



HKSE: 1263

* For identification purpose only

栢能集團有限公司*
PC Partner Group Limited

Incorporated in the Cayman Islands with limited liability

2023
INTERIM REPORT

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Company Profile

PC Partner is a leading manufacturer of computer electronics. Our key products are video graphics cards (“VGA Cards”), motherboards and mini-PCs. We are also offering one-stop electronic manufacturing services (“EMS”) 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 endeavor to stay ahead of the industry to ensure success and competitiveness in serving the needs of our customers.

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, *B.B.S., J.P.*
Mr. LAI Kin Jerome
Mr. CHEUNG Ying Sheung
Ms. CHAN Yim

AUDIT COMMITTEE

Mr. LAI Kin Jerome *(Chairman)*
Mr. IP Shing Hing, *B.B.S., J.P.*
Mr. CHEUNG Ying Sheung
Ms. CHAN Yim

REMUNERATION COMMITTEE

Mr. IP Shing Hing *(Chairman), B.B.S., J.P.*
Mr. LAI Kin Jerome
Mr. CHEUNG Ying Sheung
Mr. WONG Shik Ho Tony
Ms. CHAN Yim

NOMINATION COMMITTEE

Mr. IP Shing Hing *(Chairman), B.B.S., J.P.*
Mr. LAI Kin Jerome
Mr. CHEUNG Ying Sheung
Mr. WONG Shik Ho Tony
Ms. CHAN Yim

INVESTMENT COMMITTEE

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

COMPANY SECRETARY

Ms. LEE Yuet Wan

AUTHORISED REPRESENTATIVES

Mr. WONG Shik Ho Tony
Ms. LEE Yuet Wan

AUDITOR

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Registered Public Interest Entity Auditor
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REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Wanchai
Hong Kong

PRINCIPAL BANKERS

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

WEBSITE

www.pcpartner.com

Management Discussion and Analysis

BUSINESS REVIEW

The Group is principally engaged in the design, manufacturing and trading of VGA Cards for desktop computer, EMS and manufacturing and trading in other PC related products and components.

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

The Group provides EMS to globally recognised brands, including major providers of Automatic Teller Machines (“ATM”) and Point-Of-Sales (“POS”) systems, industrial devices, and various types of consumer electronic products. Aside from VGA Cards and the EMS businesses, the Group manufactures and sell other PC related products such as computers, motherboards, and other products and further derives revenue from trading of products and components.

Business Performance

Revenue has recorded a decrease of HK\$2,432.4 million, or 36.8%, from HK\$6,607.8 million in the first half of 2022 to HK\$4,175.4 million in the first half of 2023. Business performance deteriorated quickly which was largely affected by various geopolitical and economic factors that have discouraged consumer spending and corporate investment since the second half of 2022.

VGA Cards business has recorded a decrease of HK\$2,447.6 million, or 42.3%, from HK\$5,781.5 million in the first half of 2022 to HK\$3,333.9 million in the first half of 2023. Sales of own brand VGA Cards decreased by HK\$1,592.8 million, or 36.5%, from HK\$4,363.6 million in the first half of 2022 to HK\$2,770.8 million in the first half of 2023. Strong U.S. dollar together with high interest rate continued to discourage gamers spending on new VGA Cards. In addition, the Group has also adopted a more conservative practice to reduce purchases especially of the last generation GPUs which would cause a decline in sales revenue during the period under review. Average selling price (“ASP”) of own brand VGA Cards decreased by 7.7% from the first half of 2022 to the first half of 2023. The decline of ASP was mainly associated with a change of product mix together with price promotion to stimulate sales and discounts offered to clear the last generation products in the first half of 2023.

Sales of ODM/OEM VGA Cards decreased by HK\$854.8 million, or 60.3%, from HK\$1,417.9 million in the first half of 2022 to HK\$563.1 million in the first half of 2023. The decline of ODM/OEM orders of VGA Cards was also largely caused by an unstable geopolitical and economic environment which discouraged both consumer spending and corporate investment. Many ODM/OEM customers had cancelled or postponed projects due to a deteriorating economy with a continuous decline of PC shipment over the past few quarters.

EMS business has recorded a decrease of HK\$2.0 million, or 0.6%, from HK\$360.9 million in the first half of 2022 to HK\$358.9 million in the first half of 2023. Additional orders contributed by new customers had offset sales downtrend of existing customers during the period under review. Sales of other PC related products and components business increased by HK\$17.2 million, or 3.7%, from HK\$465.4 million in the first half of 2022 to HK\$482.6 million in the first half of 2023. The change was mainly associated with increase in component trade which offset a downtrend of sales of computers during the period under review.

Revenue of brand business decreased by HK\$1,607.6 million, or 36.1%, from HK\$4,450.1 million in the first half of 2022 to HK\$2,842.5 million in the first half of 2023. Performance of brand business was highly associated with consumer confidence and spending which was largely affected by a mixture of high inflation and aggressive monetary policies as well as the long lasting war in Ukraine. The Group has adopted a more conservative approach to minimize the inventory risk on GPU intakes especially of the last generation product lines.

The ODM/OEM business which includes component trade has recorded a decrease in revenue of HK\$824.8 million, or 38.2%, from HK\$2,157.7 million in the first half of 2022 to HK\$1,332.9 million in the first half of 2023. The decline was mainly associated with the weak demand of ODM/OEM VGA segment which was also largely caused by an unstable geopolitical and economic environment that has discouraged both consumer spending and corporate investment. It was mainly associated with the weak demand of ODM/OEM basis VGA Cards due to a deteriorating economy with a continuous decline of PC shipment over the past few quarters.

Regional business performance was very much associated with geopolitical issue, governmental policy, and the economy of different regions and countries. In general, all regions had experienced a significant sales decline from 20.5% to 54.7% in the first half of 2023 as compared to the same period in last year.

The Asia Pacific (“APAC”) Region

In the APAC region, revenue decreased by HK\$985.9 million, or 40.7%, from HK\$2,424.7 million in the first half of 2022 to HK\$1,438.8 million in the first half of 2023. It was mainly due to less orders on ODM/OEM basis VGA Cards as a result of weak demand of PC. In addition, depreciation of most Asian currencies such as Japanese Yen and Korean Won had weakened consumer purchasing power in the regions so that the sales of brand products declined during the period under review.

The North and Latin America (“NALA”) Region

In the NALA region, revenue amounted to HK\$638.0 million in the first half of 2023, representing a decrease of HK\$771.6 million, or 54.7%, as compared to HK\$1,409.6 million in the first half of 2022. The change was mainly due to a lower sales volume in U.S., high inflation and aggressive monetary policies has discouraged consumer demand and corporate spending which has resulted in a decline in sales of brand business. In addition, depreciation of currencies in Latin America had also weakened consumer purchasing power during the period under review.

The People’s Republic of China (“PRC”) Region

In the PRC region, revenue amounted to HK\$939.3 million in the first half of 2023, representing a decrease of HK\$241.8 million, or 20.5%, as compared to HK\$1,181.1 million in the first half of 2022. Even though China lifted the COVID restrictions, economic recovery was slow and depreciation of Chinese Yuan both had discouraged consumer spending in the region during the period under review.

The Europe, Middle East, Africa and India (“EMEAI”) Region

In the EMEAI region, revenue amounted to HK\$1,159.3 million in the first half of 2023, representing a decrease of HK\$433.1 million, or 27.2%, as compared to HK\$1,592.4 million in the first half of 2022. High inflation and aggressive monetary policies has discouraged consumer demand and corporate spending which has resulted in a decline in sales revenue in the region. In addition, the war in Ukraine has caused sanctions of export products to Russia which has also affected the regional business performance during the period under review.

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, ISO45001, QC080000, ISO13485 and the code issued by Responsible Business Alliance (“RBA”).

Principal Risks and Uncertainties

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

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

The growing tensions over trade and technology between the two biggest economies, China and the United States, is a threat to the global economy which may affect confidence in terms of consumer spending and corporate capital expenditure. A further trade restriction and tariff imposed on import and export of technology and products between China and the United States would increase the cost of products which will ultimately be passed onto consumers that may discourage and reduce consumer and corporate demand in the long run. Furthermore, it is still uncertain about the impact to the business of the Group of the revocation of the United States — Hong Kong Policy Act of 1992 in future. Most of the products manufactured by the Group rely on United States technologies. It is a risk to the Group if the United States restrict the export of consumer grade technologies to Hong Kong.

The Group is not aware of any other particular or important event that has occurred which would trigger a risk and uncertainty as at 30 June 2023.

OUTLOOK

Although there was an improvement on gross profit margin as compared to the second half of last year, sales momentum remained weak in the first half year due to the fact that consumer were reluctant to make purchases in a persistent inflation and high interest rates environment. Consumer remained to be price-sensitive and expected further discount by deferral of purchases. The Group further tightened up inventory control with less purchases especially for the last generation GPUs to minimize potential inventory risk.

Global memory chip manufacturers have started to cut down production recently due to a persistent drop on memory prices. This may be a positive indicator to correct consumer expectation on further potential discount of products. Channel inventory level is relatively at a healthy level as compared to last year. Fourth quarter is the traditional buying season in a year, so it is foreseeable channel customers will likely place orders more aggressively in order to get prepared for the upcoming buying season. It will not be a surprise for the Group to achieve a higher sales revenue in the second half as compared to the first half of the year.

The Group keeps on investing in new product development. Besides launching new products embedded with Nvidia professional graphics solutions, the Group is planning to introduce GPU server solutions for artificial intelligence and machine learning in the last quarter of the year. The growing GPU server market is predicted to expand persistently across different industries and businesses. Although it will take time for the Group to build up the business in this fast growing sector, the return contribution is foreseen to be substantial in long run and to take the Group to the next level.

FINANCIAL REVIEW

Revenue

The Group's total revenue decreased by HK\$2,432.4 million, or 36.8%, from HK\$6,607.8 million in the first half of 2022 to HK\$4,175.4 million in the first half of 2023. The change was mainly due to a decline on sales of both own brand and ODM/OEM basis VGA Cards. The business was largely affected by various geopolitical and economic factors that had resulted in a shrink on demand since second half of last year.

Revenue on VGA Cards decreased by HK\$2,447.6 million, or 42.3%, from HK\$5,781.5 million in the first half of 2022 to HK\$3,333.9 million in the first half of 2023. Sales of own brand VGA Cards and ODM/OEM VGA Cards have recorded a decline by HK\$1,592.8 million and HK\$854.8 million respectively during the period under review. Sales of own brand VGA Cards decreased by HK\$1,592.8 million, or 36.5%, from HK\$4,363.6 million in the first half of 2022 to HK\$2,770.8 million in the first half of 2023. Geopolitical issue and high inflation together with aggressive monetary policies had caused a shrink in demand of VGA Cards and also resulted in a slowdown of VGA Cards replacement cycle. In addition, the Group has also adopted a more conservative practice to reduce GPU intakes especially of the last generation GPUs which would also cause a decline in sales revenue during period under review.

ODM/OEM orders on VGA Cards decreased by HK\$854.8 million, or 60.3%, from HK\$1,417.9 million in the first half of 2022 to HK\$563.1 million in the first half of 2023. It was mainly associated with lower sales level of ODM/OEM basis VGA Cards as a result of the weak demand of PC due to a deteriorating economy with a continuous decline of PC shipment over the past few quarters.

Revenue derived from the EMS business amounted to HK\$358.9 million in the first half of 2023, representing a decrease of HK\$2.0 million, or 0.6%, as compared to HK\$360.9 million in the first half of 2022. The change was not significant which was mainly due to additional orders contributed from new customers that offset sales downtrend of some existing customers during the period under review.

Sales of other PC related products and components increased by HK\$17.2 million, or 3.7%, from HK\$465.4 million in the first half of 2022 to HK\$482.6 million in the first half of 2023. The change was mainly associated with increase in component trade which offset a sales downtrend on computers during the period under review.

Gross Profit and Margin

The Group's gross profit in the first half of 2023 was HK\$323.7 million, representing a decrease of HK\$1,042.1 million, or 76.3%, as compared with HK\$1,365.8 million in the first half of 2022. Gross profit margin was 7.8% in the first half of 2023 as compared with 20.7% in the first half of 2022. Decline of gross profit margin was mainly associated with price promotion to stimulate sales of own brand VGA Cards and clearance of last generation of own brand VGA Cards with discount in the first half of 2023. Drop in sales volume on both own brand and ODM/OEM VGA Cards has also resulted in a decline of gross profit and margin during the period under review.

Material cost as a percentage of sales increased by 12.0% from 77.3% in the first half of 2022 to 89.3% in the first half of 2023 which was mainly resulted from sales promotion and discount offered to customers under own brand VGA Cards. The Group has spent less on conversion cost which consisted of direct labour and production overheads for a total of HK\$11.3 million, or 8.6%, from HK\$131.4 million in the first half of 2022 to HK\$120.1 million in the first half of 2023. The decline was not fully in line with sales volume decline since it was partly offset by the fixed production overheads in factories.

Other Revenue and Other Gains and Losses

Other revenue and other gains and losses increased by HK\$17.8 million, or 356.0%, from a loss of HK\$5.0 million in the first half of 2022 to a gain of HK\$12.8 million in the first half of 2023. The change was mainly due to a significant increase in interest income by HK\$19.6 million from HK\$1.8 million in the first half of 2022 to HK\$21.4 million in the first half of 2023 which has fully offset the net exchange losses incurred for the period under review.

Operating Expenses

Operating expenses, consisting of selling and distribution expenses, administrative expenses, impairment losses on financial assets and finance costs, decreased by HK\$51.4 million, or 14.3%, from HK\$358.2 million in the first half of 2022 to HK\$306.8 million in the first half of 2023. The change was mainly due to lower spending on directors' profit sharing and staff bonus under administrative expenses in the first half of 2023 as compared to same period in last year.

Selling and distribution expenses increased by HK\$12.5 million, or 26.2%, from HK\$47.8 million in the first half of 2022 to HK\$60.3 million in the first half of 2023. The change was mainly due to more marketing and promotion activities for new products launch and clearance of last generation own brand VGA Cards in the first half of 2023.

Management Discussion and Analysis

Administrative expenses were HK\$89.7 million lower than the same period in last year, which decreased by 29.9% from HK\$300.0 million in the first half of 2022 to HK\$210.3 million in the first half of 2023. Staff cost included directors' remuneration under administrative expenses decreased by HK\$99.3 million, or 39.5%, from HK\$251.1 million in the first half of 2022 to HK\$151.8 million in the first half of 2023. It was mainly associated with less provision on performance bonus and directors' profit sharing due to the profit decline during the period under review. Other administrative expenses increased by HK\$9.6 million, or 19.6%, from HK\$48.9 million in the first half of 2022 to HK\$58.5 million in the first half of 2023 which was mainly due to depreciation of property, plant and equipment and the right-of-use assets.

The impairment losses on financial assets remained stable at approximately HK\$1.0 million in the first half of 2022 and 2023. There was no material impairment loss associated with any specific customer during the period under review.

Finance costs increased by HK\$25.8 million, or 274.5%, from HK\$9.4 million in the first half of 2022 to HK\$35.2 million in the first half of 2023. The increase was mainly due to significant increase in interest rate since the second half of last year.

There was no further loss shared from the joint venture in the first half of 2023 since the Group fully recognised its share of loss up to the carrying value of the joint venture investment of HK\$40.5 million in the first half of 2022.

Profit attributable to Owners of the Company

The Group recorded a profit attributable to owners of the Company of HK\$20.1 million in the first half of 2023 as compared with HK\$802.1 million in the first half of 2022. The decrease was mainly due to a substantial reduction of gross profit even through it has been partially offset by the decrease in operating expenses.

Income tax expenses of HK\$10.5 million were recorded in the first half of 2023 which decreased by HK\$149.7 million, or 93.4%, from HK\$160.2 million in the first half of 2022. The change was mainly due to a decrease in profit of some major operating subsidiaries of the Company during the period under review.

Earnings per share and Dividends

The profit attributable to owners of the Company in the first half of 2023 was HK\$20.1 million which resulted in basic earnings of HK\$0.052 per share and diluted earnings of HK\$0.052 per share. Profit attributable to owners of the Company in the first half of 2022 was HK\$802.1 million with basic earnings of HK\$2.070 per share and diluted earnings of HK\$2.068 per share. In view of a strong net cash position, the Board proposed an interim dividend of HK\$0.10 per share for the period ended 30 June 2023 and it is estimated to be HK\$38.8 million in total.

LIQUIDITY AND FINANCIAL RESOURCES

Shareholders' Funds

Total shareholders' funds decreased by HK\$80.1 million, or 2.8%, from HK\$2,848.8 million as at 31 December 2022 to HK\$2,768.7 million as at 30 June 2023.

Financial Position

Total non-current assets decreased by HK\$25.5 million, or 3.5%, from HK\$733.6 million as at 31 December 2022 to HK\$708.1 million as at 30 June 2023. The change was mainly due to a decrease in net book value of property, plant and equipment and the right-of-use assets.

Net book value of property, plant and equipment decreased by HK\$10.8 million, or 1.8%, from HK\$596.4 million as at 31 December 2022 to HK\$585.6 million as at 30 June 2023. The change was mainly due to the depreciation of property, plant and equipment. The right-of-use assets decreased by HK\$14.9 million, or 12.2%, from HK\$121.8 million as at 31 December 2022 to HK\$106.9 million as at 30 June 2023 that was mainly associated with the depreciation of right-of-use assets under lease contracts on land and buildings. Deferred tax assets increased by HK\$0.5 million, or 12.5%, from HK\$4.0 million as at 31 December 2022 to HK\$4.5 million as at 30 June 2023. It was mainly due to loss incurred under a number of subsidiaries during the period under review.

The Group has total current assets of HK\$4,346.4 million as at 30 June 2023 and HK\$5,421.8 million as at 31 December 2022. The Group's total current liabilities amounted to HK\$2,202.1 million as at 30 June 2023 and HK\$3,207.1 million as at 31 December 2022. The Group's current ratio, defined as total current assets over total current liabilities, was increased from 1.7 as at 31 December 2022 to 2.0 as at 30 June 2023.

The Group's cash and bank balances increased from HK\$2,207.3 million as at 31 December 2022 to HK\$2,231.1 million as at 30 June 2023. It was mainly contributed by a net impact on reduction of inventories and borrowings in the first half of 2023. The Group has incurred a lower level of borrowings of HK\$954.6 million as at 30 June 2023 as compared to HK\$1,738.7 million as at 31 December 2022. The Group has utilized the available cash on hand to finance the procurement and operation in order to reduce borrowings during the period under review. Due to the adoption of HKFRS 16, the Group has recognised current lease liabilities amounting to HK\$30.8 million and non-current lease liabilities amounting to HK\$82.3 million as at 30 June 2023. The Group's net cash to equity ratio (being cash and cash equivalents minus debts divided by total equity) increased from 11.9% as at 31 December 2022 to 34.9% as at 30 June 2023. The change was mainly due to an increase of cash and bank balances and a decrease of borrowings as at 30 June 2023. Gearing ratio was not presented as the Group was at a net cash position as at 31 December 2022 and 30 June 2023.

Trade and other receivables under current assets consisting of trade receivables at amortised cost and at fair value, together with other receivables, deposits and prepayment decreased by HK\$435.8 million, or 34.6%, from HK\$1,260.6 million as at 31 December 2022 to HK\$824.8 million as at 30 June 2023. Trade receivables at amortised cost decreased by HK\$417.8 million, or 36.1%, from HK\$1,155.8 million as at 31 December 2022 to HK\$738.0 million as at 30 June 2023. It was mainly due to a slowdown of business during the period under review. Trade receivables at fair value through profit or loss in factoring arrangement decreased by HK\$5.2 million, or 18.0%, from HK\$28.9 million as at 31 December 2022 to HK\$23.7 million as at 30 June 2023. Other receivables, deposits and prepayment under current assets decreased by HK\$12.8 million, or 16.9%, from HK\$75.9 million as at 31 December 2022 to HK\$63.1 million as at 30 June 2023. It was mainly associated with deposit paid to a supplier of HK\$8.2 million as at 31 December 2022 and there was no deposit paid to supplier as at 30 June 2023.

As at 30 June 2023, total expected credit loss (“ECL”) provision of about HK\$0.1 million, HK\$0.3 million, HK\$0.1 million, HK\$60.0 million and HK\$241.1 million was recognised for trade receivables at amortised cost aged “Not past due”, “Within 1 month past due”, “Over 1 month within 3 months past due”, “Over 3 months but within 1 year past due” and “Over 1 year past due” respectively under the ECL assessment on both individual and collective basis. As at 31 December 2022, total ECL provision of about HK\$0.1 million, HK\$190.5 million and HK\$123.3 million was recognised for trade receivables at amortised cost aged “Over 1 month within 3 months past due”, “Over 3 months but within 1 year past due” and “Over 1 year past due” respectively under the ECL assessment on both individual and collective basis.

As at 20 August 2023, the Group has collected a total of HK\$564.3 million representing 54.3% of the gross carrying amount of trade receivables as at 30 June 2023. There are a few cases with complaints of missing shipment. Based on the past experience, it would usually take a longer time for the Company to fully recover from such customer. Therefore, the directors of the Company believed the trade receivables after provision would be fully recoverable and no further impairment loss was considered.

Trade and other payables decreased by HK\$174.8 million, or 14.1%, from HK\$1,237.8 million as at 31 December 2022 to HK\$1,063.0 million as at 30 June 2023. Trade payables decreased by HK\$166.8 million, or 17.3%, from HK\$965.4 million as at 31 December 2022 to HK\$798.6 million as at 30 June 2023. It was mainly associated with a slowdown of business with a lower value on procurement in the first half of the 2023. Other payables decreased by HK\$8.0 million, or 2.9%, from HK\$272.4 million as at 31 December 2022 to HK\$264.4 million as at 30 June 2023. The change was resulted from a net impact of a decrease in provision of staff performance bonus and directors’ profit sharing which offset dividend payable incurred as at 30 June 2023.

Under HKFRS 15, the Group is required to report provision of sales return warranty under refund liabilities in the current liabilities section and the relevant costs of return is reported under the right of return assets in the current assets section. Right of return assets decreased by HK\$21.2 million, or 30.5%, from HK\$69.6 million as at 31 December 2022 to HK\$48.4 million as at 30 June 2023. Refund liabilities decreased by HK\$22.4 million, or 26.7%, from HK\$83.8 million as at 31 December 2022 to HK\$61.4 million as at 30 June 2023. The change was mainly due to a sales decline, which resulted in a decrease of sales return warranty provision under refund liabilities and the costs of return reported under the right of return assets as at 30 June 2023.

Contract liabilities has substantially decreased by HK\$20.1 million, or 26.3%, from HK\$76.5 million as at 31 December 2022 to HK\$56.4 million as at 30 June 2023. The change was mainly due to a decrease of customer prepayment to secure purchase of products as at 30 June 2023. Provision for product warranties decreased by HK\$3.5 million, or 8.9%, from HK\$39.4 million as at 31 December 2022 to HK\$35.9 million as at 30 June 2023 which was mainly due to a decrease in sales. Current tax recoverable increased from HK\$52.4 million as at 31 December 2022 to HK\$90.0 million as at 30 June 2023. Increase in tax recoverable was mainly associated with provisional profit tax payment and decrease in assessable profit under some subsidiaries of the Group.

Exposure to Fluctuation in Exchange Rates

As at 30 June 2023, the Group was exposed to currency risk primarily through sales and purchases denominated in currencies other than the functional currency of the operations to which they relate. The currencies giving rise to the risk are primarily Renminbi, Euro, Korean Won and Japanese Yen. The Group entered into one forward exchange contract in 2022 and one structured investment contract in the first half of 2023.

Working Capital

Inventories of the Group as at 30 June 2023 were HK\$1,152.1 million which decreased by HK\$679.8 million, or 37.1%, as compared with HK\$1,831.9 million as at 31 December 2022. The change was mainly associated with a slowdown of business and the Group has further tightened up inventory control and intakes in order to minimize potential inventory risk. Inventory turnover days increased from 66 days as at 31 December 2022 to 70 days as at 30 June 2023. The change was mainly due to a slowdown of sales which induced a higher inventory turnover days.

Trade receivables as at 30 June 2023 were HK\$761.7 million, which decreased by HK\$423.0 million, or 35.7%, as compared with HK\$1,184.7 million as at 31 December 2022. The change was in line with sales decline during the period under review. Trade receivable turnover days increased from 41 days as at 31 December 2022 to 42 days as at 30 June 2023 which was mainly due to deferred payment from a few customers.

Trade payables as at 30 June 2023 were HK\$798.6 million, which decreased by HK\$166.8 million, or 17.3%, as compared with HK\$965.4 million as at 31 December 2022. The change was in line with a slowdown in sales during the period under review. Trade payable turnover days decreased from 51 days as at 31 December 2022 to 41 days as at 30 June 2023 which was mainly associated with a decline in purchase of raw materials due to a slowdown on sales during the period under review.

CHARGES ON ASSETS

As at 30 June 2023, bank deposits of HK\$0.3 million were pledged to a bank to secure the corporate credit card granted to the Group and the Group had pledged certain office premises with an aggregate carrying value of approximately HK\$365.6 million to a bank.

CAPITAL MANAGEMENT

The capital structure of the Group consists of debts, which includes borrowings and lease liabilities and equity of the Group, comprising share capital, reserves and retained earnings disclosed in the condensed 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.

CAPITAL EXPENDITURE

The Group's additions to property, plant and equipment in the first six months of 2023 amounted to HK\$28.2 million.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 June 2023, total capital commitments amounted to HK\$4.0 million, and there was no material contingent liability or off balance sheet obligation.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

There were no material acquisitions or disposals of subsidiaries, associates and joint ventures by the Group during the period.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group has no plan for material investment or acquisition of capital assets as at 30 June 2023.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed above, there are no important events that have occurred after the interim period ended 30 June 2023 and up to the date of this report.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2023, the Group had 2,327 employees (31 December 2022: 2,714 employees). Employees are remunerated on the basis of their individual performance and prevailing industry practice. Compensation policies and remuneration packages of the employees are reviewed at least once a year. In addition to basic salary, medical benefits, provident fund, performance related bonuses may also be awarded to employees.

The Company 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 also adopted a share option scheme on 17 June 2016.

SIGNIFICANT ACQUISITION AND DISPOSALS OF INVESTMENTS

There was no acquisition and disposal of investment during the first six months ended 30 June 2023.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2023, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long Positions in Shares of the Company

Name of Director	Type of interest	Number of Shares held	Percentage of Shareholding
Mr. WONG Shik Ho Tony	Beneficial owner	55,405,750	14.28%
Mrs. HO WONG Mary Mee-Tak	Beneficial owner and interest in controlled corporation (Note)	55,050,000	14.19%
Mr. WONG Fong Pak	Beneficial owner	27,639,750	7.13%
Mr. LEUNG Wah Kan	Beneficial owner	25,100,500	6.47%
Mr. HO Nai Nap	Beneficial owner	21,472,538	5.54%
Mr. MAN Wai Hung	Beneficial owner	5,807,065	1.50%
Mr. IP Shing Hing	Beneficial owner	200,000	0.05%
Mr. Cheung Ying Sheung	Beneficial owner	176,000	0.05%
Mr. LAI Kin Jerome	Beneficial owner	150,000	0.04%

Note: 54,850,000 Shares out of the 55,050,000 Shares are owned by Perfect Choice Limited. As the entire issued share capital of Perfect Choice Limited is owned by Mrs. HO WONG Mary Mee-Tak, Mrs. HO WONG Mary Mee-Tak is deemed to be interested in the 54,850,000 Shares held by Perfect Choice Limited under the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2023, 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
Mr. WONG Shik Ho Tony	Long position	Beneficial owner	55,405,750	14.28%
Mrs. HO WONG Mary Mee-Tak	Long Position	Beneficial owner and Interest in controlled Corporation (Note)	55,050,000	14.19%
Perfect Choice Limited	Long position	Beneficial owner	54,850,000	14.14%
Mr. WONG Fong Pak	Long position	Beneficial owner	27,639,750	7.13%
Mr. LEUNG Wah Kan	Long position	Beneficial owner	25,100,500	6.47%
Mr. HO Nai Nap	Long position	Beneficial owner	21,472,538	5.54%

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

SHARE OPTION SCHEME

2016 Share Option Scheme

The Company adopted 2016 Share Option Scheme on 17 June 2016 ("Effective Date"). Under the 2016 Share Option Scheme, the Board may, at its absolute discretion, invite any of the following to take up options to subscribe for shares of the Company:

- a) any employee or proposed employee,
- b) any outside consultant or adviser of any member of the Group,
- c) any director of any member of the Group, and
- d) any distributor, contractor, supplier, agent, customer, business partner or service provider of any member of the Group.

Purpose of the 2016 Share Option Scheme is to enable the Company to grant options to participants as incentives or rewards for their retention and contribution or potential contribution to the Group. Grantee must take up the underlying shares of the options within such period as the Board may in its absolute discretion determine, which in any event shall not be more than 10 years from the Effective Date, otherwise the options will lapse automatically. Grantee shall not be required to hold options for a minimum period or to achieve, meet or exceed any performance targets before exercising the options granted. A maximum number of 41,751,866 shares, representing 10% of the Company's shares in issue on the Effective Date, may be issued upon exercise of all options granted under the 2016 Share Option Scheme.

No option was granted under the 2016 Share Option Scheme during the six months ended 30 June 2023. As at 1 January 2023 and 30 June 2023 respectively, the total number of options that may be granted under the 2016 Option Scheme was 7,961,866.

A summary of the movements of the outstanding share options during the six months ended 30 June 2023 were as follows:

Grantee	Date of grant	Vesting period	Exercise period	Exercise price	No. of Share Option					At 30 June 2023	Weighted average closing price of shares immediately before the dates of exercise
					At 1 January 2023	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period		
Executive Directors											
Mr. WONG Shik Ho Tony	22 September 2020	N/A	1 April 2021 to 31 March 2023	HK\$1.61	—	—	—	—	—	—	N/A
Mr. WONG Fong Pak	22 September 2020	N/A	1 April 2021 to 31 March 2023	HK\$1.61	—	—	—	—	—	—	N/A
Mr. LEUNG Wah Kan	22 September 2020	N/A	1 April 2021 to 31 March 2023	HK\$1.61	—	—	—	—	—	—	N/A
Mr. HO Nai Nap	22 September 2020	N/A	1 April 2021 to 31 March 2023	HK\$1.61	—	—	—	—	—	—	N/A
Mr. MAN Wai Hung	22 September 2020	N/A	1 April 2021 to 31 March 2023	HK\$1.61	—	—	—	—	—	—	N/A
Non-executive Director											
Mrs. HO WONG Mary Mee-Tak	22 September 2020	N/A	1 April 2021 to 31 March 2023	HK\$1.61	—	—	—	—	—	—	N/A
Independent Non-executive Directors											
Mr. LAI Kin Jerome	22 September 2020	N/A	1 April 2021 to 31 March 2023	HK\$1.61	—	—	—	—	—	—	N/A
Mr. IP Shing Hing	22 September 2020	N/A	1 April 2021 to 31 March 2023	HK\$1.61	200,000	—	(200,000)	—	—	—	5.404
Mr. CHEUNG Ying Sheung	22 September 2020	N/A	1 April 2021 to 31 March 2023	HK\$1.61	—	—	—	—	—	—	N/A
Others											
Employees	22 September 2020	N/A	1 April 2021 to 31 March 2023	HK\$1.61	90,000	—	—	(90,000)	—	—	N/A
External consultant (Note 1)	22 September 2020	N/A	1 April 2021 to 31 March 2023	HK\$1.61	—	—	—	—	—	—	N/A
Total					290,000	—	(200,000)	(90,000)	—	—	

Other Information

Notes:

1. The external consultant is Ms. Leung Sau Fong, the former company secretary of the Company. The share options were granted to her as rewards for her contribution to the Group.
2. The fair values of total share options granted to directors, employees and external consultant amounted to HK\$2,945,000 and HK\$6,267,000 respectively and were calculated using the Binomial Option Pricing Model at the grant date of share options.

The fair value was calculated using the Binomial Option Pricing Model. The inputs into the model were as follows:

**“2016 Share Option
Scheme” Employees,
external consultant
and directors
As at 22 September
2020**

Weighted average share price	HK\$1.61
Weighted average exercise price	HK\$1.61
Expected volatility	73.29%
Expected life	2.52 years
Risk-free interest rate	0.139%
Early exercise behaviour	220% to 280%
Expected dividends	5.83%

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.

Expected dividends are based on historical dividends.

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.

Changes in the subjective input assumptions could materially affect the fair value estimate.

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.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.10 per share, totalling HK\$38,788,000 for the six months ended 30 June 2023 (2022: HK\$0.80 per share, totalling HK\$310,147,000) to be paid on or about 6 October 2023 (Friday) to shareholders whose names appear on the Company's register of members on 20 September 2023 (Wednesday).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 18 September 2023 (Monday) to 20 September 2023 (Wednesday) (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim dividend, shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 15 September 2023 (Friday) for registration of the relevant transfer.

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

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2023.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the required standard for securities transactions by Directors. In response to specific enquiries made by the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2023.

CORPORATE GOVERNANCE CODE

Throughout the six months ended 30 June 2023, the Company has complied with the code provisions as set out in Part 2 of the Corporate Governance Code (the "CG Code") as contained in Appendix 14 to the Listing Rules, save and except for the deviations from code provisions C.2.1 and D.2.5 of the CG Code as described below.

Under code provision C.2.1 of the CG Code, the roles of chairman and chief executive should be separately held and should not be performed by the same individual. During the interim period ended 30 June 2023, these two roles were performed by Mr. WONG Shik Ho Tony. He is one of the founders of the Group and has been heavily involved in the Group's management and business operation since its incorporation. The Board considers that combining the two roles would uphold a unified and strong leadership and provides consistent business directions to the Group, which would facilitate a quick decision making in a highly competitive and fast-changing global business environment.

The Board considers that the Company has a balanced composition of the board of Directors. There are 5 Executive Directors, 1 Non-executive Director and 4 Independent non-executive Directors. All Executive Directors are well experienced in the industry and are heavily involved in the Group's daily business operation. All Non-executive Directors (including the Independent Non-executive Directors) have diverse skills, backgrounds and qualifications in their fields. They actively participated in the Company's meetings during the interim period.

Other Information

Under code provision D.2.5 of the CG Code, the Company should have an internal audit function. During the six months ended 30 June 2023, the Company had no internal audit function but engaged an audit firm to evaluate its risk management and internal control system at regular intervals. The audit firm directly reported to and held regular meetings with the Audit Committee. It delivered its findings and proposed enhancements to the Company after carrying out an enterprise risk review and internal control assessment. The Board believes that engaging an external professional firm to perform the internal audit function would provide an independent unbiased opinion to the Company and enhance risk management and internal control of the Group.

AUDIT COMMITTEE

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

REVIEW OF INTERIM RESULTS

The interim results of the Group for the six months ended 30 June 2023 have not been audited, but have been reviewed by the Audit Committee.

By order of the Board

WONG Shik Ho Tony

Chairman

Hong Kong, 29 August 2023

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2023

	Notes	30 June 2023 HK\$'000 (Unaudited)	30 June 2022 HK\$'000 (Unaudited)
Revenue	4, 5	4,175,441	6,607,825
Cost of sales		(3,851,689)	(5,242,009)
Gross profit		323,752	1,365,816
Other revenue and other gains and losses	6	12,793	(5,044)
Selling and distribution expenses		(60,336)	(47,803)
Administrative expenses		(210,298)	(299,937)
Impairment losses on financial assets		(1,033)	(1,039)
Finance costs	7	(35,163)	(9,387)
Share of loss of a joint venture		—	(40,513)
Profit before income tax	8	29,715	962,093
Income tax	9	(10,540)	(160,217)
Profit for the period		19,175	801,876
Other comprehensive income, after tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign subsidiaries		(3,513)	(7,156)
Total comprehensive income for the period		15,662	794,720
Profit for the period attributable to:			
— Owners of the Company		20,102	802,129
— Non-controlling interests		(927)	(253)
		19,175	801,876
Total comprehensive income for the period attributable to:			
— Owners of the Company		16,589	794,973
— Non-controlling interests		(927)	(253)
		15,662	794,720
Earnings per share	11	HK\$	HK\$
— Basic		0.052	2.070
— Diluted		0.052	2.068

Condensed Consolidated Statement of Financial Position

As at 30 June 2023

	Notes	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	12	585,580	596,378
Right-of-use assets	12	106,874	121,766
Intangible assets		4,825	4,825
Other financial asset		1,268	1,268
Deferred tax assets		4,522	3,999
Trade and other receivables	13	5,084	5,383
Total non-current assets		708,153	733,619
Current assets			
Inventories		1,152,108	1,831,959
Trade and other receivables	13	824,756	1,260,597
Right of return assets		48,442	69,561
Tax recoverable		89,966	52,380
Cash and bank balances	14	2,231,124	2,207,323
Total current assets		4,346,396	5,421,820
Total assets		5,054,549	6,155,439

Condensed Consolidated Statement of Financial Position

As at 30 June 2023

	Notes	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Current liabilities			
Trade and other payables	15	1,063,042	1,237,752
Refund liabilities		61,353	83,794
Contract liabilities		56,449	76,521
Borrowings	16	954,586	1,738,733
Provision for product warranties	17	35,928	39,436
Lease liabilities		30,785	30,864
Total current liabilities		2,202,143	3,207,100
Net current assets		2,144,253	2,214,720
Total assets less current liabilities		2,852,406	2,948,339
Total non-current liabilities			
Lease liabilities		82,248	97,194
NET ASSETS		2,770,158	2,851,145
Capital and reserves			
Share capital	18	38,788	38,768
Reserves		2,729,958	2,810,038
Equity attributable to owners of the Company		2,768,746	2,848,806
Non-controlling interests		1,412	2,339
TOTAL EQUITY		2,770,158	2,851,145

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2023

Equity attributable to owners of the Company

	Share capital	Share premium	Translation reserve	Merger reserve	Other reserve	Legal reserve	Financial asset at fair value through other comprehensive income ("FVTOCI") reserve	Share-based payment reserve	Retained profits	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2022	38,738	196,993	2,756	6,702	21,774	3,506	(12,103)	340	2,828,710	3,087,416	2,926	3,090,342
Profit for the period	–	–	–	–	–	–	–	–	802,129	802,129	(253)	801,876
Other comprehensive income												
– exchange differences on translating foreign subsidiaries	–	–	(7,162)	–	6	–	–	–	–	(7,156)	–	(7,156)
Total comprehensive income	–	–	(7,162)	–	6	–	–	–	802,129	794,973	(253)	794,720
Shares issued under share option scheme	30	626	–	–	–	–	–	(173)	–	483	–	483
Dividends declared (note 10)	–	–	–	–	–	–	–	–	(624,171)	(624,171)	–	(624,171)
At 30 June 2022 (Unaudited)	38,768	197,619	(4,406)	6,702	21,780	3,506	(12,103)	167	3,006,668	3,258,701	2,673	3,261,374
At 1 January 2023	38,768	197,619	(2,255)	6,702	21,775	3,506	(14,352)	167	2,596,876	2,848,806	2,339	2,851,145
Profit for the period	–	–	–	–	–	–	–	–	20,102	20,102	(927)	19,175
Other comprehensive income												
– exchange differences on translating foreign subsidiaries	–	–	(3,517)	–	4	–	–	–	–	(3,513)	–	(3,513)
Total comprehensive income	–	–	(3,517)	–	4	–	–	–	20,102	16,589	(927)	15,662
Shares issued under share option scheme	20	417	–	–	–	–	–	(115)	–	322	–	322
Lapse of share options	–	–	–	–	–	–	–	(52)	52	–	–	–
Dividends declared (note 10)	–	–	–	–	–	–	–	–	(96,971)	(96,971)	–	(96,971)
At 30 June 2023 (Unaudited)	38,788	198,036	(5,772)	6,702	21,779	3,506	(14,352)	–	2,520,059	2,768,746	1,412	2,770,158

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2023

	Note	30 June 2023 HK\$'000 (Unaudited)	30 June 2022 HK\$'000 (Unaudited)
Operating activities			
Cash generated from operations		2,196,866	913,538
Interest paid		(35,163)	(9,387)
Income tax paid		(48,600)	(58,826)
Net cash generated from operating activities		2,113,103	845,325
Investing activities			
Payments to acquire property, plant and equipment		(28,192)	(387,752)
Prepayments to acquire property, plant and equipment		(4,744)	(48,534)
Proceeds from disposal of property, plant and equipment		34	390
Placement of time deposit with maturity over three months		(195,250)	(263,834)
Withdrawal of time deposit with maturity over three months		—	6,500
Interest received		21,409	1,818
Net cash received on settlement of derivative financial instruments		312	—
Net cash used in investing activities		(206,431)	(691,412)
Financing activities			
Issue of new shares		322	483
Repayment of bank loans		(3,878)	—
Repayment of import loans		(2,044,779)	(1,143,935)
Repayment of principal of lease liabilities		(15,660)	(14,604)
Net cash used in financing activities		(2,063,995)	(1,158,056)
Net decrease in cash and cash equivalents		(157,323)	(1,004,143)
Cash and cash equivalents at beginning of period		2,206,987	3,764,766
Effect of exchange rate changes on cash and cash equivalents		(14,877)	(22,516)
Cash and cash equivalents at end of period, representing cash and bank balances (net of pledged deposit and time deposit with maturity over three months)	14	2,034,787	2,738,107

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2023 (the “Interim Financial Statements”) have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Listing Rules and the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Interim Financial Statements have been prepared under the historical cost convention modified by the revaluation of certain financial instruments.

The accounting policies adopted for the preparation of the Interim Financial Statements are consistent with those applied in the preparation of the annual financial statements of the Group for the year ended 31 December 2022 (the “Annual Financial Statements”), except for the adoption of the revised Hong Kong Financial Reporting Standards (the “HKFRSs”) (which collective term includes all applicable HKFRSs, Hong Kong Accounting Standards and Interpretations) issued by the HKICPA.

The Interim Financial Statements are unaudited, but have been reviewed by the Audit Committee of the Company.

The Interim Financial Statements should be read in conjunction with the Annual Financial Statements.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Amendments adopted from 1 January 2023

The HKICPA has issued a number of amended HKFRSs that were adopted by the Group effective from 1 January 2023:

Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The above amended HKFRSs did not have any material impact on the Group’s accounting policies.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Amendments adopted from 1 January 2023 (continued)

Amendments to HKAS 1 and HKFRS Practice Statement 2: Disclosure of Accounting Policies

The amendments to Disclosure of Accounting Policies were issued following feedback that more guidance was needed to help companies decide what accounting policy information should be disclosed. The amendments to HKAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to HKFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Amendments to HKAS 8: Definition of Accounting Estimates

The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events.

Amendments to HKAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments clarify that the initial recognition exemption of deferred tax in HKAS 12 does not apply to transactions that give rise to equal taxable and deductible temporary differences, such as lease contracts that give rise to the recognition of a lease liability and the corresponding right-of-use assets and contracts that give rise to the recognition of decommissioning obligations and corresponding amounts recognised as assets. Instead, entities are required to recognise the related deferred tax asset and liability on initial recognition, with the recognition of any deferred tax asset being subject to the recoverability criteria in HKAS 12.

(b) New guidance on accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong issued by HKICPA

In June 2022, Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 ('the Amendment Ordinance') was gazetted. The Amendment Ordinance abolishes the use of the accrued benefits derived from employers' mandatory contributions under the mandatory provident fund ('MPF') to offset severance payment ('SP') and long service payments ('LSP') ('the Abolition'). Subsequently, the Government of HKSAR announced that the Abolition will take effect on 1 May 2025 ('the Transition Date').

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) New guidance on accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong issued by HKICPA (continued)

The following key changes will take effect since the Transition Date:

- Accrued benefits derived from employers' MPF contributions cannot be used to offset the LSP/SP in respect of the employment period after the Transition Date.
- The pre-transition LSP/SP is calculated using the last month's salary immediately preceding the Transition Date, instead of using the salary of employment termination date.

Due to the complexities of the accounting for the offsetting of employer's MPF contributions and its LSP obligation and hence the impact arising from the Abolition, in July 2023 the HKICPA published 'Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong' ('the Guidance') to provide guidance to account for the offsetting mechanism and the Abolition. The HKICPA concluded that there are two acceptable accounting approaches, being:

- Approach 1: Account for the amount expected to be offset as a deemed employee contribution towards that employee's LSP benefits in terms of HKAS 19.93(a)
- Approach 2: Account for the employer MPF contributions and the offsetting mechanism as a funding mechanism for the LSP obligation

In prior years and in this 6-month interim period, the Group has estimated its LSP obligations along the defined benefit plan accounting requirements under HKAS 19 *Employee Benefits* whereas its obligations under MPF scheme are accounted for as defined contribution plan. The Group's estimated LSP obligation is reduced by the accrued MPF benefits derived from its contributions. The Guidance provides new information on the accounting for the interaction between the employer's MPF contributions and its LSP obligations. Based on the Group's assessment, it would need to change its accounting policy for the interaction to conform with the guidance. The Group's management team is now collecting information and assessing the financial statements impacts under the above-mentioned two accounting approaches. At the time when these interim financial statements are authorised for issue, the management team is continuing the information collection and impacts assessment. Therefore the Group has not yet concluded the new accounting policy and the resultant impacts on its financial statements. No matter which of Approach 1 or Approach 2 is the Group's new accounting policy, the new accounting policy would be applied retrospectively in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Group estimated that the new accounting policy would be concluded before the end of 2023 and the resultant impacts on financial statements would be reflected in the Group's 2023 annual financial statements.

3. USE OF JUDGEMENTS AND ESTIMATES

In preparing these Interim Financial Statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Annual Financial Statements.

4. SEGMENT REPORTING

(a) Reportable segments

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

Disaggregation of revenue from contracts with customers

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

For the period ended 30 June

Primary geographical markets

	Design, manufacturing and trading of electronics and PC parts and accessories	
	30 June 2023 HK\$'000 (Unaudited)	30 June 2022 HK\$'000 (Unaudited)
APAC	1,438,821	2,424,655
NALA	637,976	1,409,659
PRC	939,322	1,181,135
EMEA	1,159,322	1,592,376
	4,175,441	6,607,825

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

4. SEGMENT REPORTING (CONTINUED)

(a) Reportable segments (continued)

Major products/services

	30 June 2023 HK\$'000 (Unaudited)	30 June 2022 HK\$'000 (Unaudited)
VGA Cards	3,333,862	5,781,524
EMS	358,903	360,895
Other PC related products and components	482,676	465,406
	4,175,441	6,607,825

Brand and non-brand businesses

	30 June 2023 HK\$'000 (Unaudited)	30 June 2022 HK\$'000 (Unaudited)
Brand businesses	2,842,550	4,450,122
Non-brand businesses	1,332,891	2,157,703
	4,175,441	6,607,825

4. SEGMENT REPORTING (CONTINUED)

(a) Reportable segments (continued)

Timing of revenue recognition

	30 June 2023 HK\$'000 (Unaudited)	30 June 2022 HK\$'000 (Unaudited)
At a point in time	4,175,441	6,607,825

(b) Information about the major customer

During the six months ended 30 June 2023 and 2022, none of the customers contributed 10% or more of the Group's revenue.

5. REVENUE

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

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

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Contract liabilities	56,449	76,521

The contract liabilities mainly relate to the advance consideration received from customers and volume rebates and sales allowances to customers. HK\$43,846,000 of the contract liabilities as at 1 January 2023 and HK\$162,053,000 of the contract liabilities as at 1 January 2022 have been recognised as revenue for the six months ended 30 June 2023 and 2022 respectively from performance obligations satisfied when the goods were sold.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its contracts for sale of goods and services and therefore the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sale of goods and services which had an original expected duration of one year or less.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

6. OTHER REVENUE AND OTHER GAINS AND LOSSES

	30 June 2023 HK\$'000 (Unaudited)	30 June 2022 HK\$'000 (Unaudited)
Government grants (note)	870	3,775
Interest income	21,409	1,818
Net exchange losses	(13,407)	(15,256)
Net fair value gains on derivative financial instruments	312	—
Gain on disposal of property, plant and equipment	34	379
Sundry income	3,575	4,240
	12,793	(5,044)

Note: Included in 2022 government grants is HK\$2,832,000 obtained from 2022 Employment Support Scheme (“ESS”) under the Anti-epidemic Fund launched by the Hong Kong SAR Government supporting the payroll of the Group’s employees. Under the ESS, the Group had to commit to spend these grants on payroll expenses, and retain current employees from May to July 2022. The Group does not have other unfulfilled obligations relating to this program. The remaining government grants for 2023 and 2022 were received from several PRC local government authorities on a discretionary basis before period end. There is no unfulfilled conditions and other contingencies attaching to the government grants that have been recognised.

7. FINANCE COSTS

	30 June 2023 HK\$'000 (Unaudited)	30 June 2022 HK\$'000 (Unaudited)
Interest on bank advances and other borrowings	32,730	6,972
Interest on lease liabilities	2,433	2,415
	35,163	9,387

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For the six months ended 30 June 2023

8. PROFIT BEFORE INCOME TAX

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

	30 June 2023 HK\$'000 (Unaudited)	30 June 2022 HK\$'000 (Unaudited)
Inventories recognised as expense	3,820,312	5,209,331
Provision for obsolete inventories	31,377	32,678
Cost of sales	3,851,689	5,242,009
Staff costs	194,008	316,581
Depreciation of property, plant and equipment	39,066	14,604
Depreciation of right-of-use assets	16,034	14,914
Impairment losses on financial assets	1,033	1,039
Short-term lease expenses	134	1,821
Low-value assets leases expenses	12	11
Property, plant and equipment written off	1	—
Provision/(reversal of provision) for product warranties and returns, net (note 17)	1,868	(19,667)
Research and development expenditure (note)	39,340	29,016

Note: The research and development expenditure for the period represents depreciation of plant and machinery and office equipment and right-of-use assets and staff costs for research and development activities, which are also included in the total amounts disclosed above for each of these types of expenses.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

9. INCOME TAX

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

	30 June 2023 HK\$'000 (Unaudited)	30 June 2022 HK\$'000 (Unaudited)
Current tax — Hong Kong		
— provision for the period	10,912	154,854
Current tax — PRC		
— provision for the period	23	791
— under provision in respect of prior year	—	83
Current tax — others		
— provision for the period	80	47
— under provision in respect of prior year	48	255
	11,063	156,030
Deferred tax		
— origination and reversal of temporary differences	(523)	4,187
Income tax expense	10,540	160,217

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act (Revised) of the Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

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

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

9. INCOME TAX (CONTINUED)

Under the two-tiered profits tax rates regime, if the entity has one or more connected entity, the two-tiered profits tax rates would only apply to the one which is nominated to be chargeable at the two-tiered rates. Hong Kong profits tax of the nominated entity is calculated at 8.25% on assessable profits up to HK\$2 million and 16.5% on any part of assessable profits over HK\$2 million. For those entities which do not qualify for two-tiered profits tax rates, a profits tax rate of 16.5% on assessable profits shall remain in calculating Hong Kong profits tax. For the six months ended 30 June 2023 and 2022, Hong Kong profits tax is calculated in accordance with the two-tiered profits tax rates regime. A significant subsidiary of the Company, PC Partner Limited, is entitled to claim 50% of all of its manufacturing profits as offshore in nature and non-taxable under Departmental Interpretation and Practice Notes No.21 issued by the Inland Revenue Department of Hong Kong.

The Company's wholly-owned subsidiary located in the PRC, 東莞栢能電子科技有限公司 successfully obtained the "High Technology Enterprise" status during 2012 and renewed successfully for three years from 2021 to 2023 and the applicable PRC enterprise income tax rate for the six months ended 30 June 2023 is 15% (2022: 15%). Other PRC subsidiaries of the Company are subject to PRC enterprise income tax at a statutory rate of 25% (2022: 25%) on the assessable profits as determined in accordance with the relevant income tax rules and regulations of the PRC for the six months ended 30 June 2023.

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

10. DIVIDENDS

	30 June 2023 HK\$'000 (Unaudited)	30 June 2022 HK\$'000 (Unaudited)
2022 Final dividend declared — HK\$Nil per share (2022: 2021 Final dividend declared — HK\$1.61 per share)	—	624,171
2022 Special dividend declared — HK\$0.25 per share (2022: 2021 Special dividend declared — HK\$Nil per share)	96,971	—
Dividends declared for the period	96,971	624,171

The directors of the Company proposed an interim dividend of HK\$0.10 (2022: HK\$0.80) per share, totalling HK\$38,788,000 (2022: HK\$310,147,000) for the six months ended 30 June 2023. The interim dividend has not been recognised as liabilities at 30 June 2023.

Note: 2022 special dividend was subsequently paid on 10 July 2023.

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For the six months ended 30 June 2023

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2023 and 2022 is based on the following data:

Profit

	30 June 2023 HK\$'000 (Unaudited)	30 June 2022 HK\$'000 (Unaudited)
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	20,102	802,129

Number of shares

	30 June 2023 (Unaudited)	30 June 2022 (Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	387,816,265	387,433,944
Effect of dilutive potential ordinary shares: — share options	—	455,878
Weighted average number of ordinary shares for the purpose of diluted earnings per share	387,816,265	387,889,822

12. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

No impairment losses were recognised in respect of property, plant and equipment and right-of-use assets for both periods. During the six months ended 30 June 2023, additions to property, plant and equipment and right-of-use assets amounted to HK\$28,192,000 (2022: HK\$387,752,000) and HK\$72,000 (2022: HK\$1,500,000) respectively and write off of property, plant and equipment and right-of-use assets amounted to HK\$1,000 (2022: HK\$ Nil) and HK\$483,000 (2022: HK\$ Nil) respectively.

13. TRADE AND OTHER RECEIVABLES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Trade receivables at amortised cost	1,039,520	1,469,736
Less: Accumulated impairment losses	(301,555)	(313,948)
Trade receivables at amortised cost, net (note (a))	737,965	1,155,788
Trade receivables at fair value through profit or loss (note (b))	23,693	28,918
Other receivables (note (c))	13,076	12,785
Deposits and prepayments	60,665	74,048
Less: Accumulated impairment losses	(5,559)	(5,559)
	55,106	68,489
	829,840	1,265,980
Less: Other receivables — non-current portion	(409)	(409)
Rental deposits — non-current portion	(4,675)	(4,974)
	(5,084)	(5,383)
Trade and other receivables — current portion	824,756	1,260,597

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

13. TRADE AND OTHER RECEIVABLES (CONTINUED)

Notes:

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

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Within 1 month	448,502	751,228
Over 1 month but within 3 months	213,387	289,707
Over 3 months but within 1 year	69,935	110,108
Over 1 year	6,141	4,745
	737,965	1,155,788

The credit period on sales of goods is 14 to 90 days (2022: 30 to 90 days) from the invoice date.

- (b)

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Trade receivables at fair value through profit or loss	23,693	28,918

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

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

The Group is also exposed to credit risk in relation to these trade receivables. The maximum exposure at the end of reporting period is HK\$23,693,000 (2022: HK\$28,918,000).

13. TRADE AND OTHER RECEIVABLES (CONTINUED)

Notes: (continued)

(b) (continued)

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

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Within 1 month	13,172	14,064
Over 1 month but within 3 months	10,521	14,704
Over 3 months but within 1 year	—	150
	23,693	28,918

The credit period of sales of goods is 60 to 90 days (2022: 30 to 90 days) from the invoice date.

- (c) The balance includes a claim of HK\$2,470,000 (2022: HK\$2,460,000) under an insurance policy.
- (d) During the year ended 31 December 2019, the Group entered into a sales contract with a customer for sale of VGA Cards under which the sales amount would be paid by the customer in instalments the last of which would fall in May 2021. During 2020, a revised repayment schedule was agreed by both parties and the last instalment will fall in September 2022. As at 30 June 2023, the total outstanding balance due from the customer which is fully impaired amounted to HK\$289,515,000 (2022: HK\$302,943,000). The crack down on cryptocurrency mining and trading in China in 2021 has forced the customer to cease operation and resulted in a repayment issue of the remaining instalment receivable. The Group has reviewed the collectability of the debts as at 31 December 2021, it is uncertain when the customer will be able to resume the payment of the remaining balance according to the instalment payment scheme. Therefore, the Group has decided to make a full impairment of the total outstanding balance of the customer in the year ended 31 December 2021. The sales contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months and is accounted for in accordance with the Group's accounting policy set out in note 4(j) of the Annual Financial Statements.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

14. CASH AND BANK BALANCES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Cash and bank balances	1,390,196	1,675,790
Bank deposit pledged for corporate credit card	337	336
Time deposits	840,591	531,197
	2,231,124	2,207,323
Less: Bank deposit pledged for corporate credit card	(337)	(336)
Time deposit more than three months to maturity when placed	(196,000)	—
	(196,337)	(336)
Cash and cash equivalents	2,034,787	2,206,987

15. TRADE AND OTHER PAYABLES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Trade payables	798,621	965,382
Other payables and accruals (note)	264,421	272,370
	1,063,042	1,237,752

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

Note: As at 30 June 2023, other payables and accruals mainly comprised dividend payables and accrued expenses.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

15. TRADE AND OTHER PAYABLES (CONTINUED)

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

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Within 1 month	522,396	528,216
Over 1 month but within 3 months	232,409	396,056
Over 3 months but within 1 year	39,643	37,163
Over 1 year	4,173	3,947
	798,621	965,382

16. BORROWINGS

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Bank loans — secured and guaranteed	188,759	192,637
Import loans — guaranteed	765,827	1,546,096
	954,586	1,738,733

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For the six months ended 30 June 2023

16. BORROWINGS (CONTINUED)

The above borrowings are denominated in HK\$ and US\$ as follows:

	30 June 2023			31 December 2022		
	Denominated in			Denominated in		
	HK\$ HK\$'000 (Unaudited)	US\$ HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	HK\$ HK\$'000 (Audited)	US\$ HK\$'000 (Audited)	Total HK\$'000 (Audited)
Bank loans — secured and guaranteed	188,759	—	188,759	192,637	—	192,637
Import loans — guaranteed	765,827	—	765,827	901,954	644,142	1,546,096
	954,586	—	954,586	1,094,591	644,142	1,738,733

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

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Within 1 year	773,585	1,553,853
Over 1 year but within 2 years	7,757	7,757
Over 2 years but within 5 years	173,244	177,123
	954,586	1,738,733

- (i) At 30 June 2023, the above borrowings bear interest at effective interest rates ranging from 0.8% to 2.5% (2022: 0.8% to 2.5%) per annum over cost of funds for the period.
- (ii) At 30 June 2023, leasehold land and building with aggregate carrying value of approximately HK\$365,627,000 (2022: HK\$369,790,000) was pledged to a bank to secure the mortgage loan of HK\$188,759,000 (2022: HK\$192,637,000) granted to the Group.
- (iii) At 30 June 2023, bank deposits of HK\$337,000 (2022: HK\$336,000) were pledged to a bank to secure the corporate credit card granted to the Group.
- (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 condensed consolidated statement of financial position.

17. PROVISION FOR PRODUCT WARRANTIES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Provision for product warranties		
At beginning of period/year	39,436	61,118
Additional/(reversal of) provision, net Utilisation	1,868 (5,376)	(12,455) (9,227)
Net movement for the period/year	(3,508)	(21,682)
At end of period/year	35,928	39,436

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 sales ("Warranty Period"). Provision is therefore made for the best estimate of the expected settlement of warranty under such sales agreements. The amount of provision takes into account the Group's recent claim experience and is only made where a warranty claim is probable.

18. SHARE CAPITAL

	30 June 2023		31 December 2022	
	Number of shares	Amount HK\$'000 (Unaudited)	Number of shares	Amount HK\$'000 (Audited)
Authorised:				
Ordinary shares of HK\$0.10 each	1,000,000,000	100,000	1,000,000,000	100,000
Issued and fully paid:				
Ordinary shares of HK\$0.10 each				
At beginning of period/year	387,683,668	38,768	387,383,668	38,738
Share options exercised	200,000	20	300,000	30
At end of period/year	387,883,668	38,788	387,683,668	38,768

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For the six months ended 30 June 2023

19. CAPITAL COMMITMENTS

As at 30 June 2023 and 31 December 2022, the Group had the following capital commitments contracted for but not provided in respect of:

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Acquisition of property, plant and equipment	4,005	3,753

20. RELATED PARTIES AND CONNECTED TRANSACTIONS

(a) During the period, the Group entered into the following significant transactions with its related parties or connected party:

	30 June 2023 HK\$'000 (Unaudited)	30 June 2022 HK\$'000 (Unaudited)
Related parties and connected transactions		
Related company owned by a director of the Company — rental expenses	—	420
Director of a subsidiary — rental expenses	—	138

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.

The related parties transactions in respect of rental expenses above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. However those transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules as they are below the de minimis threshold under Rule 14A.76(1) of the Listing Rules.

(b) The directors of the Company represented the key management personnel of the Company. During the six months ended 30 June 2023, HK\$6,188,000 (30 June 2022: HK\$62,358,000) was paid or payable to the key management personnel.

21. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

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

	30 June 2023 Carrying amount HK\$'000 (Unaudited)	31 December 2022 Carrying amount HK\$'000 (Audited)
Financial assets		
Financial assets at fair value through profit or loss		
– Trade receivables at fair value through profit or loss	23,693	28,918
Financial assets at amortised cost		
– Cash and bank balance	2,231,124	2,207,323
– Trade and other receivables	799,432	1,219,472
Financial asset at FVTOCI		
– Unlisted equity investment	1,268	1,268
Financial liabilities		
Financial liabilities measured at amortised cost		
– Trade and other payables	1,058,599	1,233,030
– Refund liabilities (note (a)(a))	61,353	83,794
– Contract liabilities (note (a)(b))	11,433	13,577
– Borrowings	954,586	1,738,733
– Lease liabilities	113,033	128,058

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

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

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Group			
	30 June 2023 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets at fair value through profit or loss				
— Trade receivables at fair value through profit or loss	—	23,693	—	23,693
Financial asset at FVTOCI				
— Unlisted equity investment	—	—	1,268	1,268
	—	23,693	1,268	24,961

	Group			
	31 December 2022 (Audited)			
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets at fair value through profit or loss				
— Trade receivables at fair value through profit or loss	—	28,918	—	28,918
Financial asset at FVTOCI				
— Unlisted equity investment	—	—	1,268	1,268
	—	28,918	1,268	30,186

There were no transfers between levels during the period/year.

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

Reconciliation for financial instrument carried at fair value based on significant unobservable inputs (Level 3) are as follows:

Unlisted equity investment

	Financial asset at FVTOCI	
	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
At beginning of period/year	1,268	3,517
Total gains or losses:		
— in other comprehensive income (included in changes in fair value of financial asset at FVTOCI)	—	(2,249)
At end of period/year	1,268	1,268

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, trade and other payables and borrowings.

Due to their short term nature, the carrying values of cash and cash equivalents, trade and other receivables, trade and other payables approximate to their fair values.

Notes:

- (a) Refund liabilities represent the estimated cash refund resulting from goods returned from customers during the Warranty Period.
- (b) Contract liabilities included in above represent the estimated volume rebate to be settled in cash to customers. Contract liabilities of HK\$45,016,000 (2022: HK\$62,944,000) relating to receipt in advance from customers are not financial liabilities and excluded from above.

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

(b) Financial instruments measured at fair value

The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 2 and level 3 financial instruments, as well as the relationship between key observable inputs and fair value are set out below.

Information about level 2 fair value measurements

The fair value of trade receivables at fair value through profit or loss is determined based on the weighted- average discount rates applicable to trade receivables factored without recourse during the period/ year.

Information about level 3 fair value measurements

As at 30 June 2023, the fair value of the unlisted equity investment in Dreamscape Immersive Inc. is estimated by using the market approach and option pricing model based on the enterprise value to sales ratios of comparable companies. The valuation technique adopts expected enterprise value to sales ratio of 4.51 (2022: 4.51), volatility of 43.42% (2022: 43.42%) and risk-free rate of 4.42% (2022: 4.42%) as key unobservable inputs.

As at 30 June 2023 and 31 December 2022, the fair value measurement is positively correlated to the enterprise value to sales ratio. It is estimated that with all other variables held constant, an increase/decrease in enterprise value to sales ratio by 1 would have increased/decreased the Group's other comprehensive income by approximately HK\$435,000 and HK\$366,000 respectively.

The Group considers that changes in the volatility and risk-free rate to the valuation technique disclosed above would not have a significant effect on fair value of the unlisted equity investment as at 30 June 2023 and 31 December 2022.