the 2016 Share Option Scheme of the Company was 900,000, representing 0.2% of the shares of the Company in issue.

DIRECTORS

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

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

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

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

In accordance with Article 108 of the Articles of Association, Mr. WONG Shik Ho Tony, Mrs HO WONG Mary Mee-Tak and Mr. IP Shing Hing will retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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

DIRECTORS’ INTERESTS IN CONTRACTS

Except as disclosed in note 32 to the consolidated financial statements, no contracts of significance to which the Company, any of its holding companies or fellow subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at 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 2017, 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)	130,050,000	29.35%
Mr. WONG Shik Ho Tony	Beneficial owner	54,905,750	12.46%
Mr. WONG Fong Pak	Beneficial owner	28,765,750	6.47%
Mr. LEUNG Wah Kan	Beneficial owner	23,500,500	5.37%
Mr. HO Nai Nap	Beneficial owner	21,784,538	4.92%
Mr. MAN Wai Hung	Beneficial owner	5,577,065	1.27%

Note: These 130,050,000 Shares are owned as to 54,850,000 Shares by Classic Venture International Inc. and 75,200,000 Shares by Perfect Choice Limited. As the entire issued share capital of both Classic Venture International Inc. and 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 130,050,000 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	600,000	0.13%
Mr. HO Nai Nap	26 August 2016	—	—
Mr. MAN Wai Hung	26 August 2016	—	—

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, 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	75,200,000	16.97%
Classic Venture International Inc.	Long position	Beneficial owner	54,850,000	12.54%
Mr. WONG Shik Ho Tony	Long position	Beneficial owner	54,905,750	12.46%
Mr. WONG Fong Pak	Long position	Beneficial owner	28,765,750	6.47%
Mr. LEUNG Wah Kan	Long position	Beneficial owner	23,500,500	5.37%

Note: As the entire issued share capital of both Classic Venture International Inc. and 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 130,050,000 Shares in aggregate held by Classic Venture International Inc. and 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:

	2017 %	2016 %
Sales		
— the largest customer	**13%**	18%
— five largest customers combined	**29%**	37%
Purchases		
— the largest supplier	**60%**	60%
— five largest suppliers combined	**71%**	70%

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 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 34 to 42 of this report.

PERMITTED INDEMNITY

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

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

AUDITOR

The financial statements for the year ended 31 December 2017 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, 28 March 2018

Independent Auditor's Report

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

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

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

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 62 to 135, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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(f), 5 and 21 to the consolidated financial statements

As at 31 December 2017, inventories net of provision for obsolescence of HK$60,248,000, amounted to HK$1,349,456,000 which represent approximately 33% of total assets of the Group. Valuation of the inventories is at the lower of cost and net realisable value. Sales in the video graphics cards and other PC related products and component can be extremely volatile with the launching in the market of new computer products based on more advanced technology. As a result there is 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 percentages to apply 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 key audit procedures in relation to management's impairment assessment on obsolete inventories included:

- Evaluating the assumptions and estimates applied to the determination of obsolescence provision by performing analytical procedures and comparison to historical records;

- Assessing whether there were inventories which were sold with a negative margin by checking to sales invoices subsequent to 31 December 2017 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 4g(ii), 5 and 19 to the consolidated financial statements

As at 31 December 2017, the Group had trade receivables of HK$1,165,369,000, and impairment of HK$6,508,000 has been made over the balance for the year then ended.

In determining whether there is objective evidence of impairment loss, management takes into consideration the credit history including default or delay in payments, settlement records, subsequent settlements and ageing analysis of the trade receivables. Assessing impairment of trade receivables is a subjective area as it requires application of judgement and uses of estimates in the recoverability of trade receivables.

Our key audit procedures in relation to management's impairment assessment on trade receivables included:

- Obtaining an understanding of how impairment is estimated by the management;

- Reviewing the ageing analysis of the trade receivables to understand the settlement patterns by the customers;

- Testing the ageing analysis of the trade receivables, on a sample basis, to the source documents;

- Assessing the reasonableness of the management's recoverability assessment of trade receivables with reference to the credit history including default or delay in payments, settlement records, subsequent settlements and ageing analysis of individual customer; and

- Assessing whether there is evidence of management bias on impairment assessment of trade receivables by considering the consistency of judgement made by the management year on year through discussion with the management to understand their rationale.

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

We communicate with 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 Audit Committee, 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, 28 March 2018

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	6,7	8,555,368	5,837,964
Cost of sales		(7,639,397)	(5,247,217)
Gross profit		915,971	590,747
Other revenue and other gains and losses	8	12,089	(16,156)
Selling and distribution expenses		(133,565)	(81,868)
Administrative expenses		(411,476)	(320,881)
Finance costs	9	(24,046)	(14,170)
Profit before income tax	10	358,973	157,672
Income tax expense	11	(26,900)	(7,610)
Profit for the year		332,073	150,062
Other comprehensive income, after tax, that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		3,605	(199)
Total comprehensive income for the year		335,678	149,863
Profit for the year attributable to:			
— Owners of the Company		332,293	150,189
— Non-controlling interests		(220)	(127)
		332,073	150,062
Total comprehensive income for the year attributable to:			
— Owners of the Company		335,898	149,990
— Non-controlling interests		(220)	(127)
		335,678	149,863
		HK$	HK$
Earnings per share	15		
— Basic		0.76	0.36
— Diluted		0.75	0.36

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	16	**58,728**	55,315
Intangible assets	17	**5,915**	6,130
Other financial assets	18	**36,612**	20,992
Deferred tax assets	20	**6,445**	2,414
Total non-current assets		**107,700**	84,851
Current assets			
Inventories	21	**1,349,456**	1,281,467
Trade and other receivables	19	**1,186,246**	747,801
Amount due from a related party	32(i)	**1,762**	—
Cash and bank balances	22	**1,453,815**	790,289
Total current assets		**3,991,279**	2,819,557
Total assets		**4,098,979**	2,904,408
Current liabilities			
Trade and other payables	23	**1,487,961**	960,499
Amount due to a related party	32(i)	**—**	562
Borrowings	24	**1,350,956**	987,555
Provisions	25	**28,576**	12,883
Obligations under finance leases		**18**	16
Current tax liabilities		**23,361**	9,624
Total current liabilities		**2,890,872**	1,971,139
Net current assets		**1,100,407**	848,418
Total assets less current liabilities		**1,208,107**	933,269

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Obligations under finance leases		**67**	35
Deferred tax liabilities	20	**—**	40
Total non-current liabilities		**67**	75
NET ASSETS		**1,208,040**	933,194
Capital and reserves			
Share capital	26	**44,484**	42,939
Reserves		**1,163,669**	890,431
Equity attributable to owners of the Company		**1,208,153**	933,370
Non-controlling interests		**(113)**	(176)
TOTAL EQUITY		**1,208,040**	933,194

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 2017

	Equity attributable to owners of the Company										
	Share capital HK$'000	Share premium (note (a)) HK$'000	Translation reserve HK$'000	Merger reserve (note (b)) HK$'000	Other reserve (note (c)) HK$'000	Legal reserve (note (d)) HK$'000	Share-based payment reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2016	41,752	119,331	(1,219)	6,702	21,771	2,884	14,867	571,504	777,592	(49)	777,543
Profit for the year	–	–	–	–	–	–	–	150,189	150,189	(127)	150,062
Other comprehensive income											
– exchange difference on translating foreign operations	–	–	(199)	–	–	–	–	–	(199)	–	(199)
Total comprehensive income	–	–	(199)	–	–	–	–	150,189	149,990	(127)	149,863
Shares issued under share option scheme	1,187	22,755	–	–	–	–	(6,605)	–	17,337	–	17,337
Dividends paid (note 14)	–	–	–	–	–	–	–	(14,613)	(14,613)	–	(14,613)
Equity settled share-based transactions (note 28)	–	–	–	–	–	–	3,064	–	3,064	–	3,064
Lapse of share options	–	–	–	–	–	–	(7,223)	7,223	–	–	–
Transfer to retained earnings	–	–	–	–	–	(60)	–	60	–	–	–
At 31 December 2016 and 1 January 2017	42,939	142,086	(1,418)	6,702	21,771	2,824	4,103	714,363	933,370	(176)	933,194
Profit for the year	–	–	–	–	–	–	–	332,293	332,293	(220)	332,073
Other comprehensive income											
– exchange difference on translating foreign operations	–	–	3,601	–	4	–	–	–	3,605	–	3,605
Total comprehensive income	–	–	3,601	–	4	–	–	332,293	335,898	(220)	335,678
Shares issued under share option scheme	1,545	20,371	–	–	–	–	(5,076)	–	16,840	–	16,840
Dividends paid (note 14)	–	–	–	–	–	–	–	(80,715)	(80,715)	–	(80,715)
Equity settled share-based transactions (note 28)	–	–	–	–	–	–	2,760	–	2,760	–	2,760
Lapse of share options	–	–	–	–	–	–	(1,142)	1,142	–	–	–
Transfer to legal reserve	–	–	–	–	–	204	–	(204)	–	–	–
Capital contributed by non-controlling interests	–	–	–	–	–	–	–	–	–	283	283
At 31 December 2017	44,484	162,457	2,183	6,702	21,775	3,028	645	966,879	1,208,153	(113)	1,208,040

Notes:

(a) Share premium represents premium arising from the issue of shares at a price in excess of their par value per share in 2012. Under the Companies Law of the Cayman Islands, the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

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

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Operating activities			
Profit before income tax		**358,973**	157,672
Adjustments for:			
Depreciation of property, plant and equipment		**15,606**	16,077
Amortisation of intangible assets		**215**	287
Interest income		**(2,734)**	(3,194)
Net fair value gains on derivative financial instruments		**(329)**	(1,172)
Interest expense		**24,046**	14,170
Bad debts written off		**1,052**	54
Gain on waiver of obligations under finance leases		**(27)**	—
(Gain)/loss on disposal of property, plant and equipment		**(362)**	226
Property, plant and equipment written off		**39**	—
Provision for impairment losses on trade and other receivables		**7,535**	746
Share-based payment expenses		**2,760**	3,064
Provision for obsolete inventories		**31,065**	8,115
Provision for product warranties and returns, net		**27,675**	16,922
Provision for demand of repayment, net		**289**	3,678
Operating profit before working capital changes		**465,803**	216,645
Inventories		**(98,818)**	(487,377)
Trade and other receivables		**(447,059)**	(112,132)
Amount due from a related party		**(1,762)**	—
Trade and other payables		**527,173**	241,537
Amount due to a related party		**(562)**	562
Import loans		**364,548**	182,761
Provision for product warranties and returns		**(11,992)**	(8,004)
Cash generated from operations		**797,331**	33,992
Interest paid		**(24,046)**	(14,170)
Income tax paid		**(17,557)**	(295)
Net cash generated from operating activities		**755,728**	19,527
Investing activities			
Net increase in time deposits		**—**	(24)
Payments to acquire property, plant and equipment		**(18,746)**	(23,949)
Proceeds from disposal of property, plant and equipment		**408**	1,529
Interest received		**2,734**	3,194
Net cash received/(paid) on settlement of derivative financial instruments		**329**	(7,073)
Addition of available-for-sale financial assets		**(15,620)**	—
Net cash used in investing activities		**(30,895)**	(26,323)

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Financing activities			
Issue of new shares		**16,840**	17,337
Capital contribution from non-controlling interest		**283**	—
Dividend paid to owners of the Company		**(80,715)**	(14,613)
Proceeds from discounted bills and factoring loans		**80,687**	74,163
Repayment of discounted bills and factoring loans		**(81,834)**	(69,776)
Repayment of obligations under finance leases		**(18)**	(16)
Net cash (used in)/generated from financing activities		**(64,757)**	7,095
Net increase in cash and cash equivalents		**660,076**	299
Cash and cash equivalents at beginning of year		**789,839**	789,783
Effect of exchange rate changes on cash and cash equivalents		**3,446**	(243)
Cash and cash equivalents at end of year, representing			
Cash and bank balances	22	**1,453,361**	789,839

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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 parts and accessories with its operation based in the Mainland China and trading of electronics and personal computer parts and accessories with its operation base in Hong Kong, Macau, Korea and the United States of America.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

(a) Adoption of new/revised HKFRSs — effective 1 January 2017

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 2017.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to HKFRS 12, Disclosure of Interests in Other Entities

Amendments to HKAS 7 — Disclosure Initiative

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

The adoption of the amendments has led to the additional disclosure presented in the note to the consolidated statement of cash flows, note 29.

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

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

The adoption of the amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2017 (continued)

Annual Improvements to HKFRSs 2014–2016 Cycle — Amendments to HKFRS 12, Disclosure of Interests in Other Entities

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 12, Disclosure of Interests in Other Entities, to clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity's interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

The adoption of the amendments to HKFRS 12 has no impact on these financial statements as the latter treatment is consistent with the manner in which the Group has previously dealt with disclosures relating to its interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5.

(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 HKFRSs	Annual improvements to HKFRSs 2015–2017 Cycle[2]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[1]
HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)[1]
HK(IFRIC) — Int 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
HKFRS 16	Leases[2]
HK(IFRIC) — Int 23	Uncertainty over Income Tax Treatments[2]

1 Effective for annual periods beginning on or after 1 January 2018

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

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 2 — Classification and Measurement of Share-Based Payment Transactions

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

HKFRS 9 — Financial Instruments

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

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

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

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

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

HKFRS 15 — Revenue from Contracts with Customers

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

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

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

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

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

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

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

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

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 9 — Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at FVTOCI if specified conditions are met — instead of at FVTPL.

HKFRS 16 — Leases

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

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

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

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

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

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

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

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

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have an impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the assessment completed to date is based on the information currently available to the Group, the actual impacts upon the initial adoption of the standards may differ, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in the financial report.

HKFRS 9 Financial Instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, Financial instruments: Recognition and measurement. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

The Group has assessed that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of HKFRS 9.

The Group's available-for-sale investments, which are currently stated at cost less impairment, will then be measured at FVTPL or be designated at FVTOCI (subject to fulfilment of the designation criteria).

The Group does not have any financial liabilities designated at FVTPL and therefore the new requirement may not have any impact on the Group on adoption of HKFRS 9.

(b) Impairment

The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses.

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

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

HKFRS 15 Revenue from Contracts with Customers

The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the assessment completed to date, the Group has identified the following areas which are likely to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 4(h). Currently, revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group has assessed that the adoption of HKFRS 15 will not have a material impact on the amounts reported in any given financial reporting period.

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

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

HKFRS 15 Revenue from Contracts with Customers (continued)

(b) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group does not apply such a policy when payments are received in advance.

Advance payments are not common in the Group's arrangements with its customers, and the length of time between the payment date and the date when the customers obtain control of the goods is usually a few months.

The Group has assessed that this component in the Group's customer deposits is not likely to be significant to the contract.

(c) Sales with a right of return

Currently when the customers are allowed to return the Group's products, the Group estimates the level of expected returns and makes an adjustment against revenue and cost of sales.

The Group has assessed that the adoption of HKFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

The Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018.

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

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

HKFRS 16 Leases

Currently the Group classifies leases into operating leases and finance leases, and accounts for the lease arrangements according to the nature of the lease. The Group enters into leases as the lessee.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of comprehensive income over the period of the lease. As disclosed in note 27, at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$38,339,000 properties, among which HK$4,015,000 is payable between 2 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment. The Group has not yet decided whether it will choose to take advantage of this practical expedient, and which transition approach to be taken.

Except the possible impacts of adoption of HKFRS 9, 15 and 16 as discussed above, the Group is not yet in a position to state whether the other 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 issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 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) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment (continued)

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

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

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

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

(d) 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 fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over their useful lives as follows:

Non-contractual customer lists and relationship	5 years

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Intangible assets (continued)

(ii) Impairment

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

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

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

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

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;

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Intangible assets (continued)

(ii) Impairment (continued)

Research and development expenditure (continued)

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

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

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

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

(e) Leasing

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

The Group as lessee

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) 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.

(g) Financial instruments

(i) Financial assets

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial instruments (continued)

(i) Financial assets (continued)

Available-for-sale financial assets

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

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

(ii) Impairment loss on financial assets

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial instruments (continued)

(ii) Impairment loss on financial assets (continued)

For loans and receivables

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

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

For available-for-sale financial assets

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial instruments (continued)

(iii) Financial liabilities

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

Financial liabilities at amortised cost

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

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

(iv) Effective interest method

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

(v) Equity instruments

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

(vi) Derecognition

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Revenue recognition

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

Service income is recognised when services are provided.

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

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

(i) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) 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.

(k) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Employee benefits (continued)

(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.

(l) Impairment of assets other than financial assets

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment of assets other than financial assets (continued)

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.

(m) 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.

(n) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) 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.

(p) 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.

(q) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Related parties (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgments, 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

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

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

Useful lives of property, plant and equipment and intangible assets

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

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

Impairment of available-for-sale investments

The Group determines at each reporting date whether there is any objective evidence that the available-for-sale investments are impaired. In performing its review, the Group considers the profitability and financial position of the investments and economic outlooks relating to those investments. If such indication exists, the amount of the impairment loss is measured as the difference between the carrying amount of available-for-sale investments and the present value of estimated future cash flows, discounted at the current market rate of return for a similar investment. If the economic outlooks of the investments were to deteriorate, resulting in an impairment of the investments, the carrying value of those investments may be required to be impaired as of 31 December 2017.

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

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

Warranty and returns provisions

As explained in note 25, the Group makes provisions under the warranties and returns it gives on sales of its electronic products taking into account the Group's cumulative past claim experience. As the Group is continually upgrading its product designs and launching new models, it is possible that the cumulative past claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

6. SEGMENT REPORTING

(a) Reportable segments

The Group determines its operating segments based on the regional reports reviewed by the chief operating decision-maker that are used to make strategic decisions. The Group principally operates in one business segment, which is the design, manufacturing and trading of electronics and personal computer parts and accessories.

(b) Geographical information

(i) Revenue

An analysis of the Group's revenue by geographical location is as follows:

	2017 HK$'000	2016 HK$'000
Asia Pacific ("APAC")	**3,619,005**	2,367,555
North and Latin America ("NALA")	**1,023,123**	900,902
PRC	**2,171,183**	1,621,705
Europe, Middle East, Africa and India ("EMEAI")	**1,742,057**	947,802
	8,555,368	5,837,964

The revenue information of the operations above is based on the locations of the customers.

(ii) Specified non-current assets

An analysis of the Group's non-current assets other than financial instrument and deferred tax assets ("specified non-current assets") is as follows:

	2017 HK$'000	2016 HK$'000
APAC	**10,409**	8,771
NALA	**24,910**	25,388
PRC	**29,237**	27,236
EMEAI	**87**	50
	64,643	61,445

6. SEGMENT REPORTING (CONTINUED)

(c) Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

	2017 HK$'000	2016 HK$'000
Video graphics cards	**7,165,095**	4,502,049
Electronics manufacturing services	**524,772**	680,924
Other PC related products and components	**865,501**	654,991
	8,555,368	5,837,964

(d) Revenue from brand and non-brand businesses

The following is an analysis of the Group's revenue from its brand and non-brand businesses:

	2017 HK$'000	2016 HK$'000
Brand businesses	**4,930,525**	3,427,652
Non-brand businesses	**3,624,843**	2,410,312
	8,555,368	5,837,964

(e) Information about the major customer

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

	2017 HK$'000	2016 HK$'000
Customer A (note)	**1,095,582**	1,062,393

Note:

Revenue from this customer was derived from sale of video graphics cards in the PRC.

7. REVENUE

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

8. OTHER REVENUE AND OTHER GAINS AND LOSSES

	2017 HK$'000	2016 HK$'000
Interest income	**2,734**	3,194
Net exchange gains/(losses)	**4,445**	(20,429)
Net fair value gains on derivative financial instruments	**329**	1,172
Gain/(loss) on disposal of property, plant and equipment	**362**	(226)
Gain on waiver of obligations under finance leases	**27**	—
Sundry income	**4,481**	5,168
Provision for demand of repayment, net	**(289)**	(3,678)
Others	**—**	(1,357)
	12,089	(16,156)

9. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on bank advances and other borrowings	**24,046**	14,170

10. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	2017 **HK$'000**	2016 HK$'000
Inventories recognised as expense	**7,608,332**	5,239,102
Provision for obsolete inventories	**31,065**	8,115
Cost of sales	**7,639,397**	5,247,217
Staff costs (note 12)	**419,253**	351,535
Auditor's remuneration	**1,752**	1,701
Bad debts written off	**1,052**	54
Depreciation of property, plant and equipment	**15,606**	16,077
Amortisation of intangible assets (note (a))	**215**	287
Provision for impairment losses on trade and other receivables	**7,535**	746
Operating lease payments on plant and machinery	**210**	193
Operating lease payments on premises	**30,755**	34,272
Property, plant and equipment written off	**39**	—
Provision for product warranties and returns, net (note 25)	**27,675**	16,922
Provision for demand of repayment, net	**289**	3,678
Research and development expenditure (note (b))	**52,318**	45,270

Notes:

(a) Amortisation of intangible assets of HK$215,000 (2016: HK$287,000) is included in "Administrative expenses" in the consolidated statement of comprehensive income.

(b) The research and development expenditure for the year includes HK$52,318,000 (2016: HK$45,270,000) relating to depreciation of plant and machinery and office equipment and employee benefits expense 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 EXPENSE

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

	2017 HK$'000	2016 HK$'000
Current tax — Hong Kong		
— provision for the year	**26,625**	6,034
— under/(over) provision in respect of prior year	**29**	(1,632)
Current tax — PRC		
— provision for the year	**1,896**	4,674
— over provision in respect of prior year	**(1,630)**	(2,238)
Current tax — others		
— provision for the year	**3,699**	1,775
— under/(over) provision in respect of prior year	**344**	(18)
	30,963	8,595
Deferred tax		
— origination and reversal of temporary differences (note 20)	**(4,063)**	(985)
Income tax expense	**26,900**	7,610

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.

Hong Kong profits tax is calculated at 16.5% (2016: 16.5%) on the estimated assessable profits for the year ended 31 December 2017. A significant subsidiary of the Company, PC Partner Limited, is entitled to claim 50% of all of its manufacturing profits as offshore in nature and non-taxable under Departmental Interpretation and Practice Notes No.21 issued by the Inland Revenue Department of Hong Kong.

11. INCOME TAX EXPENSE (CONTINUED)

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

The Company's wholly owned subsidiary located in the PRC, 東莞栢能電子科技有限公司 successfully obtained the "High Technology Enterprise" status during 2012 and renewed successfully during 2015 and the applicable PRC enterprise income tax rate for the year is 15% (2016: 15%). Other PRC subsidiaries of the Company are subject to PRC enterprise income tax at a statutory rate of 25% (2016: 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 2017.

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:

	2017 HK$'000	2016 HK$'000
Profit before income tax	**358,973**	157,672
Tax on profit before income tax, calculated at Hong Kong profits tax rate	**59,231**	26,016
Effect of different tax rates of subsidiaries operating in other jurisdictions	**7,752**	5,618
Effect of tax exemption granted to a subsidiary	**(15,035)**	(7,158)
Tax effect of non-taxable net income relating to offshore operation	**(11,736)**	(4,687)
Tax effect of expenses not deductible for tax purposes	**29,907**	22,521
Tax effect of revenue not taxable for tax purposes	**(29,440)**	(23,850)
Tax effect of tax losses and deductible temporary differences not recognised	**441**	454
Utilisation of tax losses and deductible temporary differences previously not recognised	**(13,833)**	(7,632)
Over provision in prior year	**(1,257)**	(3,888)
Tax rebate	**(150)**	(71)
Others	**1,020**	287
Income tax expense	**26,900**	7,610

12. STAFF COSTS

	2017 HK$'000	2016 HK$'000
Staff costs (including directors' emoluments) comprise:		
Wages and salaries	**385,913**	321,758
Pension contribution	**3,286**	3,091
Social insurance	**14,583**	12,889
Share-based payment (equity-settled)	**2,760**	3,064
Provision for long services payment, provision for annual leave and others	**12,711**	10,733
	419,253	351,535

13. EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The emoluments paid or payable to each of the ten (2016: ten) directors and chief executive were as follows:

Year ended 31 December 2017

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

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

(a) Directors' emoluments (continued)

Year ended 31 December 2016

Name of directors	Fees	Basic salaries and bonus	Pension contribution	Housing and other allowances and benefits in kind	Sub-total	Share- based payment (note (i))	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors							
Mr. WONG Shik Ho, Tony	–	11,320	18	609	11,947	204	12,151
Mr. WONG Fong Pak	–	9,022	–	3	9,025	203	9,228
Mr. LEUNG Wah Kan	–	9,148	18	33	9,199	203	9,402
Mr. MAN Wai Hung	–	3,009	18	48	3,075	203	3,278
Mr. HO Nai Nap	–	3,651	18	–	3,669	203	3,872
Non-executive directors							
Mrs. HO WONG Mary Mee-Tak	60	–	–	–	60	–	60
Mr. CHIU Wing Yui (note (iii))	60	–	–	–	60	–	60
Mr. IP Shing Hing	240	–	–	–	240	–	240
Mr. LAI Kin Jerome	240	–	–	–	240	–	240
Mr. CHEUNG Ying Sheung	240	–	–	–	240	–	240
	840	36,150	72	693	37,755	1,016	38,771

Notes:

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

The details of these benefits-in-kind, including the principal terms and number of options granted, are disclosed in note 28.

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

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

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 (2016: all) were directors of the Company whose emoluments are included in the disclosure in note 13(a) above and the remaining highest paid individual was senior management personnel whose emolument is included in the band of HK$7,000,001 to HK$7,500,000 in the disclosure in note 13(c) below.

During the year, no emoluments were paid or payable by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2016: HK$Nil). In addition, none of the directors waived or agreed to waive any emoluments during the year (2016: None).

(c) Senior management's emoluments

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

	2017 No. of Individuals	2016 No. of Individuals
HK$Nil to HK$1,000,000	**3**	5
HK$1,000,001 to HK$1,500,000	**8**	6
HK$1,500,001 to HK$2,000,000	**3**	4
HK$2,000,001 to HK$2,500,000	**—**	1
HK$6,000,001 to HK$6,500,000	**1**	—
HK$7,000,001 to HK$7,500,000	**1**	—

14. DIVIDENDS

	2017 HK$'000	2016 HK$'000
2016 Final dividend paid — HK$0.108 per share (2016: 2015 Final dividend paid — HK$Nil per share)	**47,209**	—
2016 Special dividend paid — HK$0.036 per share (2016: 2015 Special dividend paid — HK$Nil per share)	**15,736**	—
2017 Interim dividend paid — HK$0.04 per share (2016: 2016 Interim dividend paid — HK$0.035 per share)	**17,770**	14,613
Dividends paid for the year	**80,715**	14,613

The directors of the Company proposed a final dividend of HK$0.28 (2016: HK$0.108) per share and a special dividend of HK$Nil (2016: HK$0.036) per share, totalling HK$124,556,000 (2016: HK$62,945,000) after the end of the reporting period. The final dividend and special dividend have not been recognised as liabilities at the end of the reporting period.

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the years ended 31 December 2017 and 2016 is based on the following data:

Profit	2017 HK$'000	2016 HK$'000
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**332,293**	150,189

Number of shares	**2017**	2016
Weighted average number of ordinary shares for the purpose of basic earnings per share	**437,248,120**	419,421,359
Effect of dilutive potential ordinary shares:		
— share options	**6,259,568**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**443,507,688**	419,421,359

The basic and diluted earnings per share for the year ended 31 December 2016 are the same as these outstanding share options are anti-dilutive.

16. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Office and testing equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Total HK$'000
Cost:								
At 1 January 2016	24,644	51,822	287,051	64,574	1,986	3,106	1,622	434,805
Additions	281	221	17,974	2,995	267	912	1,299	23,949
Disposals/written off	–	(3,585)	(31,349)	(4,265)	(16)	(800)	–	(40,015)
Exchange adjustments	13	–	–	(7)	–	–	–	6
At 31 December 2016 and 1 January 2017	24,938	48,458	273,676	63,297	2,237	3,218	2,921	418,745
Additions	–	577	4,686	10,785	132	2,535	121	18,836
Disposals/written off	–	(321)	(12,195)	(855)	–	(23)	–	(13,394)
Exchange adjustments	198	53	–	152	21	7	–	431
At 31 December 2017	25,136	48,767	266,167	73,379	2,390	5,737	3,042	424,618
Accumulated depreciation:								
At 1 January 2016	52	46,079	276,256	58,338	1,296	2,658	941	385,620
Depreciation	326	3,187	6,897	4,571	178	558	360	16,077
Written back on disposal/written off	–	(3,174)	(30,111)	(4,172)	(16)	(787)	–	(38,260)
Exchange adjustments	–	(1)	–	(7)	1	–	–	(7)
At 31 December 2016 and 1 January 2017	378	46,091	253,042	58,730	1,459	2,429	1,301	363,430
Depreciation	329	2,373	5,753	5,379	196	639	937	15,606
Written back on disposal/written off	–	(282)	(12,148)	(845)	–	(23)	–	(13,298)
Exchange adjustments	3	23	–	115	10	1	–	152
At 31 December 2017	710	48,205	246,647	63,379	1,665	3,046	2,238	365,890
Net book value:								
At 31 December 2017	24,426	562	19,520	10,000	725	2,691	804	58,728
At 31 December 2016	24,560	2,367	20,634	4,567	778	789	1,620	55,315

17. INTANGIBLE ASSETS

	Brand name	Non-contractual customer lists and relationship	Total
	HK$'000	HK$'000	HK$'000
Cost:			
At 1 January 2016, 31 December 2016 and 31 December 2017	6,196	10,074	16,270
Accumulated amortisation and impairment:			
At 1 January 2016	281	9,572	9,853
Amortisation	—	287	287
At 31 December 2016 and 1 January 2017	281	9,859	10,140
Amortisation	—	215	215
At 31 December 2017	281	10,074	10,355
Carrying amount:			
At 31 December 2017	5,915	—	5,915
At 31 December 2016	5,915	215	6,130

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.

For impairment testing, brand name is allocated to the cash generating units (CGUs) — VGA cards retailing business in respective brand names that contribute the cash flows. The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates and profit margin during the year. Management estimates discount rate of 27% (2016: 19.7%) that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the coming year and extrapolates cash flows for the following year with a growth rate of -22% to -41% (2016: 3%) and subsequent five years with a steady growth rate of 2% to 5% (2016: 2%). Profit margin is based on historical data of the CGUs.

18. OTHER FINANCIAL ASSETS

	2017 HK$'000	2016 HK$'000
Available-for-sale investments — Non-current		
Investments in unlisted securities (notes)		
— Ordinary shares in Federal Bonus Limited (note (b))	**244**	244
— Ordinary shares in Sapphire Global Holdings Limited (note (b))	**20,748**	20,748
— Preferred stock in Dreamscape Immersive Inc. (note (c))	**15,620**	—
Total	**36,612**	20,992

Notes:

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

(b) These are investments in ordinary shares in private companies incorporated in the British Virgin Islands ("BVI"). As the investments do not have a quoted market price in an active market and their fair value cannot be reliably measured, they are stated at cost less any accumulated impairment losses. The directors have no intention to dispose of the investments in the next twelve months.

(c) This is an investment in preferred stock in a private company incorporated in the United States of America of US$1,999,995 (2016: US$nil). As the investment does not have a quoted market price in an active market and its fair value cannot be reliably measured, it is stated at cost less any accumulated impairment losses. The directors have no intention to dispose of the investment in the next twelve months.

19. TRADE AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**1,165,369**	731,547
Less: Accumulated impairment losses	**(7,543)**	(7,333)
	1,157,826	724,214
Other receivables (note)	**9,530**	8,483
Less: Accumulated impairment losses	**(1,027)**	—
	8,503	8,483
Deposits and prepayments	**19,917**	15,104
	1,186,246	747,801

Note:

The balance includes a claim of HK$2.5 million under an insurance policy as detailed in note 23(b).

19. TRADE AND OTHER RECEIVABLES (CONTINUED)

As at 31 December 2016, the Group entered into trade receivables factoring arrangement and transferred certain trade receivables to banks. There are two types of arrangements including factoring loans without recourse and discounted bills with full recourse.

For factoring loans without recourse, as at 31 December 2016, the Group had drawn approximately HK$73,589,000 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.

As at 31 December 2017, the Group had not entered into any trade receivables factoring arrangement.

For discounted bills with full recourse, as at 31 December 2017, trade receivables with both original carrying value and the carrying amount of approximately HK$17,511,000 (2016: HK$18,658,000) had been transferred to banks. Since the Group has retained substantial risks and rewards relating to the trade receivables including default risks, the trade receivables are regarded as transferred financial assets that should not be derecognised. Accordingly, the trade receivables and the corresponding proceeds of discounted bills with same amount as the trade receivables continued to be recognised in the consolidated financial statements even though the trade receivables have been legally transferred to banks. In the event of default by the debtors, the Group is obliged to pay the banks the amount in default. Interest is charged at 1.78% to 2.40% (2016: 1.25% to 1.87%) on the proceeds received from the banks until the date the debtors pay.

The carrying amount of trade receivables of HK$17,511,000 and the corresponding proceeds of discounted bills approximate to their fair values.

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

	2017 **HK$'000**	2016 HK$'000
Within 1 month	**710,267**	404,342
Over 1 month but within 3 months	**364,466**	287,502
Over 3 months but within 1 year	**24,703**	29,385
Over 1 year	**58,390**	2,985
	1,157,826	724,214

19. TRADE AND OTHER RECEIVABLES (CONTINUED)

The credit period on sale of goods is 30 to 90 days (2016: 30 to 60 days) from the invoice date.

The ageing analysis of trade receivables (net of impairment losses) of the Group, based on due dates, as of the end of the year is as follows:

	2017 **HK$'000**	2016 HK$'000
Neither past due nor impaired	**843,191**	501,338
Within 1 month	**212,150**	125,046
Over 1 month but within 3 months	**31,369**	78,833
Over 3 months but within 1 year	**13,287**	16,027
Over 1 year	**57,829**	2,970
	1,157,826	724,214

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record. Based on past experience, the directors consider that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. As at 31 December 2017, the Group held pledges of landed properties for certain of these balances amounted to HK$61,299,000 (2016: HK$29,345,000) while the fair value of pledged landed properties amounted to HK$69,728,000 (2016: HK$29,520,000).

The below table reconciles the impairment loss of trade receivables for the year:

	2017 **HK$'000**	2016 HK$'000
At beginning of year	**7,333**	6,594
Provision of impairment loss recognised	**6,508**	746
Uncollectible amounts written off	**(6,325)**	(9)
Exchange difference	**27**	2
At end of year	**7,543**	7,333

The Group recognised impairment loss on individual assessment based on the accounting policy stated in note 4(g)(ii).

20. DEFERRED TAX

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

	Decelerated tax depreciation	Provision for doubtful debts, annual leave and warranty	Tax losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2016	953	436	—	1,389
Credited to profit or loss	4	981	—	985
At 31 December 2016 and 1 January 2017	957	1,417	—	2,374
(Charged)/credited to profit or loss	(24)	1,316	2,771	4,063
Exchange difference	—	—	8	8
At 31 December 2017	933	2,733	2,779	6,445

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2017	2016
	HK$'000	HK$'000
Deferred tax assets	**6,445**	2,414
Deferred tax liabilities	**—**	(40)
	6,445	2,374

20. DEFERRED TAX (CONTINUED)

Deferred tax asset has not been recognised for the followings:

	2017 HK$'000	2016 HK$'000
Deductible temporary differences	**15,643**	8,723
Unused tax losses	**10,880**	56,000
	26,523	64,723

The PRC subsidiaries of the Company are subject to PRC withholding income tax at a statutory rate of 10% (2016: 10%) on any dividend declared.

Except for one subsidiary, no deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised. Losses amounting to approximately HK$5,387,000 (2016: HK$6,410,000) could be carried forward indefinitely. Remaining losses amounting to approximately HK$5,493,000 (2016: HK$49,590,000) will expire during 2022 to 2035.

The temporary difference associated with investment in subsidiaries for which deferred tax liabilities have not been recognised amounted to approximately HK$36,080,000 (2016: HK$21,131,000).

21. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	**865,789**	616,656
Work in progress	**65,233**	34,832
Finished goods	**478,682**	664,356
	1,409,704	1,315,844
Less: Provision for obsolete inventories	**(60,248)**	(34,377)
	1,349,456	1,281,467

22. CASH AND BANK BALANCES

	2017 HK$'000	2016 HK$'000
Cash and bank balances	**1,453,815**	790,289
Less: Pledged time deposit	**(454)**	(450)
Cash and cash equivalents in the consolidated statement of cash flows	**1,453,361**	789,839

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

	2017 HK$'000	2016 HK$'000
Renminbi	**96,983**	75,996
Japanese Yen	**2,998**	2,878
Taiwan Dollars	**1,561**	1,535
United States Dollars	**1,065,793**	573,699
Hong Kong Dollars	**247,465**	121,885
Korean Won	**28,060**	12,294
Euro	**9,782**	341
Others	**719**	1,211
	1,453,361	789,839

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.

23. TRADE AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables	1,057,747	828,143
Other payables and accruals (notes (a), (b))	430,214	132,356
	1,487,961	960,499

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

Note:

(a) As at 31 December 2017, other payables and accruals mainly comprised deposit received from customers, provision for bonus and accrued expenses.

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

The Group was not aware of the winding up action against Changtel. The management has sought for legal opinion from a local independent lawyer. According to the legal opinion, such payment may be valid if validation order is granted by the court to the Group. However, the lawyer does not consider that any application for a validation order by the Group is likely to succeed. As such, the Group has made a provision of HK$6.5 million in respect of the abovementioned demand, of which HK$2.5 million is covered by insurance policy (note 19).

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

	2017 HK$'000	2016 HK$'000
At beginning of year	6,121	—
Additional provision	289	6,121
Exchange difference	51	—
At end of year	6,461	6,121

23. TRADE AND OTHER PAYABLES (CONTINUED)

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

	2017 HK$'000	2016 HK$'000
Within 1 month	**633,874**	563,934
Over 1 month but within 3 months	**389,326**	242,260
Over 3 months but within 1 year	**31,232**	18,689
Over 1 year	**3,315**	3,260
	1,057,747	828,143

24. BORROWINGS

	2017 HK$'000	2016 HK$'000
Import loans — secured	**1,333,445**	968,897
Discounted bills	**17,511**	18,658
	1,350,956	987,555

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

	2017 HK$'000	2016 HK$'000
On demand or within 1 year	**1,350,956**	987,555

(i) At 31 December 2017, the above borrowings bear interest at effective interest rates ranging from 0.9% per annum over cost of funds (2016: 0.9% per annum over cost of funds) to 1.1% per annum over cost of funds (2016: 1.1% per annum cost of funds) for the year.

(ii) The Group's banking facilities are secured by bank deposits of HK$454,000 (2016: HK$450,000).

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

24. BORROWINGS (CONTINUED)

(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.

25. PROVISIONS

	2017 HK$'000	2016 HK$'000
Provision for product warranties and returns		
At beginning of year	**12,883**	3,965
Additional provision, net	**27,675**	16,922
Utilisation	**(11,992)**	(8,004)
Exchange difference	**10**	—
Net movement for the year	**15,693**	8,918
At end of year	**28,576**	12,883

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

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

26. SHARE CAPITAL

	2017 Number of shares	2017 HK$'000	2016 Number of shares	2016 HK$'000
Authorised:				
Ordinary shares of HK$0.1 each	**1,000,000,000**	**100,000**	1,000,000,000	100,000
Issued and fully paid:				
Ordinary shares of HK$0.1 each				
At beginning of year	**429,393,668**	**42,939**	417,518,668	41,752
Share options exercised	**15,450,000**	**1,545**	11,875,000	1,187
At end of year	**444,843,668**	**44,484**	429,393,668	42,939

27. OPERATING LEASE ARRANGEMENTS (AS LESSEE)

The Group leases the majority of its properties. The terms of property leases vary from country to country, although they all tend to be tenant repairing with rent reviews every 1 to 10 years and many have break clauses.

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

	2017 HK$'000	2016 HK$'000
Within 1 year	**34,324**	23,336
Over 1 year but within 5 years	**4,015**	8,726
	38,339	32,062

28. SHARE-BASED PAYMENT

(a) Pre-IPO Share Option Scheme

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

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

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

The fair values for total share options granted to directors and employees amounted to HK$7,175,000 and HK$10,095,000 respectively and were calculated using the Binomial option pricing model by Stirling Appraisals Limited, a qualified valuer. The weighted average remaining contractual life of the share options outstanding at 31 December 2017 is Nil year (2016: Nil year).

28. SHARE-BASED PAYMENT (CONTINUED)

(b) 2016 Share Option Scheme

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

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

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

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

	2017			
	Weighted average exercise price HK$	Directors '000	Employees '000	Total '000
Outstanding at the beginning of the year	1.12	6,000	13,870	19,870
Lapsed during the year	1.46	–	(2,470)	(2,470)
Exercised during the year	1.09	(5,400)	(10,050)	(15,450)
Outstanding at the end of the year	1.09	600	1,350	1,950
Exercisable at the end of the year	1.46	–	–	–
Exercisable at the end of the year	1.09	600	1,350	1,950

28. SHARE-BASED PAYMENT (CONTINUED)

(b) 2016 Share Option Scheme (continued)

	2016			
	Weighted average exercise price HK$	Directors '000	Employees '000	Total '000
Outstanding at the beginning of the year	1.46	13,290	14,200	27,490
Lapsed during the year	1.46	(6,645)	(7,100)	(13,745)
Exercised during the year	1.46	(6,645)	(5,230)	(11,875)
Granted during the year	1.09	6,000	12,000	18,000
Outstanding at the end of the year	1.12	6,000	13,870	19,870
Exercisable at the end of the year	1.46	—	1,870	1,870
Exercisable at the end of the year	1.09	—	—	—

The weighted averaged share price at the date of exercise for share options exercised during the year was HK$2.75 (2016: HK$1.78).

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

	2017				
Director	**Beginning of year**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**End of year**
Mr. WONG Shik Ho Tony	**1,200,000**	**–**	**(1,200,000)**	**–**	**–**
Mr. WONG Fong Pak	**1,200,000**	**–**	**(1,200,000)**	**–**	**–**
Mr. LEUNG Wah Kan	**1,200,000**	**–**	**(600,000)**	**–**	**600,000**
Mr. MAN Wai Hung	**1,200,000**	**–**	**(1,200,000)**	**–**	**–**
Mr. HO Nai Nap	**1,200,000**	**–**	**(1,200,000)**	**–**	**–**
Total	**6,000,000**	**–**	**(5,400,000)**	**–**	**600,000**

28. SHARE-BASED PAYMENT (CONTINUED)

			2016		
Director	Beginning of year	Granted during the year	Exercised during the year	Lapsed during the year	End of year
Mr. WONG Shik Ho Tony	4,290,000	1,200,000	(2,145,000)	(2,145,000)	1,200,000
Mr. WONG Fong Pak	3,300,000	1,200,000	(1,650,000)	(1,650,000)	1,200,000
Mr. LEUNG Wah Kan	3,300,000	1,200,000	(1,650,000)	(1,650,000)	1,200,000
Mr. MAN Wai Hung	1,200,000	1,200,000	(600,000)	(600,000)	1,200,000
Mr. HO Nai Nap	1,200,000	1,200,000	(600,000)	(600,000)	1,200,000
Total	13,290,000	6,000,000	(6,645,000)	(6,645,000)	6,000,000

The inputs into the model were as follows:

	"Pre-IPO Share Option Scheme" Employees and directors	**"2016 Share Option Scheme" Employees and directors**
	As at 14 December 2011	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.

29. NOTE SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents comprise:

	2017 HK$'000	2016 HK$'000
Cash available on demand	**1,425,359**	780,509
Short-term deposits	**28,002**	9,330
Significant non-cash transactions are as follows:		
Financing activities		
Assets acquired under finance leases	**90**	—
Termination of finance leases	**(38)**	—
	52	—

(b) Reconciliation of liabilities arising from financing activities:

	Borrowings (note 24) HK$'000	**Obligations under finance leases** HK$'000
At 1 January 2017	987,555	51
Proceeds from discounted bills and factoring loans	80,687	—
Repayment of discounted bills and factoring loans	(81,834)	—
Repayment of obligations under finance leases	—	(18)
Total changes from financing cash flows:	(1,147)	(18)
Other changes:		
Net proceeds from import loan	364,548	—
New finance leases	—	90
Termination of finance leases	—	(38)
Total other changes	364,548	52
At 31 December 2017	1,350,956	85

30. CAPITAL COMMITMENTS

At 31 December 2017, the Group had the following capital commitments contracted for but not provided in respect of:

	2017 HK$'000	2016 HK$'000
Acquisition of property, plant and equipment	**2,542**	365

31. CONTINGENCY

As at 31 December 2017, the Group had the following material contingency:

– **Investigation by United States International Trade Commission under section 337 of the Tariff Act of 1930.**

On 29 December 2017, ZiiLabs Inc., Ltd. ("ZiiLabs"), a Bermuda corporation, filed a complaint with the United States International Trade Commission ("Commission") against two wholly-owned subsidiaries of the Company, namely, Zotac International (Macao Commercial Offshore) Limited and Zotac USA, Inc. (collectively "Zotac"), Zotac's graphics processing unit ("GPU") supplier Nvidia Corporation ("Nvidia") and others (collectively, "Respondents") for an infringement of ZiiLabs's US patents ("Patents") by the Respondents' graphics processors and/or products containing the same ("Complaint"). The Patents are generally related to graphics rendering technology and GPU architectures.

Upon ZiiLabs' request, the Commission has commenced an investigation as to the Complaint ("Investigation"). Certain of Nvidia's graphic cards and GPU products are being accused of infringing the Patents and Zotac is also under the Investigation because certain Zotac products contain the said GPU. Zotac denied that there was any infringement of the Patents. Zotac has appointed US lawyers to handle the Investigation and has already filed a response to the Complaint as per the Commission's request.

Based on the aforesaid patent infringement allegations, ZiiLabs requested the Commission to grant reliefs against the Respondents, including a limited exclusion order prohibiting an importation of the alleged Patent infringing products. There was no claim of damages by ZiiLabs and no provision has been made in the consolidated financial statements.

As the Investigation is at an early stage, there is insufficient information to assess outcome of the Complaint. Management is of the view that its impact on the Group's revenue would be immaterial but would implement measures to reduce any negative impact on the Group.

32. RELATED PARTIES DISCLOSURES

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

(i) Amount due from/(to) a related party

Amount due from/(to) a related party is unsecured, interest-free and repayable on demand. Maximum amount due from a related party during the year was HK$21,984,000 (2016: 4,524,000). The credit period on sales of good is 30 days (2016: 30 days) from the invoice date.

	2017 HK$'000	2016 HK$'000
(ii) Related parties transactions		
Related party controlled by a subsidiary's key management personnel		
— sales	(373,032)	(17,915)
— commission expense	3,896	3,456
— agency fee expense	607	512
Related company owned by a director of the Company		
— rental expense	780	780
Director of a subsidiary		
— rental expense	208	192
Director of the Company		
— rental expense	208	192

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.

33. CAPITAL MANAGEMENT

The capital structure of the Group consists of debts, which includes the borrowings disclosed in note 24 and the obligations under finance leases and equity of the Group, comprising share capital, reserves and retained earnings disclosed in consolidated statement of changes in equity. Management reviews the capital structure on a semi-annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital.

The Group has a target gearing ratio of below 100% determined as the proportion of net debt to equity.

The gearing ratio at the end of each reporting period was as follows:

	2017 HK$'000	2016 HK$'000
Debts	1,351,041	987,606
Cash and bank balances	(1,453,815)	(790,289)
Net debts	(102,774)	197,317
Total equity	1,208,040	933,194
Net debt to equity ratio	N/A	21.1%

34. FINANCIAL RISK MANAGEMENT

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

(a) Credit risk

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

In respect of trade and other receivables and amount due from a related party, individual credit evaluations are performed on all customers requiring credit over a certain amount. Ongoing evaluations are performed on monthly basis. For receivables with balances that are more than 3 months overdue, further credit will only be granted under management's approval, otherwise, the customers are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers except for those mentioned in note 19, however the Group has purchased credit insurance for certain customers.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Further quantitative disclosures in respect of the Group exposures to credit risk arising from trade receivables are set out in note 19.

As at 31 December 2017, the Group has a certain concentration of credit risk as 5.8% (2016: 3.9%) and 24.8% (2016: 23.2%) of the total trade receivables and amount due from a related party were due from the Group's largest customer and the five largest customers respectively.

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

(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.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within 1 year HK$'000	Over 1 year but within 2 years HK$'000	More than 2 years HK$'000
At 31 December 2017					
Trade and other payables	**1,487,961**	**1,487,961**	**1,487,961**	**–**	**–**
Borrowings	**1,350,956**	**1,350,956**	**1,350,956**	**–**	**–**
Obligations under finance leases	**85**	**85**	**18**	**18**	**49**
Total	**2,839,002**	**2,839,002**	**2,838,935**	**18**	**49**
At 31 December 2016					
Trade and other payables	960,499	960,499	960,499	–	–
Amount due to a related party	562	562	562	–	–
Borrowings	987,555	987,555	987,555	–	–
Obligations under finance leases	51	51	16	16	19
Total	1,948,667	1,948,667	1,948,632	16	19

The below table summarises the maturity analysis of bank borrowings with a repayment on demand clause based on agreed scheduled repayments. Taking into account the Group's financial position, the directors do not consider that it is probable that the banks will exercise their discretion to demand immediate repayment. The directors believe that such bank borrowings will be repaid in accordance with the scheduled repayment dates.

	Carrying amount HK$'000	Total contractual discounted cash flow HK$'000	Within 1 year HK$'000
31 December 2017	**1,350,956**	**1,353,219**	**1,353,219**
31 December 2016	987,555	989,180	989,180

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk

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

The following table details the interest rate profile of the Group's borrowings:

	2017		2016	
	Effective interest rate (per annum)	**HK$'000**	Effective interest rate (per annum)	HK$'000
Variable rate borrowings:				
Import loans	**2.34%**	**1,333,445**	1.80%	968,897
Discounted bills	**1.10%**	**17,511**	1.79%	18,658
		1,350,956		987,555
Fixed rate borrowings:				
Obligations under finance lease	**Nil**	**85**	Nil	51

At 31 December 2017, 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 2017 by approximately HK$5,641,000 (2016: HK$4,123,000) 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 2016.

(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.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Currency risk (continued)

The following table details the Group's exposure at 31 December 2017 and 2016 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.

	2017 Renminbi HK$'000	2016 Renminbi HK$'000	**2017 Euro HK$'000**	2016 Euro HK$'000
Trade and other receivables	**68,163**	29,303	**396**	197
Cash and bank balances	**82,746**	57,815	**6,465**	1,093
Trade and other payables	**(27,308)**	(9,784)	**(480)**	(388)
Overall net exposure	**123,601**	77,334	**6,381**	902

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 2017		
Renminbi	**5%**	**5,160**
Euro	**5%**	**266**
As at 31 December 2016		
Renminbi	5%	3,229
Euro	5%	38

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.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Currency risk (continued)

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 2016.

35. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

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

	2017 Carrying amount HK$'000	2016 Carrying amount HK$'000
Financial assets		
Loans and receivables		
— Trade and other receivables	**1,168,619**	734,513
— Amount due from a related party	**1,762**	—
— Cash and cash equivalents	**1,453,361**	789,839
Available-for-sale financial assets	**36,612**	20,992
Financial liabilities		
Financial liabilities measured at amortised cost		
— Trade and other payables	**1,268,885**	952,088
— Amount due to a related party	**—**	562
— Borrowings	**1,350,956**	987,555
— Obligations under finance leases	**85**	51

Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, amount due from/(to) a related party, trade and other payables, borrowings, and obligations under finance leases.

Due to their short term nature, the carrying values of cash and cash equivalents, trade and other receivables, amount due from/(to) a related party, trade and other payables approximate to their fair values.

36. PARTICULARS OF SUBSIDIARIES

As at 31 December 2017, 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 Directly	Attributable equity interest held Indirectly	Principal activities
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 (note iii)	–	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%	Subcontracting and trading of computer accessories
Zotac Europe GmbH	Germany 25 September 2012	Germany	EUR25,000	–	100%	Provision of technical support service
PC Vision Limited	Hong Kong 14 June 2013	Hong Kong	HK$6,500,000	–	96.4%	Design and sale of computer accessories
PC Partner Wealth Investment Limited	Hong Kong 12 August 2013	Hong Kong	HK$20,000,000	–	100%	Trading of computers and computer parts
VRSense Solutions Ltd	BVI 14 September 2016	Hong Kong	US$2,000,000	–	100%	Investment holding
Excelsior Technology Limited	BVI 18 July 1997	Hong Kong	US$1	–	100%	Investment holding
Skyield Limited	BVI 2 January 2001	Hong Kong	US$1	–	100%	Investment holding
Zotac Technology Limited	Hong Kong 20 July 2005	Hong Kong	HK$150,000,000 (note iv)	–	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 (note ii)	–	100%	Trading of computer accessories and computer
Zotac International Limited	Hong Kong 30 October 2017	Hong Kong	HK$1 (note v)	–	100%	Investment holding
Innopartner Pte. Limited	Singapore 28 Aug 2017	Singapore	SGD250,000	–	80%	Research and development of new products

36. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Notes:

(i) All subsidiaries established in the PRC are wholly foreign owned enterprises.

(ii) As at 31 December 2017, the registered capital amounted to RMB1,000,000 and was subsequently paid up on 19 January 2018.

(iii) As at 31 December 2017, registered capital of US$1 was paid up. On 7 February 2018, additional registered capital of US$19,999,999 was paid up.

(iv) As at 31 December 2017, registered capital of HK$1 was paid up. On 9 February 2018, additional registered capital of HK$149,999,999 was paid up.

(v) Up to the date of this annual report, the registered capital is not yet paid up.

* 東莞市天沛電子科技有限公司 was deregistered on 21 September 2016.

37. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	2017 HK$'000	2016 HK$'000
Non-current assets		
Investment in a subsidiary	**532,690**	530,877
Current assets		
Prepayments and other receivables	**225**	283
Amounts due from subsidiaries	**182,846**	134,551
Cash and cash equivalents	**31,662**	48,427
Total current assets	**214,733**	183,261
Current liabilities		
Accruals	**34,472**	21,035
Amount due to a subsidiary	**–**	2,024
Total current liabilities	**34,472**	23,059
Net current assets	**180,261**	160,202
NET ASSETS	**712,951**	691,079
Capital and reserves		
Share capital	**44,484**	42,939
Reserves (note)	**668,467**	648,140
TOTAL EQUITY	**712,951**	691,079

On behalf of the Board

WONG Shik Ho Tony
Director

WONG Fong Pak
Director

37. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (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 2016	119,331	495,778	14,867	1,882	631,858
Shares issued under share option scheme	22,755	—	(6,605)	—	16,150
Profit for the year	—	—	—	11,681	11,681
Dividend paid (note 14)	—	—	—	(14,613)	(14,613)
Equity settled share-based transactions (note 28)	—	—	3,064	—	3,064
Lapse of share options	—	—	(7,223)	7,223	—
At 31 December 2016 and 1 January 2017	142,086	495,778	4,103	6,173	648,140
Shares issued under share option scheme	20,371	—	(5,076)	—	15,295
Profit for the year	—	—	—	82,987	82,987
Dividend paid (note 14)	—	—	—	(80,715)	(80,715)
Equity settled share-based transactions (note 28)	—	—	2,760	—	2,760
Lapse of share options	—	—	(1,142)	1,142	—
At 31 December 2017	162,457	495,778	645	9,587	668,467

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.

38. COMPARATIVE FIGURES

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

39. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 March 2018.

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