
PCPartner®

HKSE: 1263

# 栢能集團有限公司*
# PC Partner Group Limited

Incorporated in the Cayman Islands with limited liability

## 2020
## ANNUAL REPORT

* For identification purpose only

# CONTENTS

# COMPANY PROFILE

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

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

We are a
technology company with a
GLOBAL VISION.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

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

### Non-executive Directors

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

### Independent Non-executive Directors

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

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## INVESTMENT COMMITTEE

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

## COMPANY SECRETARY

Ms. LEUNG Sau Fong

## AUTHORISED REPRESENTATIVES

Mr. WONG Shik Ho Tony
Ms. LEUNG Sau Fong

## AUDITOR

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

## LEGAL ADVISER

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

## REGISTERED OFFICE

Windward 3, Regatta Office Park
P.O. Box 1350
Grand Cayman KYI-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

Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park
PO Box 1350
Grand Cayman KYI-1108
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## PRINCIPAL BANKERS

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

## WEBSITE

www.pcpartner.com

# CHAIRMAN STATEMENT

Dear Shareholders,

2020 is no doubt being one of the most difficult year in our lifetimes. The COVID-19 pandemic has caused closure of businesses, high unemployment rates, and affected daily life of everyone. The worldwide crisis has forced many organizations to expedite their adoption of new technology for survivals or continue to operate their businesses differently. Work from home, virtual meetings, on-line study and home entertainment became new habits and such behaviors may continue to a certain extent even after the pandemic crisis. It is no doubt technological innovation will keep changing the world and everyone's daily life in future.

We have successfully improved the financial result in 2020 from a breakeven point in 2019. Gross profit margin has returned back to double digits and delivered a strong second half year result in 2020. Unlike many businesses suffering from pandemic crisis, we have experienced a strong demand of video graphics cards ("VGA Cards") since tens of millions of people shifted to work from home, virtual meetings, on-line study and home entertainment which have created a large demand of computer and gaming hardware. The new RTX VGA Cards being launched in the last quarter of the year were selling very well which has further facilitated the Group to deliver a good result in 2020.

## OUTLOOK

Global economy is expected to rebound from the COVID-19 pandemic outbreak in 2021, many countries have started vaccines injection for their citizens which will help to reactivate business activities progressively. We believe the demand of computer and gaming hardware will remain strong since there will still be large population of people who remain to work from home, conduct meetings and events virtually, study and play online throughout this year. This is likely turning into a new habits for many businesses and people in future. Semiconductor foundries are

running at full capacities and we don't see much improvement in supply of central processing unit ("CPU") and GPU for most of the time in this year. Therefore the supplies of computer hardware and VGA Cards will still be tight in this year.

Hardware prices are rising to reflect an increase in cost of components, operating costs, and logistic costs plus a continuation of import tariffs in the United States for products made in China. Demand of VGA Cards keeps moving towards a higher average selling price product lines. We do see a strong new and replacement demands of 2nd generation RTX VGA Cards. Many new video games embedded with latest technologies which require an upgrade of VGA Cards in order to enjoy a great gaming experience. Popularity of E-Sport has also successfully inspired many gamers to upgrade their hardware for a greater gaming experience. All of the above shows a good sign of business for the upcoming year.

However, the business is not without potential risk and challenge. It is reasonable to suspect that the dramatic rising demand of VGA Cards was partly due to many people bought VGA Cards for cryptocurrency mining instead of gaming since the cryptocurrency prices jumped up significantly, this could be one of the reasons causing VGA Cards shortage on top of the strong demand from gamers. The Company and many players in the industry had suffered a loss on inventory value written down and sold products at discount back in 2018/2019 after the cryptocurrency prices crashed since many cryptocurrency miners sold their used VGA Cards and equipment at a big discount in the market. The Group does not support cryptocurrency mining to avoid the same incident happen in future. Unfortunately, we are unable to manage the situation since cryptocurrency miners might have purchased VGA Cards through distributors, retailers and on-line stores even though we have strongly advised our customers not to support cryptocurrency miners. NVIDIA has recently announced to launch a Cryptocurrency Mining Processor ("CMP") specially designed for cryptocurrency mining application and PC Partner is appointed to be one of the partners to deliver the CMP solution to fulfill the demand from cryptocurrency mining. Hopefully, the VGA Cards market will not be distorted too much by the fluctuation in prices of cryptocurrencies in future. We remain cautious on inventory management in case the market demand change rapidly.

The Group continues to ensure a safe working environment to protect our employees at all its locations worldwide, in line with government and World Health Organisation recommendations. I like to thank all employees again for their support and dedication during the COVID-19 pandemic crisis, 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, 26 March 2021

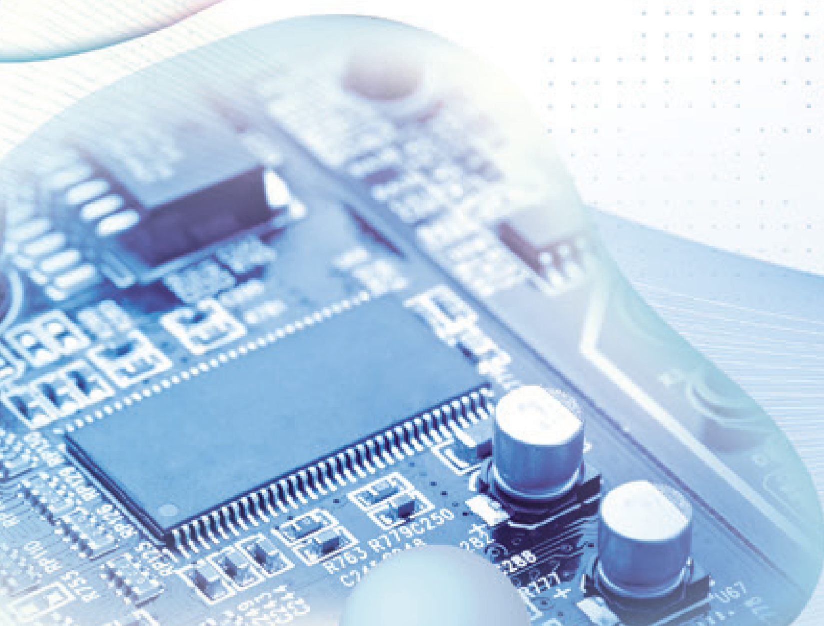
# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

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

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

The Group provides EMS to globally recognized brands, including major providers of Automatic Teller Machines ("ATM") and Point-Of-Sales ("POS") systems, 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.



# Management Discussion and Analysis

## Business Performance

Revenue has recorded an increase of HK$205.3 million, or 2.7%, from HK$7,556.5 million in 2019 to HK$7,761.8 million in 2020. The change was mainly resulted from an increase in sales of VGA Cards by HK$253.0 million as compared to last year. Besides the increase in sales of VGA Cards, the EMS has also recorded an increase in revenue by HK$62.1 million but other PC related products and components have recorded a decline in revenue by HK$109.8 million as compared to last year.

VGA Cards business has recorded an increase of HK$253.0 million, or 4.3%, from HK$5,924.4 million in 2019 to HK$6,177.4 million in 2020. Sales increase in own brand VGA Cards has fully offset the decline in the ODM/OEM VGA Cards. Sales of own brand VGA Cards increased by HK$584.3 million, or 16.2%, from HK$3,610.9 million in 2019 to HK$4,195.2 million in 2020, it was mainly due to a strong demand of 2nd generation RTX VGA Cards being launched in the second half of the year together with a rising demand of computer and gaming hardware includes VGA Cards during the COVID-19 pandemic outbreak. ODM/OEM orders on VGA Cards decreased by HK$331.3 million, or 14.3%, from HK$2,313.5 million in 2019 to HK$1,982.2 million in 2020. Work from home, on-line study and home entertainment during the COVID-19 pandemic outbreak resulted in a rising demand of computer and gaming hardware. Shortage of supply on both CPU and GPU affected PC production schedules of ODM/OEM customers, and such schedule delay caused a drop in revenue of the ODM/OEM VGA Cards segment.

EMS business recorded an increase of HK$62.1 million, or 9.9%, from HK$628.5 million in 2019 to HK$690.6 million in 2020, the growth was mainly due to more orders from customers on the ATM and POS systems during the year. Other PC related products and components business decreased by HK$109.8 million, or 10.9%, from HK$1,003.6 million in 2019 to HK$893.8 million in 2020. It was mainly caused by a shortage in supply of CPU and some projects being delayed or cancelled during the COVID-19 lockdown in different countries.

Revenue of brand business sector increased by HK$477.8 million, or 12.3%, from HK$3,879.4 million in 2019 to HK$4,357.2 million in 2020, it was mainly driven by a strong demand of 2nd generation RTX VGA Cards being launched in the second half of the year and a rising demand of computer and gaming hardware due to work from home, on-line study and home entertainment during the COVID-19 pandemic outbreak. The ODM/OEM business sector which includes component trade has recorded a drop in revenue of HK$272.5 million, or 7.4%, from HK$3,677.1 million in 2019 to HK$3,404.6 million in 2020. The decline in ODM/OEM orders were mainly caused by a shortage of supply on CPU and GPU to PC system builders and some ODM/OEM projects being delayed or cancelled during the COVID-19 lockdowns.

The Asia Pacific ("APAC") and the Europe, Middle East, Africa and India ("EMEAI") regions have performed better than the North and Latin American ("NALA") and the People's Republic of China ("PRC") in 2020. APAC region and EMEAI region have recorded an increase in revenue by 8.1% and 37.5% respectively. NALA region and the PRC region have experienced a drop in revenue by 6.3% and 21.6% respectively.

### APAC Region

In the APAC region, the revenue increased by HK$236.1 million, or 8.1%, from HK$2,922.9 million in 2019 to HK$3,159.0 million in 2020. It was mainly driven by a strong demand of 2nd generation RTX VGA Cards which offset a decline in other product lines under own brand business and the ODM/OEM orders during the year. In addition, rising demand of computer and gaming hardware during the COVID-19 pandemic outbreak also resulted in higher revenue of the own brand business in the region.

# Management Discussion and Analysis

### EMEAI Region

In the EMEAI region, the revenue amounted to HK$1,824.7 million in 2020, represented an increase of HK$497.8 million, or 37.5%, as compared to HK$1,326.9 million in 2019. It was mainly driven by a strong demand of 2nd generation RTX VGA Cards and a rising demand of computer and gaming hardware during the COVID-19 pandemic outbreak under own brand business segment together with additional orders of ATM and POS systems under EMS division during the year.

### NALA Region

In the NALA region, the revenue amounted to HK$1,139.8 million in 2020, represented a decrease of HK$76.8 million, or 6.3%, as compared to HK$1,216.6 million in 2019. It was mainly associated with a decline in sales of own brand products and there were less ODM/OEM orders from customers during the year. Shortage of CPU supplies which caused delay to fulfill customer orders during the year has also resulted in a drop in revenue. Lockdown and high infection rate of coronavirus has resulted in some major ports in the United States experienced a heavy port congestion and vessel delay due to lack of sufficient dockworkers and truckers. There were containers stuck in the ports by end of the year which resulted in delay of fulfilment of customer orders.

### PRC Region

In the PRC region, the revenue amounted to HK$1,638.3 million in 2020, representing a decrease of HK$451.8 million, or 21.6%, as compared to HK$2,090.1 million in 2019. It was mainly associated with a decline in sales of own brand products and there were less ODM/OEM orders from customers during the year.

### 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 and the code issued by Electronic Industry Citizenship Coalition ("EICC").

### Principal Risks and Uncertainties

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

Business relationship with customers and suppliers are also crucial for business success. The Group has established a long business partnership with both 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 outbreak of COVID-19 pandemic caused production facilities being subject to lockdown and interrupted the supply chain earlier this year. Many countries and cities have been subject to lockdown for a certain period of time during the year. This has already caused a significant decline in Gross Domestic Product ("GDP") and high unemployment rate in many countries for the year, and it is likely to take some time for the global economy to recover. Fortunately, the world is moving faster than expected to come up with coronavirus vaccines and many countries have started vaccine injection for their citizens before end of the year. However, there were coronavirus mutations being reported in different countries. The World Health Organization ("WHO") is still gathering data and monitoring the development closely, hopefully the new vaccines can also offer sufficient protection to human being to fight against the virus and the mutated virus. It would be a risk to the Group if vaccines cannot offer the expected protection to human being and the outbreak of COVID-19 pandemic continues for a much longer period of time that may hurt supply chain and logistics, productivity, and both consumer and corporate demands.

The growing tensions over trade and technology between the two biggest economies, China and 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 United States would increase the cost of products and then ultimately pass onto consumers that may discourage and reduce consumer and corporate demand in 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 U.S. technologies, it is a risk to the Group if United States will put a restriction on export of consumer grade technologies to Hong Kong.

VGA Card has recently experienced a rising demand on cryptocurrency mining since the last quarter of the year. The appreciation of cryptocurrency generated a dramatic increase in computer hardware demand which includes VGA Cards back in 2017; however, the demand momentum was lost once the cryptocurrency significantly depreciated in 2018. Those companies and individuals who bought machines and VGA Cards for cryptocurrency purposes ended up with reselling their equipment on hand at discount in the channel market, the market was flooded with both new and second hand VGA Cards and took more than one year to clear the inventories. The Group ended up with a significant write down on inventories and sold VGA Cards at discount or at a loss in order to reduce the inventory risk. Although the Group remains focusing on gaming business and not selling VGA Cards to cryptocurrency players, the Group could not control its customers and distributors who might have sold products to the cryptocurrency players either directly or indirectly even though the Group has strongly advised its customers and distributors not to sell the Group's products to the cryptocurrency players. If the cryptocurrency prices crashed again in future, inventory risk will increase and the Group may be compelled to clear on-hand inventories by selling products at a discount or at a loss again.

The Group is not aware of any other particular or important event that has occurred which would trigger a risk and uncertainty as at 31 December 2020.

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Revenue

The Group's total revenue increased by HK$205.3 million, or 2.7%, from HK$7,556.5 million in 2019 to HK$7,761.8 million in 2020. It was mainly driven by a strong demand of 2nd generation RTX VGA Cards launched in the second half of the year under own brand business that has fully offset a decline in ODM/OEM orders for the year.

Revenue on VGA Cards increased by HK$253.0 million, or 4.3%, from HK$5,924.4 million in 2019 to HK$6,177.4 million in 2020. Revenue on own brand VGA Cards increased by HK$584.3 million, or 16.2%, from HK$3,610.9 million in 2019 to HK$4,195.2 million in 2020 and the revenue on ODM/OEM orders of VGA Cards decreased by HK$331.3 million, or 14.3%, from HK$2,313.5 million in 2019 to HK$1,982.2 million in 2020. Revenue increased in own brand VGA Cards was mainly due to 2nd generation RTX VGA Cards launched in the second half of the year were selling very well and a rising demand of VGA Cards during the COVID-19 pandemic outbreak since people are forced to work from home, studied online and increased on-line entertainment activities. Sales decline in ODM/OEM VGA Cards was mainly due to a shortage of GPU supply which resulted in a decrease in ODM/OEM orders during the year. A shortage of supply on both CPU and GPU affected the PC production schedules of ODM/OEM customers and such production schedule delay resulted in a drop in revenue of the ODM/OEM VGA Cards segment.

Revenue derived from the EMS business amounted to HK$690.6 million in 2020, represented an increase of HK$62.1 million, or 9.9%, as compared to HK$628.5 million in 2019. The growth was mainly due to more orders from the customers on the ATM and POS systems during the year.

Other PC related products and components business decreased by HK$109.8 million, or 10.9%, from HK$1,003.6 million in 2019 to HK$893.8 million in 2020. It was mainly caused by a shortage in supply of CPU and some projects being delayed or cancelled during the COVID-19 lockdowns.

### Gross Profit and Margin

The Group's gross profit in 2020 was HK$795.4 million, represented an increase of HK$279.1 million, or 54.1%, as compared with HK$516.3 million in 2019. Gross profit margin increased by 3.4% to 10.2% in 2020 as compared with 6.8% in 2019. The gross profit margin has increased from 9.0% in the first half year of 2020 to 11.1% in the second half year of 2020, it was mainly driven by a higher gross profit margin of 2nd generation RTX VGA Cards and price increases on own brand products.

Material cost as a percentage of sales reduced by 2.7% from 89.8% in 2019 to 87.1% in 2020, the improvement was mainly contributed by price increase due to a rising demand of computer hardware products together with higher gross profit margin of 2nd generation RTX VGA Cards being launched in the second half of the year. The Group has spent less on conversion cost which included direct labour and production overheads for a total of HK$49.0 million, or 19.1% from HK$257.2 million in 2019 to HK$208.2 million in 2020. Conversion costs as a percentage of sales improved by 0.7% from 3.4% in 2019 to 2.7% in 2020. The change was mainly contributed by cost reduction and increase in selling prices of products.

### Operating Expenses

Operating expenses, consisted of selling and distribution expenses, administrative expenses, impairment loss on financial assets and finance costs, increased by HK$139.2 million, or 26.6%, from HK$523.3 million in 2019 to HK$662.5 million in 2020. Both the selling and distribution expenses and administrative expenses have increased which offset a decline of impairment loss on financial assets and the finance costs in the year.

Overall selling and distribution expenses gone up in 2020 even though the marketing expenses, a part of selling and distribution expenses, have been reduced for more than 30% since most of the shows and exhibitions were cancelled due to the COVID-19 lockdowns in the year. Selling and distribution expenses increased by HK$34.5 million, or 35.1%, from HK$98.4 million in 2019 to HK$132.9 million in 2020. The change was mainly associated with additional provision of return merchandize and increase in export costs on air and sea freight. Majority of passenger flights being suspended during COVID-19 pandemic outbreak resulted in a significant decline in air cargo capacity which has forced the air cargo charges gone up significantly. In addition, COVID-19 pandemic outbreak has also resulted in some major ports in the United States experienced a heavy port congestion and vessel delay due to lack of sufficient dockworkers and truckers which also pushed the sea shipment charges up significantly before end of the year.

Administrative expenses spent HK$128.0 million more than last year, the spending increased by 34.5% from HK$371.4 million in 2019 to HK$499.4 million in 2020. Staff cost which represented approximately 69.5% of the total administrative expenses increased by HK$90.1 million, or 35.0%, from HK$257.1 million in 2019 to HK$347.2 million in 2020, it was mainly due to performance bonus provision for the year of 2020. Other administrative expenses increased by HK$37.9 million, or 33.2%, from HK$114.3 million in 2019 to HK$152.2 million in 2020 which was mainly associated with additional depreciation of new fixed assets being acquired in last year.

Finance costs decreased by HK$23.3 million, or 43.6%, from HK$53.5 million in 2019 to HK$30.2 million in 2020. It was mainly due to a reduction of bank borrowings in the year.

The impairment losses on financial assets decreased by HK$4.2 million, or 70.0%, from HK$6.0 million in 2019 to HK$1.8 million in 2020. It was mainly due to a decrease in expected credit loss in the year of 2020 as compared to the prior year.

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Other revenue and other gains and losses increased by HK$104.2 million, from a loss of HK$9.4 million in 2019 to a gain of HK$94.8 million in 2020. The Group recorded a net exchange gain of HK$40.5 million in 2020 as compared to a net exchange loss of HK$23.3 million in 2019, the net change of the exchange gain and loss was HK$63.8 million, represented approximately 61.2% of the increase in other revenue and other gains and losses. In addition, interest income together with net fair value gains on derivative financial instruments increased by HK$10.7 million from HK$5.9 million in 2019 to HK$16.6 million in 2020. Government grants increased significantly by HK$9.8 million from HK$1.0 million in 2019 to HK$10.8 million in 2020. Majority of the government grants received in the year of 2020 was associated with Employment Support Scheme under the Anti-epidemic Fund launched by the Hong Kong SAR Government supporting the payroll of the Group's employees. The Group generated income on leasing machines and equipment for a total of HK$28.6 million in 2020 and such income was only HK$3.8 million in the year of 2019.

Share of profit of a joint venture increased by HK$2.6 million, or 14.9%, from HK$17.4 million in 2019 to HK$20.0 million in 2020. Increase in the profit sharing from the joint venture was mainly resulted from an increase in operating scale that generated more profit from the operation in the second half of the year.

### Profit for the Year

The Group recorded a profit attributable to owners of the Company of HK$207.3 million in 2020 as compared with the profit attributable to owners of the Company of HK$10.3 million in 2019. It was mainly contributed by price increase together with a higher gross profit margin of the newly launched 2nd generation RTX VGA Cards under brand businesses.

Income tax expenses of HK$39.7 million was recorded in 2020, it was an income tax credit of HK$8.8 million in 2019. The change was mainly due to most of the operating entities in the Group being profitable in this year compared to the loss in last year.

### Profit Attributable to Owners of the Company and Dividends

The profit attributable to owners of the Company in 2020 was HK$207.3 million which resulted in an earnings of HK56 cents per share. It was a profit attributable to owners of the Company of HK$10.3 million with basic and diluted earnings of HK3 cents per share in 2019. The Board of Directors proposed a final dividend of HK22 cents per share for the year ended 31 December 2020 and it is estimated to be HK$81.9 million in total.

## LIQUIDITY AND FINANCIAL RESOURCES

### Shareholders' Funds

Total shareholders' funds have increased by HK$223.3 million, or 25.4%, from HK$879.8 million as at 31 December 2019 to HK$1,103.1 million as at 31 December 2020.

## Financial Position

Total non-current assets decreased by HK$87.8 million, or 11.4%, from HK$771.0 million as at 31 December 2019 to HK$683.2 million as at 31 December 2020. The change was mainly due to a decrease in net book value of property, plant and equipment and the right-of-use assets.

The Group has frozen capital expenditure plans and has minimized spending on capital expenditure during COVID-19 pandemic outbreak in 2020. Total capital expenditure spending reduced to HK$9.3 million in 2020. The net book value of property, plant and equipment decreased by HK$71.3 million, or 33.1%, from HK$215.5 million as at 31 December 2019 to HK$144.2 million as at 31 December 2020, the change was mainly associated with depreciation incurred for the year. Right-of-use assets decreased by HK$19.6 million, or 12.6%, from HK$156.1 million as at 31 December 2019 to HK$136.5 million as at 31 December 2020. The change was mainly associated with the depreciation of the lease contracts on land and buildings under the right-of-use assets. Interest in a joint venture increased by HK$30.9 million, or 21.5%, from HK$143.8 million as at 31 December 2019 to HK$174.7 million as at 31 December 2020. The change was mainly due to profit shared by the Group for the year.

Trade and other receivables under non-current assets decreased by HK$7.8 million, or 3.7%, from HK$212.9 million as at 31 December 2019 to HK$205.1 million as at 31 December 2020. It was associated with an instalment payment plan in a sales contract with a customer for sale of VGA Cards before year ended 31 December 2019. However, the COVID-19 pandemic outbreak has resulted in operation lockdown of the customer that resulted in delay of the payment. A revised repayment schedule was agreed by both parties and the last instalment will fall in September 2022. Furthermore, deferred tax assets decreased by HK$15.5 million from HK$25.9 million as at 31 December 2019 to HK$10.4 million as at 31 December 2020, it was mainly due to realisation of deferred tax assets charged to profit or loss during the year.

The Group has total current assets of HK$3,304.2 million as at 31 December 2020 and HK$3,260.8 million as at 31 December 2019. The Group's total current liabilities amounted to HK$2,769.3 million as at 31 December 2020 and HK$3,019.7 million as at 31 December 2019. The Group's current ratio, defined as total current assets over total current liabilities, increased from 1.1 as at 31 December 2019 to 1.2 as at 31 December 2020.

The Group's cash and bank balances increased from HK$906.9 million as at 31 December 2019 to HK$1,124.6 million as at 31 December 2020. Borrowings reduced from HK$1,475.4 million as at 31 December 2019 to HK$1,070.0 million as at 31 December 2020. Due to the adoption of HKFRS 16, the Group has recognised current lease liabilities amounted to HK$27.7 million and non-current lease liabilities amounted to HK$114.3 million as at 31 December 2020. The Group's net debts to equity ratio (being debts minus cash and cash equivalents divided by total equity) decreased from 82.7% as at 31 December 2019 to 8.0% as at 31 December 2020. The change was mainly due to an improvement in cash in-flow in the second half of the year as a result of increase in cash and bank balances together with a decrease in bank borrowings by end of the year.

Trade and other receivables consisted of both trade receivables at amortised cost and at fair value, together with other receivables, deposits and prepayment increased by HK$19.9 million, or 1.4%, from HK$1,403.5 million as at 31 December 2019 to HK$1,423.4 million as at 31 December 2020. The increase was mainly associated with an increase in trade receivables as at 31 December 2020. Trade receivables at amortised cost slightly increased by HK$37.7 million, or 2.8%, from HK$1,327.6 million as at 31 December 2019 to HK$1,365.3 million as at 31 December 2020. Trade receivables under factoring arrangement at fair value decreased by HK$18.2 million, or

# Management Discussion and Analysis

36.3%, from HK$50.2 million as at 31 December 2019 to HK$32.0 million as at 31 December 2020. Other receivables, deposits and prepayment increased by HK$0.4 million, or 1.6%, from HK$25.7 million as at 31 December 2019 to HK$26.1 million as at 31 December 2020, such an increase was mainly due a temporary deposit paid to custom in China before end of the year.

Trade and other payables increased by HK$73.8 million, or 5.2%, from HK$1,410.3 million as at 31 December 2019 to HK$1,484.1 million as at 31 December 2020. Trade payables decreased by HK$31.7 million, or 2.4%, from HK$1,311.2 million as at 31 December 2019 to HK$1,279.5 million as at 31 December 2020. It was in-line with lower inventories which resulted in a lower trade payable balance as at 31 December 2020. Other payables increased from HK$99.1 million as at 31 December 2019 to HK$204.6 million as at 31 December 2020. It was mainly associated with provision of performance bonus for the year.

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 increased by HK$15.3 million, or 41.0%, from HK$37.3 million as at 31 December 2019 to HK$52.6 million as at 31 December 2020. Refund liabilities increased by HK$15.1 million, or 31.7%, from HK$47.7 million as at 31 December 2019 to HK$62.8 million as at 31 December 2020. It was mainly due to an increase in sales of own brand VGA Cards which resulted in a higher level of provision of sales return warranty under refund liabilities and the costs of return reported under the right of return assets on the financial statements.

Advance payment from customers and volume rebates together with sales allowance under contract liabilities increased by HK$44.6 million, or 141.1%, from HK$31.6 million as at 31 December 2019 to HK$76.2 million as at 31 December 2020. It was due to advance payments from some customers to purchase 2nd generation RTX VGA Cards before end of the year. Provisions on product warranties and returns increased from HK$18.7 million as at 31 December 2019 to HK$31.4 million as at 31 December 2020, it was associated with increase in sales of own brand VGA Cards which led to a high provision on product warranties.

Current tax liabilities increased from HK$7.3 million as at 31 December 2019 to HK$17.2 million as at 31 December 2020. The change was mainly due to most of the operating entities in the Group being profitable in this year compared to the loss in last year. Amount due to a related party was HK$2.7 million as at 31 December 2019 and reduced to HK$Nil as at 31 December 2020 since the transactions were no longer classified as related party before end of the year.

### Exposure to Fluctuation in Exchange Rates

As at 31 December 2020, the Group was exposed to currency risk primarily through sales and purchases denominated in currencies other than the functional currency of the operations to which they relate. The currencies giving rise to the risk are primarily Renminbi, Euro, Korean Won and Japanese Yen. The Group entered into several forward exchange contracts in 2019 and 2020.

## Working Capital

Inventories of the Group as at 31 December 2020 were HK$908.3 million which decreased by HK$217.7 million, or 19.3%, as compared with HK$1,126.0 million as at 31 December 2019. Inventory turnover days decreased from 94 days as at 31 December 2019 to 53 days as at 31 December 2020. Work from home, on-line studies and home entertainment created a rising demand of computer and gaming hardware during the COVID-19 pandemic outbreak. The business of the Group has benefited from the rising demand of computer and gaming hardware which resulted in lower level of inventories throughout the year. In addition, the newly launched 2nd generation RTX VGA Cards in the second half of the year were selling very well, such a high demand of these new gaming products has resulted in a faster inventory turns and a lower level of inventories by end of the year.

Trade receivables as at 31 December 2020 were HK$1,397.3 million, increased by HK$19.5 million, or 1.4%, as compared with HK$1,377.8 million as at 31 December 2019. Trade receivable turnover days increased from 54 days as at 31 December 2019 to 65 days as at 31 December 2020. The Group has entered into an instalment payment plan with a customer that has caused a slowdown of trade receivables turnover days in 2020. However, the trade receivable turnover days has been improved from 77 days as at 30 June 2020 to 65 days as at 31 December 2020.

Trade payables as at 31 December 2020 was HK$1,279.5 million, decreased by HK$31.7 million, or 2.4%, as compared with HK$1,311.2 million as at 31 December 2019. Trade payable turnover days decreased from 70 days as at 31 December 2019 to 68 days as at 31 December 2020. It was mainly due to a shortage in supply of GPU for 2nd generation RTX VGA Cards which resulted in a lower balance of trade payables as at 31 December 2020.

## Charges on Assets

As at 31 December 2020, bank deposit of HK$0.5 million was pledged to banks to secure the corporate credit card granted to the Group.

## Capital Expenditure

The Group's additions to property, plant and equipment in 2020 amounted to HK$9.3 million.

## Capital Commitments and Contingent Liabilities

As at 31 December 2020, total capital commitments amounted to HK$0.3 million, and there was no material contingent liability or off balance sheet obligation.

## Significant Acquisitions and Disposals of Investments

There was no acquisition or disposal of investment.

## Future Plans for Material Investments or Capital Assets

The Group has no plan for material investment or acquisition of capital assets as at 31 December 2020, but will actively pursue opportunities for investments to enhance its profitability in the ordinary course of business.

# Management Discussion and Analysis

## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2020, the Group had 3,140 employees (2019: 2,997 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, performance related bonuses may also be awarded to employees. The Company had adopted a Pre-IPO Share Option Scheme to recognize the contributions of and as retention incentive to the executive directors, certain management staff and selected long service employees of the Group. Subsequently, the Company has also adopted Share Option Scheme on 17 June 2016.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The purpose of this Environmental, Social and Governance ("ESG") Report is to communicate PC Partner Group Limited (the "Company") and its subsidiaries (together "the Group") sustainability strategies, approach, and quantitative performance measurements with stakeholders.

## ESG STRATEGY

The Group considers sustainability as a strategy of long term development, and determine sustainable development direction and targets on activities with material impacts on environmental, social or governance topics.

## REPORTING SCOPE

The ESG Report summarised the ESG initiatives and performance on environmental, social and governance aspects of the Group. Environmental aspects and social topics on employment and labour practices are mainly focused on the manufacturing operation under 東莞栢能電子科技有限公司 ("PC Partner Dongguan"), a wholly owned subsidiary, of the Company.

## REPORTING STANDARD

The ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "HKEX"). The board of directors ("BOD") has acknowledged its responsibility to oversee the Group's sustainable development and review the truthfulness, accuracy and completeness of the ESG Report.

## REPORTING PERIOD

The ESG Report specified the ESG activities, challenges, and measures being taken during the financial year ended 31 December 2020.

## ESG GOVERNANCE STRUCTURE OF THE GROUP

The Group has established a top-down ESG governance structure, where the BOD oversees and sets out ESG strategy for the Group. To develop a systematic management approach for ESG issues, the Group has established working team for collecting relevant information on the ESG aspects for the preparation of the ESG report. It reports to the BOD, assists in identifying and assessing the Group's ESG risk, and evaluates the implementation and effectiveness of the Group's internal control system. It also examines and reviews the Group's ESG performance against the Group's ESG-related goals and targets, including environmental, labour practices, and other ESG aspects.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## STAKEHOLDER ENGAGEMENT

The Group recognises the responsibility and accountability to all stakeholders. To understand and address the key concerns of different stakeholders, the Group has been maintaining close contact and regular communications with major stakeholders through various channels in order to gain a better understanding of their needs, concerns and expectations in relevance to the business operation.

| Stakeholders | Topics concerned | Communication Channels |
|---|---|---|
| BOD | • Corporate governance<br>• Regulatory compliance<br>• Financial performance<br>• Strategic development | • Board meetings<br>• Committee meetings<br>• Annual general meeting<br>• Emails |
| Shareholders and investors | • Corporate governance Business strategy and performance<br>• Investment returns | • Annual general meeting and other shareholder meetings<br>• Financial reports<br>• Announcements and circulars<br>• Company website and emails<br>• Investor meetings |
| Customers | • Product quality<br>• Delivery time<br>• Financial performance<br>• Service value<br>• Compliance with laws and regulations | • Site visits<br>• After sales services |
| Employees | • Rights and benefits<br>• Remuneration and compensation<br>• Training and development<br>• Career development<br>• Health and safety<br>• Working environment | • Training<br>• Interviews for employees<br>• Employee handbook<br>• Internal notices<br>• Emails |
| Suppliers | • Payment schedule<br>• Stable demand<br>• Fair and open tendering<br>• Financial strength | • Selection assessment<br>• Procurement process<br>• Performance assessment<br>• Regular communication |
| Media, community and the public | • Environmental protection<br>• Employment and community development<br>• Society contribution<br>• Compliance with laws and regulations | • Company website<br>• Public relation through emails, phone calls and interviews<br>• Participation in local community activities and volunteering work<br>• Charitable donations |

## MATERIALITY ASSESSMENT

To better understand the expectations of stakeholders on the Group's ESG performance, a materiality assessment has been conducted to identify stakeholders' key concerns. The working team has invited BOD, a number of customers and suppliers, a range of employees from different levels in the Group, some of the Company's shareholders to conduct material assessment survey.

The following illustrates the steps of the materiality assessment process:

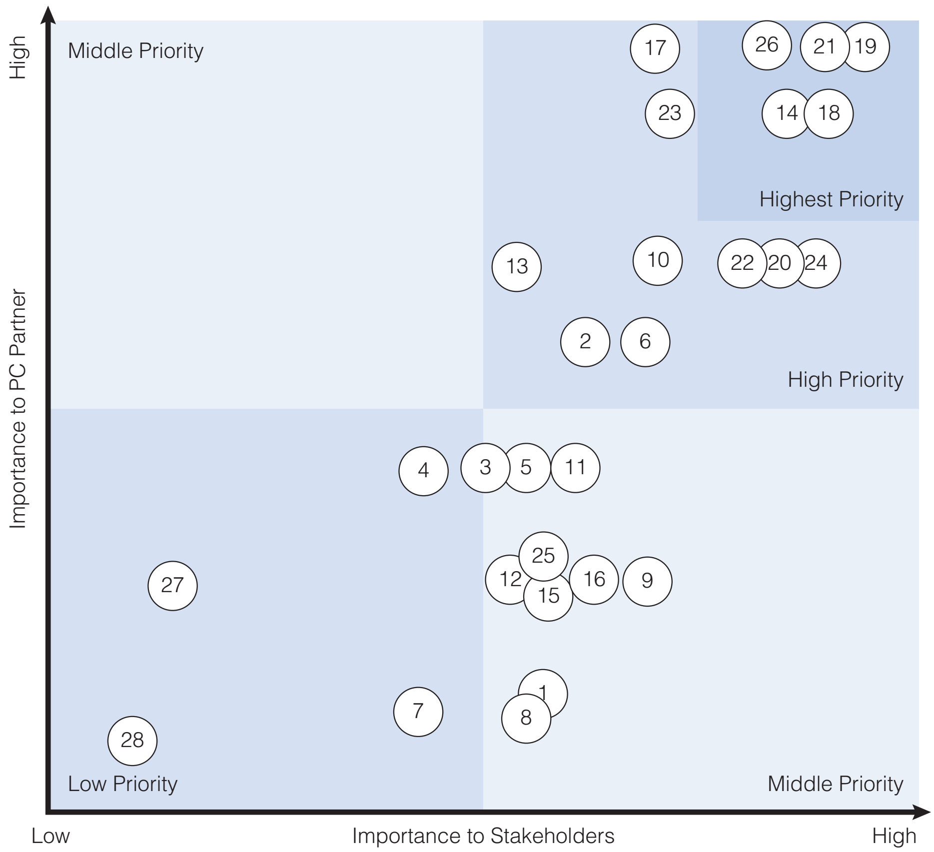
1. Identify a list of material topics by benchmarking against company policies, industry standards, and corporate development strategies as well as following the ESG Reporting Guide set out in Appendix 27 of the Listing Rules and Guideline on the HKEX;

2. Conduct materiality assessment in the form of survey and invite stakeholders such as BOD, employees, customers, suppliers and shareholders to assess the importance of each topic. Stakeholders are also given the opportunity to share their comments on any other important topics not being covered on the survey; and

3. The material topics are analysed and prioritized based on the survey results. Stakeholders' opinions and the materiality assessment results are reviewed and discussed with the management, thus determining the focus of disclosure and the direction for improving ESG performance in future.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ESG topics has been prioritized into four levels: highest, high, medium and low, for better strategic planning and resource allocation. According to the results of the materiality matrix, topics which fell into the highest priority area, the upper right corner, of the matrix were defined to be the most important topics of the Group and the stakeholders. The results were mapped with the key sustainability topics assessed by the working team and illustrated in the following chart:



| Environment | Employment | Operation | Society |
|---|---|---|---|
| 1. Greenhouse gas emission<br>2. Waste management<br>3. Water and effluent handling<br>4. Energy efficiency<br>5. Use of materials<br>6. Environmental compliance<br>7. Natural resource consumption<br>8. Climate change | 9. Labour rights<br>10. Labour-management relations<br>11. Employee retention<br>12. Diversity and equal opportunity<br>13. Discrimination<br>14. Occupational health and safety<br>15. Employee training<br>16. Employee development and career advancement<br>17. Prevention of child labour and forced labour | 18. Customer satisfaction<br>19. Product and service quality assurance<br>20. Customer complaints handling<br>21. Product liability and compliance with regulations<br>22. Protect Intellectual property<br>23. Consumer privacy and data protection<br>24. Supplier's quality and compliance<br>25. Supplier assessment | 26. Corruption and business ethics<br>27. Community support<br>28. Charity donation |

There are 14 topics fell under high priority; of which, 5 topics are determined to be the highest priority topics on the above materiality matrix. There are 10 topics fell into middle priority and 4 topics are under low priority on the materiality matrix.

## A. Sustainable Development of the Environment

As a commitment to promote the sustainable development of the environment, the working team has set goals, formulated plans and carried out statistical analysis and audits to reduce energy and water consumption, carbon emission and waste disposal. Environmental management system is established and implemented in the manufacturing operation in compliance with ISO14001 Environmental Management Systems ("ISO14001"). Starting from 2016, the production plant underwent an annual supervisory audit required by the ISO14001 and the OHSAS18001 Occupational Health and Safety Management Systems which has been converted to ISO45001 Occupational Health and Safety Management Systems ("ISO45001") standard in 2020. An independent third party was engaged to audit the systems to ensure compliance of the environmental management system and the occupational health and safety management system. Internal audit was also conducted since 2016 according to the ISO14001 and the ISO45001 in order to ensure the ongoing effectiveness and improvements of the systems. A number of customers have audited under the ISO14001 and ISO45001 standards and the results were well-recognised by the customers.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### *A1. Emissions*

PC Partner Dongguan has identified the environmental factors of 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. Third-party professional organisations were engaged to monitor the concentration of emissions from different sources according to the standards in China (e.g. Emission Limits of Air Pollutants (DB44/27-2001), Integrated Emission Standard of Air Pollutants (GB16297-1996), Emission Standard of Cooking Fume (GB18483-2001)) to ensure ongoing compliance on annual basis. The Group also pays consistent attention to laws and regulations update and conduct safety assessments to ensure the gas emissions do not violate relevant regulations.

Production and manufacturing services require the use of energy, which leads to Greenhouse Gas ("GHG") emissions. In order to reduce such emissions. The Group has identified the utilisation and boosted the efficiency of energy and stepped up the audit of the management systems, and collected data on the direct (Scope 1) and indirect (Scope 2) GHG emissions. The top priority is to reduce the energy consumption and GHG emissions per thousand unit of production output. PC Partner Dongguan has collected data on energy consumption and GHG emissions, and then evaluated the performance.

Operations generate household wastewater and there is no industrial wastewater 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 compiled with the local laws and regulations, and household wastewater is discharged to municipal treatment plants. During the process of product cleaning, a small amount of chemicals was consumed, which lead to liquid waste. Discharge of liquid waste to sewers, aquatic systems and soils is prohibited. The wastewater has 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 the operations: household waste, hazardous waste, recyclable waste and waste paper. According to the Group's 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 daily production activities and the proper disposals of these types of waste are 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 to fully utilise resources. Household waste is generated in the daily life of employees 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 new guidelines and evaluate the laws and regulations regarding the treatment of GHG, wastewater and hazardous and ordinary materials, thereby ensuring a compliance with local laws, regulations and standards. Emission and wastes are summarised in below table:

*A1.1 Types of emissions and respective emissions data*

| | | | | Hazardous Solid Waste | | | Non-hazardous Solid Waste | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Emission & Waste Summary Table | Greenhouse Gas ($CO_2$) (Tonne) | Household Wastewater (Cubic meter) | Hazardous Liquid Waste (Tonne) | Discarded Cloth (Tonne) | PCB Trim & Scraps (Tonne) | Scrap Tin (Tonne) | Paper (Tonne) | Plastic (Tonne) | Metals (Tonne) | Total Hazardous Waste (Tonne) | Total Non-Hazardous Waste (Tonne) |
| 2020 Volume | 12,831.56 | 168,208 | 2.49 | 0.20 | 2.95 | 0.16 | 43.81 | 2.22 | 0.19 | 5.80 | 46.22 |
| 2019 Volume | 14,738.46 | 210,655 | 2.80 | 0.40 | 3.03 | 0.00 | 44.93 | 2.33 | 0.21 | 6.23 | 47.47 |

Note: Data extracted from 東莞栢能電子科技有限公司.

PC Partner Dongguan 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.

*A1.2 Greenhouse gas emissions*

Direct (Scope 1) GHG emission in 2019 was 149.22 tonnes of $CO_2$, while that in 2020 was 101.51 tonnes of $CO_2$, representing a decrease of 32.0%. This was mainly due to a reduction of diesel and petrol consumption in 2020.

Indirect (Scope 2) GHG emission decreased by 12.7% from 14,589.24 tonnes of $CO_2$ in 2019 to 12,730.05 tonnes of $CO_2$ in 2020, it was due to execution of various projects to reduce electricity consumption and a decline in production output in 2020 as compared to last year. Manufacturing plant has adopted power consumption technologies (i.e. using LED lights, solar energy and optimising the production process), managing the use of electricity to drive the power consumption rate down per thousand unit of production output.

| **Greenhouse Gas Emission Table** | **2020** | 2019 |
|---|---|---|
| Scope 1 — Direct GHG Emission | **101.51** | 149.22 |
| Scope 2 — Indirect GHG Emission | **12,730.05** | 14,589.24 |
| Total scopes 1 and 2 emissions (Tonne of $CO_2$) | **12,831.56** | 14,738.46 |
| Thousand unit of production output | **6,755** | 7,078 |
| Total emissions per thousand unit of production output (Tonne of $CO_2$ per thousand unit of production output) | **1.90** | 2.08 |

Note: Data extracted from 東莞栢能電子科技有限公司.

Scopes 1 and 2 GHG emissions total of 12,831.56 tonnes of $CO_2$, which was 12.9% less than the figure in 2019 of 14,738.46 tonnes of $CO_2$. Scopes 1 and 2 GHG emissions per thousand unit of production output reduced by 8.7% from 2.08 in 2019 to 1.90 in 2020. With GHG emission management as a part of the ISO14001, evaluation of the business impact on GHG emissions was performed on an on-going basis and the Group takes steps to mitigate such impact.

*A1.3 Hazardous waste produced*

The manufacturing process generates a small amount of hazardous waste, which are mainly liquid waste, discarded cloths, PCB trims and scarps and scrap tin. A tracking and treatment process was established to handle the hazardous waste, all of which is delivered to green service providers in accordance with laws and regulations in China. Besides verifying the qualifications of the green service providers, audits were performed to ensure they meet the selection criteria, and continue working towards the target to minimize and ultimately eliminate all wastes.

The operation generated 5.80 tonnes of hazardous waste in 2020, 6.9% less than 6.23 tonnes of hazardous waste in 2019. It was mainly due to a team effort to drive the hazardous liquid waste down and it has been reduced by 0.31 tonnes, or 11.1%, from 2.80 tonnes in 2019 to 2.49 tonnes in 2020. The amount of hazardous waste generated per thousand unit of production output decreased by 2.3% from 0.00088 in 2019 to 0.00086 in 2020.

*A1.4 Non-hazardous waste produced*

Non-hazardous solid waste such as waste paper, scrap metals and waste plastic are often produced during the production process and household garbage. 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. Staff are required to print and copy on both sides to reduce the use of plain paper. Non-hazardous solid waste generated from the production process amounted to 46.22 tonnes in 2020, 2.6% less than 47.47 tonnes for 2019. Non-hazardous solid waste generated per thousand unit of production output was 0.00684 in 2020, represented an increase of 1.9%, from 0.00671 in 2019. Both plastic and metals have recorded a drop per thousand unit of production output by 0.2% and 5.2% respectively. Paper being the major non-hazardous solid waste has recorded a decline from 44.93 tonnes in 2019 to 43.81 tonnes in 2020 but the usage per thousand unit of production output has been increased by 2.2% in 2020.

Wastewater are by-products of the daily life of employees. Household wastewater decreased by 20.2% from 210,655 cubic metres in 2019 to 168,208 cubic metres in 2020. Household wastewater per thousand unit of production output was reduced by 16.3% from 29.76 in 2019 to 24.90 in 2020. It was mainly resulted from water pipes improvement at dormitory to save household water during the year. In addition, the average number of employees lived in the factory dormitory in 2020 was less than the prior year.

*A1.5 Emission targets and achievement*

The Group strives to protect the environment and has 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 in China:

Operation schedules have been improved so as to reduce the number of operating hours and hence emissions. Production plans are streamlined to boost production efficiency and shorten production time, and cooking time are better arranged to shorten kitchen time. The following actions have been taken to reduce GHG emissions in the manufacturing operation during the year:

1. 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;

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

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

With the above mentioned efforts, the atmospheric emissions from tin furnaces, soldering furnaces and kitchens passed the annual tests undertaken by the third-party professional organisations.

Since the GHG emissions are mainly resulted from the use of energy, the target of GHG emission reduction focused on enhancing energy efficiency. Those measures taken in 2020 are as follows:

1. Continue to enhance usage of production equipments to reduce electricity consumption;

2. Continue to redesign the layout of workshops and production lines according to the capacity needs to improve energy efficiency;

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

4. Retire of old machinery and equipment and replace by new equipments with a great energy efficiency.

With implementation of the above measures together with reduction of production output, the Scope 1 and Scope 2 GHG emissions per thousand unit of production output decreased by 8.7% from 2.08 tonne of $CO_2$ per thousand unit of production output in 2019 to 1.90 tonne of $CO_2$ per thousand unit of production output in 2020.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

*A1.6 Handling hazardous and non-hazardous wastes and achievement*

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

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

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

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

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

The Group selects green service providers authorised by local governments to handle hazardous wastes. Such wastes are centrally collected and delivered to selected green service providers in compliance with the laws and regulations for neutralisation treatment. Neutralisation treatment, recycling and reuse are the key green measures in waste management. The following actions have been taken to reduce waste in 2020:

1. Continue to reduce waste through the improvement of production techniques. For example, cleaning-free technique is introduced to minimise the use of chemicals and use nitrogen welding technology to reduce tin waste;

2. Improved the techniques and pollution-free chemicals are used to replace heavy-polluting ones for waste reduction;

3. Simple packaging is adopted on the packaging design with less raw materials and reduced packaging waste of finished products;

4. Office automation operations are promoted through the development of various office automation software to reduce the use of paper;

5. Trainings are provided to employees to increase their environmental awareness. For example, staff are encouraged to use less disposable goods and containers; 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*

PC Partner Dongguan has established management policies for energy, water and other resources under the ISO14001 to constantly optimise and reduce the use of resources. Manufacturing plant mainly uses electricity in the daily operations. PC Partner Dongguan strives to "reduce consumption, optimise efficiency and protect the environment". Electricity is the major energy source utilised by PC Partner Dongguan which mainly purchases electricity from power companies. The electricity is then converted into the powers to assemble products and provide manufacturing services to customers. The Group increases energy efficiency and reduce electricity consumption through management and technical upgrades. The working team investigates 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 Group encourages employees to save energy and keeps on innovating new method and technique on electricity saving. As a relatively clean energy source, natural gas was also introduced in 2013 to replace diesel which has lower energy conversion rate and being more environmental friendly. Natural gas is currently used in cooking in the canteens. In addition to replacing diesel with natural gas, PC Partner Dongguan is also making effort to convert to other clean energies, such as using solar energy to provide hot water in the factory dormitory. Manufacturing plant do not use water in the production process, and only employees use water for their living activities. Therefore, the water policy focuses on encouraging the employees to save water through setting water consumption target for each premise, and keep upgrading the facilities to reduce the water wastage and consumption.

PC Partner Dongguan uses various kinds of packaging materials and components in its production process. Designers take into account of environmental-friendliness when designing the packaging in order to reduce the use of materials with better designs, and putting the best efforts to choose recyclable materials to cut back on the use of packaging materials. The Group's products consisted of hundreds to thousands of parts and components. Materials have been chosen carefully since all materials used to conform with all relevant laws and regulations and customers' requirements, such as the Restriction of Hazardous Substances (RoHS) directive and the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) regulations, in order to reduce the impact to the environment. Suppliers are also required to make efforts to reduce the impact to the environment by implementing energy efficient production process and put more focus on energy savings in their production process as well as to simplify packaging with less paper consumption.

#### *A2.1 Direct and/or indirect energy consumption by type*

Energy consumption is required to produce products and provide manufacturing services to customers. The manufacturing plant currently uses electricity as the main sources of energy. PC Partner Dongguan identifies and evaluates improvement opportunities, executes the improvements and evaluates the effectiveness and performance of the energy management system over its production process. Energy consumption per thousand unit of production output is determined to be the key performance indicator ("KPI") of energy efficiency. To facilitate conversion between different energy sources, all consumptions are converted into standard coal equivalent using a consistent conversion factor.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group measured various sources of energy consumption every year and presented the KPIs to management for evaluation and improvement. Electricity consumption was 1,614.88 ten of thousands kilowatt-hours in 2020, represented 12.7% decrease, from 1,850.72 ten of thousands kilowatt-hours in 2019. Electricity consumption per thousand unit of production output was 0.2391 in 2020, represented a decrease of 8.6% from the electricity consumption per thousand unit of production output 0.2615 in 2019. It was mainly due to manufacturing process improvement to drive a decrease in the electricity consumption per thousand unit of production output during the year.

Natural gas consumption reduced by 6.8% from 4.41 ten of thousands cubic metres in 2019 to 4.11 ten of thousands cubic metres in 2020. Petrol consumption reduced by 65.6% from 21.19 tonnes in 2019 to 7.29 tonnes in 2020. The decline in petrol consumption was mainly due to a decrease in usage of company vehicles due to COVID-19 pandemic outbreak in China.

Total energy consumption decreased by 13.4% from 2,368.72 tonnes of standard coal equivalent in 2019 to 2,052.22 tonnes of standard coal equivalent in 2020. 0.3038 tonnes of standard coal equivalent per thousand unit of production output was recorded in 2020, it represented 9.2% less than 0.3347 tonnes of standard coal equivalent per thousand unit of production output in 2019. Beside execution of different projects to drive the electricity consumption down in 2020 which has been recorded as industrial use energy consumption, the non-industrial consumptions of electricity, diesel, natural gas and petrol all have been decreased in 2020 as compared to the consumptions in 2019. The statistics of energy consumption by type for 2019 and 2020 are shown in the following Energy Consumption Summary Table.

| | | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|---|
| **Energy source Summary Table** | **Unit of measure** | **Industrial use** | **Non-industrial use** | **Total** | Industrial use | Non-industrial use | Total |
| Electricity | 10 Thousand KWH | **1,473.97** | **140.91** | **1,614.88** | 1,704.34 | 146.38 | 1,850.72 |
| Diesel | Tonne | **0.00** | **1.47** | **1.47** | 0.00 | 2.99 | 2.99 |
| Natural Gas | 10 Thousand $m^3$ | **0.00** | **4.11** | **4.11** | 0.00 | 4.41 | 4.41 |
| Petrol | Tonne | **0.00** | **7.29** | **7.29** | 0.00 | 21.19 | 21.19 |
| Total energy consumption | Standard coal equivalent in Tonne | **1,811.51** | **240.71** | **2,052.22** | 2,094.63 | 274.09 | 2,368.72 |

Note: Data extracted from 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 survivals. Appropriate water management that protects water resource is vital to the protection of ecosystem. The manufacturing plant does not use water in the production process. Water used in the premises comes from local municipal water supply. Numerous measures were adopted to reduce the use of water and lower the water consumption per thousand unit of production output. Total water consumption reduced by 20.2%, from 210,655 cubic metres in 2019 to 168,208 cubic metres in 2020. Water consumption per thousand unit of production output decreased by 16.3% from 29.76 in 2019 to 24.90 in 2020. Beside a lower utilisation of factory dormitory resulted in a reduction of water consumption per thousand unit of production output, improvement of water pipes was another major contribution to save householder water consumption in 2020.

*A2.3 Energy use efficiency targets and achievement*

Due to continuous change of business development and production capacity requirements, the target of the Group is to enhance energy consumption efficiency continuously. Different initiatives were taken to strengthen energy management and refine energy use. The following projects were carried out in 2020:

1. To strengthen the energy management centre in order to better monitor the energy use in the manufacturing facilities;

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

3. Retire of old machinery and equipment in order to enhance the electricity efficiency;

4. Optimised the layout of the manufacturing plant and production lines in accordance with the production capacity to reduce hauling time and improve energy efficiency; and

5. Develop tools and equipments for automation in order to improve productivity and lower down the needs of energy consumption.

Total energy consumption decreased by 13.4% from 2,368.72 tonnes of standard coal equivalent in 2019 to 2,052.22 tonnes of standard coal equivalent in 2020. 0.3038 tonnes of standard coal equivalent per thousand unit of production output was recorded in 2020, it represented 9.2% less than 0.3347 tonnes of standard coal equivalent per thousand unit of production output in 2019.

*A2.4 Water source and efficiency target*

Water is not being used for production of products in the manufacturing operation, it is mainly used by employees on their daily living activities in the premises which comes from local municipal water supply. The Group determined water consumption per thousand unit of production output as water efficiency target and formulate comprehensive yearly water efficiency initiatives according to the target. Such initiatives improve water efficiency principally through better water-saving management and water consumption facilities. The Group will continue to dedicate resources to improve the water consumption efficiency as one of the sustainable growth target.

*A2.5 Packaging materials used for finished goods*

Packaging design is a part of product design and development process. The strategy 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. The Group does not has measurement in place to measure harmful substances in the packaging materials. The Group continues to make effort to reduce a consumption of packaging materials and started to adopt more environmental friendly packaging materials on product packaging design. The Group does not have quantitative data of packaging materials used for finished products in the system.

### *A3. Environment and Natural Resources*

Economy is built around natural resources consumption on trees, natural gas, oil, metal ores and water in the past decades. Over consumption of natural resources worsen the environment and increase pollution of air and fresh water which are critical to health and quality of life. The Group is well aware if human being does not take action to slow down the natural resources consumption being one of the root causes of climate change, it could affect sustainable growth of the business.

*A3.1 Actions taken to address natural resources consumption*

The Group has also taken actions to minimise reliance on natural resources such as oil and natural gas, and to replace by environmental-friendly energy such as solar energy which has been setup root-top solar panels to generate heat for hot water consumption in the factory dormitory. The Group keeps reducing paper consumption in daily business and operation by upgrading the office automation system to reduce paper consumption. The Group has started to adopt more environmental friendly packaging materials with less paper applied on finished products packaging of the brand products. Packaging has been redesigned for a more compact size in order to consume less paper and plastic. All these actions to reduce consumption of natural resources have been embedded in the daily business and operation.

### *A4. Climate Change*

Climate change encompasses not only rising average temperatures but also extreme weather events, shifting wildlife populations and habitats, rising seas, and a range of other impacts. All of these changes emerging as humans continue to add heat-trapping greenhouse gas to the atmosphere. The Group acknowledged that the extreme weather caused by climate change could affect business in various ways, such as reduction in revenue, production capacity decline and supply chain disruption.

The United Nations Development Programme announced the Sustainable Development Goals at the Paris Climate Conference effective from 2016. The agreement addressed the common standards and set of goals for downsizing the global carbon emission amount to mitigate the environmental impacts caused by climate change. The Chinese government also announced its direction aiming to limit the carbon dioxide emissions. Climate change is an important worldwide issue which requires everyone takes part to make a change. The Group has also taken part to minimise the potential climate change impacts by reduction of GHG emission and power consumption in daily business and operation. The goal is to move toward a low-carbon, less polluting and greener business environment in long run.

#### *A4.1 Actions taken to address climate change*

The Group is dedicated to reduce GHG emissions by minimising the energy consumption from daily operation. Energy management centre in the manufacturing plant plays a key role to manage different energy and resources saving projects that has been presented under KPI A2.3. The Group has installed solar panels for factory dormitory and changed to LED light bulbs in the manufacturing site since a few years ago. The investment not just helps to reduce operating cost in long run but also contribute to a slow down the climate change effect. The Group has started to adopt more environmental friendly packaging materials with less paper on finished products packaging of the brand products. In addition, the Group keeps making efforts to reduce the size and the weight of the finished goods packaging. The objective is not simply reducing the cost of products but also makes contribution to protect the environment and to slow down the effect of climate change.

## B. Social

### Employment and Labour Practices

### *B1. Employment*

Being a responsible corporation, the Group is under an obligation to protect employee interests and rights, and guarantee a working environment that allow employees to manifest their values, share their knowledge and innovate. Remuneration packages are reviewed annually and adjusted with reference to the trends of labour market in different countries and staff individual appraisal review. Promotion reviews are conducted upon performance appraisal by management on a regular basis. Discretionary year-end bonus and share options are granted to eligible employees in accordance with the Group's performance and individual's contribution. On top of all the statutory welfare and holidays, employees can also enjoy a comprehensive set of medical insurance benefits together with compassionate leave and maternity leave. The Group continues keep a good relation with employees through various communication channels and activities.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group commits to provide a safe and healthy working environment for employees, and has conducted various safety and health training programmes, and established the COVID-19 instructions and guidelines to ensure a safe and healthy practice in the facilities. The Group is strictly complied with labour laws and regulations in different countries where operate, and has fulfilled the requirements of EICC standards in China on top of the local labour laws and regulations. In the manufacturing plant, annual internal audit was conducted for occupational safety, hygiene, labour interests, ethics and other social responsibilities in accordance with the requirements of the ISO45001 and EICC standards. The results of such annual audit are submitted to the management for review so as to analyses the performance and possible improvement in terms of social responsibilities. An internal audit under ISO45001 and an internal audit under EICC were conducted in 2020.

The management system was upgraded according to the latest EICC Standard in order to align with the international standard. EICC emphasizes on labour protection, alignment with United Nations' principles and integrate other best practices as guiding principles. To consolidate the requirements of the new EICC, the Group strived to update policies, practices, training materials and internal audit documents and tools in the related areas, and also added assessment procedures in terms of occupational hygiene, safety, labour rights and ethical risks to assure that such risks are identified and prevented. The Group has policies in place to eliminate any discrimination in the workplace as well as the recruitment process to ensure equal employment, and also strive to aid employees who are disadvantaged in competition to enjoy alternative development opportunities.

### *B1.1 Total workforce and its analysis*

As at December 2020, the Group employed a total of 3,140 employees, of which the number of male and female employees were 1,853 and 1,287, accounted for 59.0% and 41.0% respectively. The number of employee in 2020 was 4.8% more than the total of 2,997 employees in 2019. The number of male and female employees in 2019 were 1,802 and 1,195 accounted for 60.1% and 39.9% respectively.

PC Partner Dongguan holds the manufacturing operation in China had a total of 2,639 employees, represented 84.0% of total employees of the Group, as at December 2020. The numbers of male and female employees were 1,536 and 1,103, accounted for 58.2% and 41.8% respectively. The operation had a total of 2,498 employees, represented 83.4% of total employees of the Group, as at December 2019. The number of male and female employees were 1,481 and 1,017 accounted for 59.3% and 40.7% respectively.

### *B1.2 Employee turnover rate and its analysis*

The employee turnover rate of the Group decreased from 217.5% in 2019 to 118.5% in 2020. Factory worker did have a much higher turnover rates in the historical records, the worker turnover rate was 213.4% in 2020, represented a decrease from 401.7% in 2019. The COVID-19 pandemic outbreak caused many different business shutdown and slowed down on movement of people in China; therefore, the Group has experienced a much lower turnover rate on worker in 2020 as compared to 2019.

Staff turnover rate of the Group has been decreased from 18.4% in 2019 to 10.3% in 2020. The staff turnover rate at the manufacturing plant in China, was 13.9% in 2020, it was lower than the staff turnover rate of 19.6% in 2019. Staff in the manufacturing operation has recorded a higher turnover rate than the non-manufacturing operation with a relatively more stable workforce in both 2019 and 2020.

### ***B2. Health and Safety***

2020 is the most challenging year to everyone on health and safety. In order to prevent the outbreak of COVID-19 pandemic in the workplace, the Group has adopted various precautionary measures following the guidelines issued by local governments where operate.

The Group offered special arrangements to allow employees to work from home or work in flexible hours or reduce daily office working hours in order to minimise the rush hour travelling for employees in the Hong Kong offices at the most serious periods during the outbreak. Different arrangement was offered to employees who worked in different overseas offices based on the COVID-19 pandemic infection rates in different countries. Most of the employees who could carry their works and duties remotely continued to work from home for most of their time during year in the United States.

The Group provided face masks to employees and encouraged them to wear masks in the workplaces, and also provided hand sanitizers in offices and monitor body temperatures to visitors and staff entering the offices. The Group has cancelled all overseas business trips, trade shows and exhibitions, and encouraged employees to carry their business activities through phone call or video conference instead of physical meeting. The Group has provided computers and other necessary equipments for those who needed to work from home during the year.

PC Partner Dongguan implemented a comprehensive set of preventive measures and guidelines issued by the local government, It was necessary to compile with all the requirements before resumed back to operation after the Chinese Lunar New Year. The Group has continued to follow any new instructions and guidelines throughout the year to ensure the safety of employees and complied with local laws and regulations. All employees returned from their home town after the Chinese Lunar New Year holiday or new employees required to quarantine for a 14 days period at dedicated dormitory before he or she allowed to enter the office areas and the production floors. Besides provided face masks for employees to wear in the workplace and monitored their body temperatures, the Group encouraged social distancing in the workplace and have arranged separate meals with seats and tables maintaining social distance in the factory canteen.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The policies under occupational health and safety management system are certified by ISO45001. The occupational health and safety management system fulfilled both the local and the international laws and regulations. The Group continues to evaluate the compliance level to ensure that business operations and activities meet the requirements of all relevant laws, regulations and standards, and to assure a consistent implementation of all health and safety policies with clear guidelines and procedures, division of responsibilities and broad staff training. The Group makes sure that all the staffs, ranging from the management to frontline staffs, understand the importance of occupational health and safety. As a part of a commitment towards occupational health and safety, the Group has also launched various health and safety training courses to enhance health and safety awareness of employees. The occupational health and safety management system is also audited every year to ensure its continual effectiveness. Several customers have also audited the occupational health and safety management system in 2020.

*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, the Group systematically identified, managed and prevented health and safety risk on the premises. There was no work-related fatality incident in each of the past three years including the reporting year of 2020.

*B2.2 Lost days due to work injury*

The Group always tries the best to minimize the risk of work injury to employees. There was no work-related accident and lost day due to work injury in 2020. The Group followed work injury guidelines in compliance with laws and regulations in different countries where operate. Manufacturing plant in China has formulated work injury handling policies in compliance with local law and regulations to provide support for injured staff and thus effectively protect their physical health, mental well-being and interests, and 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*

Production facilities in China have a higher inherent risk on occupational health and safety than other offices where operate globally. The Group measured performance of occupational health and safety by the number of accidents happened in a year. There was no accident happened in 2020. The tactics of occupational health and safety focus on risk management and prevention of accidents. A comprehensive occupational health and safety measures has been established on the basis of the following action process:

1. identify each activities required in the 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 Group evaluates the occupational health and safety risks of various activities every 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 accident.

To ensure that the measures are effective, occupational health and safety checks were organised 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 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. Factory has also set up an industrial safety committee to execute all health and safety tasks and any remedial actions.

### *B3. Development and Training*

The Group has formulated specific employee training and development policies to foster staff's self-improvement. The Group requires staff to complete induction programme and participate in certain annual training for the sake of the corporate growth as well as their own development. The Group 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, the Group has allocated specific resources on training so that the employees can flexibly and quickly adapt to social changes, achieve career development and create more opportunities for business development. The Group continues to develop various trainings in this year in order to enhance the management capability for quality management officers and technicians on quality, occupational safety and health, and so on.

The Group also continued to roll out an internal education certification project targeting at frontline staff in 2020 to increase their comprehensive knowledge in factory management and expertise, thereby facilitating their career development. After years of efforts, an effective staff development and training programme has been established and is well-received by staff.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

*B3.1 Employee training*

The Group requires new employees to attend an introduction training session so that new employees can gain a certain understanding of the company policies, procedures and operating systems in order to help them quickly start the work.

The Group required all of new employees to participate on a 24 hours induction programme in the manufacturing plant in China. All new employees joined in 2020 have participated in such training. All employees are required to complete at least 24 hours of on-the-job training organised by the human resource department each year. There are a variety of on-the-job training programmes for the employees to choose from. The employees may also apply for external training according to their needs.

*B3.2 Training Hours*

There were 748 employees enrolled in different training programmes (excluded the induction programme) in PC Partner Dongguan during the year, it represented 38.7% of the average number of employee in 2020. The average annual training hours completed per senior and junior employee were 19.95 hours and 24.25 hours respectively in 2020. The average training hours completed by male employee and female employee were 24.39 hours and 19.99 hours respectively.

## ***B4. Labour Standards***

The Group has formulated its labour policy in accordance with laws and regulations in different countries where operate. In the process of formulating the labour policy, the Group has studied and evaluated relevant labour standards and local laws and regulations. Human resources department 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, and does not discriminate candidates or offer different treatment based on their sex, age, nationality, ethnicity, religious belief, marital status, pregnancy, disabilities or family conditions. Policies on hours of work have complied with laws and regulations in different countries where operate. The employees' hours of work shall not exceed the number of hours limited by local laws and regulations.

Manufacturing plant runs on shift system which is designed in accordance with local laws and regulations, hours of work can be arranged flexibly on the basis of the work needed and the system is approved by local labour department. If employees are required to work overtime due to work need, the amount of extra time shall not violate the requirements of the laws and regulations, and also compiled with applicable laws and regulations relating to wages and benefit policies promulgated by local governments, fulfils minimum wage requirements, and offers discretionary annual allowances or performance-based bonus for certain positions. Employees are also entitled to fringe benefits required under local laws and regulations.

The Group has already laid down policies to prohibit racial, religious, nationality, origin, age, disability, sex, pregnancy and other discrimination in any decision 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.

Specific policy is in place to protect the employees' freedom of assembly. The Group does 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 Group does not obstruct any legal bodies or events organised by the employees, and has provided financial supports to the activities of such bodies or events. Being a responsible corporation, it is important to protect the rights of staff with these labour standards and policies, thereby ensuring the highest social responsibility standards in its business activities.

*B4.1 Review employment practice on child and forced labour*

The Group stringently complies with local and international business operation practices against child labour. During the recruitment process, human resources department clearly informed applicants of policy against child labour, and closely examined whether their personal identity documents are authentic and belong to them, and verified the information through interview and, if necessary, governmental information channels. The recruitment process started only after the respective applicant's identity has been verified.

The Group strictly prohibits 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 as needed during office hours.

All employees have the right to resign at any time but a 1-day or 90-day written notice should be given to the Group during and after the probationary period, respectively. The management shall approve the resignation without setting any impediment.

*B4.2 Remedy action to eliminate child and forced labour*

The Group will terminate the employment contract with child labour right away in case discovered and then conduct a detailed review of the recruitment procedures to avoid wrongful recruitment of child labour in future. The Group respects employees and ensures labour interests are protected, and prohibits any forced labour practice. The Group will investigate such forced labour case and take corrective action to protect the best interests of employees in accordance with laws and regulations.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Operating Practices

### *B5. Supply Chain Management*

The Group engages hundreds of suppliers, including distributors and contractors, around the world, and evaluated suppliers' performance on the basis of the quality and delivery schedule in the past, and then further required suppliers to fulfill certain environmental and social responsibilities as well as compliance with laws and regulations on such areas.

To ensure suppliers fulfill the Group's environmental and social responsibility requirements and are in line with the Group's sustainable development, the Group also offers relevant trainings or guidance to let suppliers understand the requirements. The Group also requires suppliers to give written undertakings to comply with the Group's social responsibility policies.

*B5.1 Number of suppliers by geographical region*

Suppliers are widely distributed but majority of them are located in Asia Pacific region. Approximately 72.1% of the suppliers are located in Asia Pacific region and 18.9% of the suppliers are located in China, the rest of 9.0% are from the rest of the world in 2020.

*B5.2 Qualify a supplier*

Supplier management process encompasses certification, approval, improvement, monitoring and dismissal. Potential suppliers must pass a certification criteria in a due diligence before being selected as a qualified supplier and then approved on the qualified supplier list. The supplier certification criteria set by the Group include, among other matters, quality, environment protection, occupational health and safety, labour interests, human rights, and ethics. Due diligence review on supplier can be conducted on-site or in written form. If it is an on-site due diligence review, the Group reviews, among other matters, its quality, environment protection, occupational health and safety, labour interests, human rights and ethics on-site. For remote due diligence assessment, suppliers require to fill in a survey form and submit relevant information for the assessment. Suppliers that have passed the due diligence review will be approved as qualified suppliers.

*B5.3 Identity environmental and social risks*

The Group has embedded environmental and social responsibilities to form a part of the supplier evaluation requirements and assess the requirements through due diligence review process either conducted on-site or in written form. Suppliers' annual review was conducted randomly every year. The inspection team has conducted on-site due diligence reviews for 48 suppliers in 2020 to ensure they have compiled with the requirements and fulfilled various responsibilities include environmental protection, occupational safety and health, labour interests, human right, and ethics.

The COVID-19 pandemic outbreak caused a reduction of the number of on-site supplier review in 2020. There were 76 on-site supplier reviews conducted in 2019.

*B5.4 Promote environmentally preferable products and services*

The electronic industry continues moving toward environmental preferable products and services since years ago. The Group follows the industrial requirements closely, all of the materials and components are fully complied with Restriction of Hazardous Substances ("RoHS") directive and Registration, Evaluation, Authorization and Restriction on Chemicals ("REACH") regulations. The Group required suppliers to provide certification and documents to prove of the compliance with RoHS directive and REACH regulations. In addition, some suppliers are required to provide samples for laboratory testing to confirmed the compliances on random basis.

In order to ensure that both products and services meet environmentally-friendly requirements, QC080000 Hazardous Substance Process Management System has been established and has conducted an internal audit of the system every year together with a third-party audit agency to conduct supervision and review so as to ensure the ongoing effectiveness of the system.

## B6. Product Responsibility

The Group values the responses and transparent communication of the possible impacts of the products, and work closely with partners along the supply chain to manage products so as to maximise their useful life. The Group constantly evaluates and improves the safety and reliability, the use of restricted substances and the impact of the products.

The Group uses over 1,000 kinds of materials in its production. The Group makes every effort to understand the substances of the materials and manage the environmental impact of the products. Engineering and purchasing teams co-operate with suppliers to obtain comprehensive information of each material and component. Such information allows the team to ensure whether the materials contain the relevant prohibited substances that affect the environment, and to formulate management measures. The Group requests the supplier of each material to provide laboratory report of restricted substances issued by third-party laboratories and gives warranty to confirm proper management of restricted substances, and also discusses with the suppliers about restricted substance control techniques and management measures.

The Group keeps an eye on the impact of products to 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 the products. The Group keeps abreast of and study the laws and regulations relating to the products in order to take appropriate actions to comply with the requirements. The Group continued to manage the product design, development, procurement, manufacturing, sale and other processes in accordance with product safety and reliability laws, standards and guidelines.

*B6.1 Products returned or recalled for safety and health reasons*

The Group has adopted a product return policy and promises consumers to exchange defective products after sale and provide after sale repair service. In 2020, none of the products has been returned by customers or subject to recalls for safety and health reasons. All returned products are returned for general quality issues.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

*B6.2 Products and service complaints*

The Group handles after sale product servicing requests on daily basis, and has established different regional or countrywide service centers to take care the requests on technical questions and product return requests in case there are general quality issues of the products sold under own brands. In addition, a brand business also has a 24 hours outsourced service centers to response on general questions and technical questions of the products. For Original Design Manufacturer/Original Equipment Manufacturer ("ODM/OEM") products, the Group has teams in the manufacturing plant and in-house sales coordinators to take care customer requests directly.

*B6.3 Policies relating to protecting intellectual property rights*

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

All staff of the Group shall report their inventions, innovations, designs, compositions or other creations to the Group for a decision on whether to apply for patents or copyrights. The staff are obligated to surrender all files, drafts, designs and other information on their creations to the Group and assist the Group to apply for patents or copyrights for their creations. The Group arranges training on protecting intellectual property rights for its staff to ensure that they understand how to protect intellectual property rights.

The Group has implemented a new project management system in 2019 to enhance the security of the engineering designs on both the ODM/OEM projects as well as projects for own brands. Data and information would only be able to access with proper authorization engineering personnel who have assigned to work on the particular projects. The new system has significantly enhanced the protection of the intellectual property of the engineering designs.

The Group keeps adding resources on data and system security to protect from cyber security attack in order to better safeguard intellectual properties. The Group has experienced a cyber security attack during the year. Information technology team keeps optimize the firewall configuration, performing software updates on timely basis, and perform daily, weekly or monthly systems backup in accordance with the cyber security policy.

*B6.4 Quality assurance process and recall procedures*

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

*B6.5 Data protection and privacy policies*

The Group has framed a documented data protection and privacy policy to protect the privacy of its customers, employees and other stakeholders. All employees must participate in trainings in relation to the privacy policy and must enter into a privacy agreement upon joining the Group. The Group classifies confidential information and manages such information according to the respective classification. The Group arranges internal audit of the implementation of these duties each year to ensure the effective execution of the relevant privacy requirements.

***B7. Anti-corruption***

The Group has established business ethics policy in place since 2009 to prevent potential corruption, bribery and other illegal actions during business transactions amongst stakeholders, such as its employees, customers and suppliers. The Group requires its employees, customers, suppliers and other stakeholders to comply with local laws and regulations as well as international commercial practices in the business transactions. The Group stresses values like honesty, integrity, uprightness and fairness, and requests all employees to act impartially and fairly and not to abuse their positions for their own or someone else's interests or benefits gain while dealing with customers, suppliers and other third parties. The Group prohibits its employees or agents from soliciting or receiving any benefits from any party having business transactions with the Group (e.g. customers, suppliers, contractors and so on). The Group requires all employees in Hong Kong and overseas signed an annual declaration to confirm the compliance of the business ethics policy.

*B7.1 Complaint cases*

The Group has received one compliant incident regarding to a purchase employee in China during the year. Management has performed an investigation of the case. The complaint was invalid and the employee did not involved in corruption and bribery.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

*B7.2 Whistle-blowing*

The Group 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, relevant complaints will be evaluated and determine the solutions, including punishment and legal action against any corruption in breach of the relevant laws and company policies. The Group did received one complaint of corruption and bribery committed by an employee in the purchasing department. The Group has performed an investigation and confirmed that the employee was not involved in any corruption and bribery. The Group keeps assessing the ethical risks of position to determine which position may induce incompliance by the relevant employee.

*B7.3 Anti-corruption training*

The Group arranged regular training for the relevant employees and require the employees to enter into an anti-corruption warranty, thereby fully informed them of the possible consequences of corruption. The Group has designated specific officers to receive complaints about business ethics and deal with any related incompliance. The Group also invited Independent Commission Against Corruption to conduct seminars in Hong Kong office every year to straighten employees' awareness of corruption. Unfortunately, such seminar did not conducted in 2020 due to the COVID-19 pandemic outbreak.

## Community

### *B8. Community Investment*

The Group continues to support society in terms of participation of community activities and charity donation in the form of cash, necessity or products. PC Partner Dongguan 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) in China. 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.

*B8.1 Areas of contribution*

Due to social distancing restriction during COVID-19 pandemic outbreak, the Group has reduced the participation of charity activities in 2020. Charity donations made by the Group during the year amounted to HK$8,000.

*B8.2 Resources contribution*

The Group used to participate in different community projects and activities in the past. The Group has minimized participation in community projects and activities to ensure health and safety of employees during the COVID-19 pandemic outbreak.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

| Aspects | Disclosure | Description | Reference |
|---|---|---|---|
| **A. Environment** | | | |
| A1. Emission | General Disclosure | Information on:<br>(a) the policies: and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | ESG Report A1 Page 25–26 |
| | KPI A1.1 | The types of emissions and respective emission data. | ESG Report A1.1 Page 27 |
| | KPI A1.2 | Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonne) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | ESG Report A1.2 Page 27–28 |
| | KPI A1.3 | Total hazardous waste produced (in tonne) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | ESG Report A1.3 Page 28 |
| | KPI A1.4 | Total non-hazardous waste produced (in tonne) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | ESG Report A1.4 Page 28 |
| | KPI A1.5 | Description of emission target(s) set and steps taken to achieve them. | ESG Report A1.5 Page 29 |
| | KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) and steps taken to achieve them. | ESG Report A1.6 Page 30 |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Aspects | | Disclosure | Description | Reference |
|---|---|---|---|---|
| A2. | Use of Resources | General Disclosure | Policies on the efficient use of resources, including energy, water and other raw materials. | ESG Report A2 Page 31 |
| | | KPI A.2.1 | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (Kwh in '000s) and intensity (e.g. per unit of production volume, per facility). | ESG Report A2.1 Page 31–32 |
| | | KPI A2.2 | Water consumption in total and intensity (e.g. per unit of production volume, per facility). | ESG Report A2.2 Page 33 |
| | | KPI A2.3 | Description of energy use efficiency target(s) set and steps taken to achieve them. | ESG Report A2.3 Page 33 |
| | | KPI A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them. | ESG Report A2.4 Page 34 |
| | | KPI A2.5 | Total packaging material used for finished products (in tonne) and, if applicable, with reference to per unit produced. | ESG Report A2.5 Page 34 |
| A3. | Environment and Natural Resources | General Disclosure | Policies on minimising the issuer's significant impact on the environment and natural resources. | ESG Report A3 Page 34 |
| | | KPI A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | ESG Report A3.1 Page 34 |
| A4. | Climate Change | General Disclosure | Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer. | ESG Report A4 Page 35 |
| | | KPI A4.1 | Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them. | ESG Report A4.1 Page 35 |

| Aspects | Disclosure | Description | Reference |
|---|---|---|---|
| **B. Social** | | | |
| **Employment and Labour Practices** | | | |
| B1. Employment | General Disclosure | Information on:<br>(a) the policies: and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, and anti-discrimination, and other benefits and welfare. | ESG Report B1 Page 35–36 |
| | KPI B1.1 | Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region. | ESG Report B1.1 Page 36 |
| | KPI B1.2 | Employee turnover rate by gender, age group and geographical region. | ESG Report B1.2 page 36–37 |
| B2. Health and Safety | General Disclosure | Information on:<br>(a) the policies: and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards. | ESG Report B2 Page 37–38 |
| | KPI B2.1 | Number and rate of work-related fatalities occurred in each of the past three years including the reporting year. | ESG Report B2.1 Page 38 |
| | KPI B2.2 | Lost days due to work injury. | ESG Report B2.2 Page 38 |
| | KPI B2.3 | Description of occupational health and safety measures adopted, how they are implemented and monitored. | ESG Report B2.3 Page 38–39 |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Aspects | Disclosure | Description | Reference |
|---|---|---|---|
| B3. Development and Training | General Disclosure | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | ESG Report B3 Page 39 |
| | KPI B3.1 | The percentage of employees trained by gender and employee category (such as senior management and middle-level management). | ESG Report B3.1 Page 40 |
| | KPI B3.2 | The average training hours completed per employee by gender and employee category. | ESG Report B3.2 Page 40 |
| B4. Labour Standards | General Disclosure | Information on:<br>(a) the policies: and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour. | ESG Report B4 Page 40–41 |
| | KPI B4.1 | Description of measures to review employment practices to avoid child and forced labour. | ESG Report B4.1 Page 41 |
| | KPI B4.2 | Description of steps taken to eliminate child and forced labour practices when discovered. | ESG Report B4.2 Page 41 |
| **Operating Practices** | | | |
| B5. Supply Chain Management | General Disclosure | General Disclosure<br>Policies on managing environmental and social risks of the supply chain. | ESG Report B5 Page 42 |
| | KPI B5.1 | Number of suppliers by geographical region. | ESG Report B5.1 Page 42 |
| | KPI B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored. | ESG Report B5.2 Page 42 |
| | KPI B5.3 | Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored. | ESG Report B5.3 Page 42 |
| | KPI B5.4 | Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored. | ESG Report B5.4 Page 43 |

| Aspects | | Disclosure | Description | Reference |
|---|---|---|---|---|
| B6. | Product Responsibility | General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | ESG Report B6 Page 43 |
| | | KPI B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | ESG Report B6.1 Page 43 |
| | | KPI B6.2 | Number of products and service-related complaints received and how they are dealt with. | ESG Report B6.2 Page 44 |
| | | KPI B6.3 | Description of practices relating to observing and protecting intellectual property rights. | ESG Report B6.3 Page 44 |
| | | KPI B6.4 | Description of quality assurance process and recall procedures. | ESG Report B6.4 Page 45 |
| | | KPI B6.5 | Description of consumer data protection and privacy policies, how they are implemented and monitored. | ESG Report B6.5 Page 45 |
| B7. | Anti-corruption | General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering. | ESG Report B7 Page 45 |
| | | KPI B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | ESG Report B7.1 Page 45 |
| | | KPI B7.2 | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored. | ESG Report B7.2 Page 46 |
| | | KPI B7.3 | Description of anti-corruption training provided to directors and staff. | ESG Report B7.3 Page 46 |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Aspects | Disclosure | Description | Reference |
|---|---|---|---|
| **Community** | | | |
| B8. Community Investment | General Disclosure | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | ESG Report B8 Page 46 |
| | KPI B8.1 | Focus areas of contribution (such as education, environment matters, labour requirements, health, culture and sports). | ESG Report B8.1 Page 46 |
| | KPI B8.2 | Resources contributed to the focus areas (such as money or time). | ESG Report B8.2 Page 46 |

# 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 2020, the Company has complied with the code provisions set out in the Corporate Governance Code (the "Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the deviation from code provision A.2.1 of the Code as described below.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the year ended 31 December 2020, the roles of chairman and chief executive officer of the Company were performed by Mr. WONG Shik Ho Tony. With Mr. WONG's extensive experience in the electronics industry, in addition to his role as chairman responsible for the overall strategic management and corporate development of the Group, he is also heavily involved and instrumental to the Group in running its daily business. The board of Directors (the "Board") considers that vesting the roles of chairman and chief executive officer simultaneously in Mr. WONG is beneficial to the business prospects and management of the Group. The roles of the respective executive directors and senior management, who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to a strong and balanced management organisation that enables the Group to operate effectively. The Board currently comprises of 5 Executive Directors, 1 Non-executive Director and 3 Independent Non-executive Directors and therefore has sufficient independent elements in its composition.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

# Corporate Governance Report

## BOARD OF DIRECTORS

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

During the year, 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 shall then be eligible for re-election. Each Director shall retire from office at least once every three years.

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

# Corporate Governance Report

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

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

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

During the meetings held in 2020, 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 2019 (the "2019 Financial Statements");

(2) reviewed the 2019 Financial Statements and discussed with the external auditor on any findings in relation to the 2019 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 2020 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.

# Corporate Governance Report

## Remuneration Committee

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

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

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

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

## Nomination Committee

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

## Nomination Policy

The Company adopted a nomination policy in March 2020. In conjunction with the board diversity policy, the Board shall consider a number of criteria on the appointment of Directors, and succession planning for Directors, as well as re-appointment of Directors. The criteria include character and integrity, professional qualifications, skills, knowledge, experience, potential contributions to the Board, as well as willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board commitment(s).

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

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

The Nomination Committee had reviewed the structure, size and the composition of the Board in consideration of re-election of retiring Directors in 2020 Annual General Meeting and reviewed the board diversity policy and nomination policy of the Company during the year.

## Investment Committee

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

During the year, no Investment Committee meeting was held.

# Corporate Governance Report

### Board Diversity Policy

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

## CORPORATE GOVERNANCE FUNCTION

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

## NON-COMPETITION UNDERTAKING

The Independent Non-executive Directors have reviewed the confirmation given by Mrs. HO WONG Mary Mee-Tak, Classic Venture International Inc. and Perfect Choice Limited, the controlling shareholders of the Company, pursuant to which each of Mrs. HO WONG Mary Mee-Tak, Classic Venture International Inc. and Perfect Choice Limited has confirmed that, during the year ended 31 December 2020, they and their respective associates did not breach any of the terms of undertaking contained in the non-competition deed dated 21 December 2011 as disclosed in the prospectus of the Company dated 29 December 2011.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITOR'S REMUNERATION

The remuneration paid and payable for the year ended 31 December 2020 to the Company's external auditor, BDO Limited, is set out as follows:

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

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

## INTERNAL CONTROL AND RISK MANAGEMENT

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

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

- the results of selective testing of information technology general controls of the Company;
- plant asset management of the Company; and
- an outline of major control issues, if any, noticed during the year under review.

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

# Corporate Governance Report

## COMPANY SECRETARY

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

In compliance with Rule 3.29 of the Listing Rules, Ms. LEUNG has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2020.

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

Mr. WONG Fong Pak, aged 71, 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 62, 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 65, was appointed as an *Executive Director* on 24 January 2011 and is the founder of ASK Technology Limited ("ASK Technology") in 1989. Mr. HO is now the general manager and managing director of ASK Technology Group Limited, a wholly-owned subsidiary of the Company. He is responsible for the general management, including product and sales. He also sits on the boards of various companies within the Group. Before founding ASK Technology, Mr. HO worked for Plantronics Inc., Compression Labs Inc., Texas Instruments Hong Kong Ltd. and Telefunken Electronic Far East Ltd. Mr. HO was conferred a Bachelor of Science in Electrical and Computer Engineering degree in 1980 and a Master of Science degree in 1982 by the Oregon State University. He is a registered Professional Engineer in Electrical Engineering in California, the United States of America.

Mr. MAN Wai Hung, aged 55, was appointed as an *Executive Director* on 24 January 2011 and is the co-founder of Manli Technology Co. Limited in 1996. Since 2008, Mr. MAN has been the managing director of Manli Technology Group Limited, a wholly-owned subsidiary of the Company and is in charge of functions of sales and marketing, and business development. He was conferred a Bachelor of Arts degree in 1988 by the University of Hong Kong (the "University").

## NON-EXECUTIVE DIRECTORS

Mrs. HO WONG Mary Mee-Tak, aged 71, 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 56 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 65, 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 each of the Audit Committee and Investment Committee of the Board. Mr. IP was conferred a Bachelor of Laws (Hons.) Degree in 1978 by the University of Hong Kong and a Master of Arts degree in Arbitration and Alternative Dispute Resolution in 2005 by the City University of Hong Kong. He is a solicitor and notary public of Hong Kong, China-appointed Attesting Officer and Justice of the Peace. He has been a practicing solicitor in Hong Kong for more than 20 years. He is currently serving as an Independent Non-executive Director on the board of Far East Hotels and Entertainment Limited and Binhai Investment Company Limited, both being companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is enthusiastic in community activities, which include serving as the President of The Law Society of Hong Kong (2002–2004), Chairman of Association of China-Appointed Attesting Officers Limited from 2012 to 2014, a committee member and standing committee member of the Hong Kong Chinese General Chamber of Commerce (since 1988), director of Ocean Park Corporation (March 2006 to February 2012), member of Hong Kong Housing Authority (April 2007 to June 2012) and chairman of Appeal Board (Amusement Game Centres) from 30 May 2010 to 31 December 2016.

Mr. LAI Kin Jerome, aged 72, was appointed as an *Independent Non-executive Director* on 24 January 2011. He is also the chairman of the Audit Committee of the Board and a member of each of the Remuneration Committee, the Nomination Committee and Investment Committee of the Board. Mr. LAI graduated in 1974 from the University of Toronto with a Bachelor of Commerce degree and is a member of the Hong Kong Institute of Certified Public Accountants and a chartered accountant of The Institute of Chartered Accountants of Ontario. Mr. LAI has over 30 years of experience in accounting and management. Mr. LAI was senior vice president of the finance, treasury and administration functional unit of Hong Kong Exchanges and Clearing Limited between 2000 and 2003; and an Executive Director of the finance and management services division of the Stock Exchange between 1997 and 2000. Mr. LAI was an Independent Non-executive Director of Mastercraft International Holdings Limited from 21 June 2012 to 19 February 2016, a company listed on the Stock Exchange.

# Directors and Senior Management

Mr. CHEUNG Ying Sheung, aged 67, was appointed as an *Independent Non-executive Director* on 24 January 2011. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Board. Mr. CHEUNG graduated from Imperial College of Science and Technology, University of London with a Bachelor of Science (Engineering) degree in 1973 and a Doctor of Philosophy degree in 1978. He joined the University in 1980 and is currently honorary professors of Electrical and Electronic Engineering, and of Computer Science, after retiring as a professor in 2018. He has held various other positions at the University, inter alia, the Dean of Faculty of Engineering between 1994 and 2000. Associate Vice-President (Research) between 2012 and 2015, and Managing Director of Versitech Limited between 2004 and 2016. He was seconded from the University between 2002 and 2004 to the Hong Kong Government as the Policy Advisor of the Innovation and Technology Commission. He is a chartered IT professional and fellow of the BCS, Chartered Institute for IT, and a senior member of the Institute of Electrical and Electronics Engineers.

## SENIOR MANAGEMENT

Mr. KWONG Kwok Kuen, age 60, *Director of Sales — EMEAI Region*, is responsible for the Group's sales and marketing of ZOTAC motherboards, VGA Cards and miniPC products in the Europe, Middle East, Africa and India regions. Mr. Kwong has extensive experience in electronics industry. Prior to joining the Group in January 2005, he served as Executive Director of Silver Star Technology Limited and as general manager of the Hong Kong office of Norsk Data International Limited. Mr. Kwong graduated with a Higher Certificate in Electronic Engineering from the Hong Kong Polytechnic University.

Mr. CHOW Hon Fat, age 54, *Director of Program Management — Graphics*, *SSD and Memory Procurement*, is responsible for account servicing and program management of the Group's VGA Cards ODM/OEM business. Prior to joining the Group in July 1997, Mr. Chow was the production and material control manager of VTech Computers Limited.

Mr. WONG Man Fai, age 59, *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 49, *Director of Sales — APAC Region*, is responsible for the Group's sales and marketing of motherboards, VGA Cards and miniPC products in the Asia Pacific region. Mr. Liu has over 15 years of relevant electronics sales experience. Prior to joining the Group in October 2005, he has worked with Ocean Office Automation and Accuracy Information Technology.

Mr. YANG Ho Ching, age 57, *General Manager*, is responsible for the Group's VGA Cards, motherboard and miniPC manufacturing operations in Dongguan. He joined the Group in November 2013. Mr. Yang has more than 25 years' experience in electronic engineering and computer manufacturing in Taiwan and China. Prior to joining the Group, he has held various quality and manufacturing management positions at Taiwan Micro-Star International, Xin Qiang Electronics and GVC Corporation etc.

Mr. HUANG Chia Pao, age 55, 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 51, *Chief Financial Officer*, is responsible for overall financial, accounting, legal and information technology functions of the Group. He is also the President of Zotac USA, a wholly-owned subsidiary of the Group in USA. Mr. Lau joined the Group in October 2010. Prior to joining the Group, he has worked for ROLEX (HONGKONG) LIMITED, Johnson Electric International Limited, Linyi Shansong Biological Products Company Limited, Oracle Systems Hong Kong Limited, e2e Business Solutions Limited and Deloitte Touche Tohmatsu. Mr. Lau is a member of American Institute of Certified Public Accountants and a member of Hong Kong Institute of Certified Public Accountants. Mr. Lau graduated from the University of Windsor, Canada, with a Bachelor Degree in Commerce and the University of Western Ontario, Canada, with a Bachelor Degree in Science. He also holds a Master Degree in Business Administration and a Master Degree in Business Systems from the University of Manchester and the Monash University respectively.

Mr. CHOW Pak Keung, age 54, *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.

Mr. FONG Wing Fai, age 54, *Engineering Director — Design*, is responsible for the Group's design engineering, product planning, design roadmap as well as advising the Group on the latest product technology trend and strategy. Mr. Fong has over 25 years' experience in engineering industry. Prior to joining the Group, he has worked for VTech Computers Limited as Project Manager. Mr. Fong holds a Bachelor Degree in Electrical and Electronic Engineering from the University of Hong Kong.

Mr. KIM Seong Pyo, age 58, *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 59, *Business Development Director* for the EMEAI region, is responsible for developing new business opportunities in the area of embedded PC, EMS and OEM graphics for the Group. He joined the Group since May 2013. Mr. Kuperjans has 30 years' experience in the IT industry in engineering, project management and business development. Prior to joining the Group, Mr. Kuperjans has worked for ATI Technologies, Media Vision and NEC. Mr. Kuperjans holds an Engineering Degree of the University in Hannover, Germany.

Mr. WEI Yick Siu, Andrew, age 51, *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 2020.

## PRINCIPAL ACTIVITIES

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

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

## BUSINESS REVIEW

Details of the operation of the Company's principal business during the year, as required by Schedule 5 to the Companies Ordinance, including particulars of important events affecting the Group that have occurred since the end of the financial year 2020 (if any) as well as an indication of likely future development in the Group's business, an analysis of key performance indicators, a description of the principal risks and uncertainties facing the Group, and the Group's environmental policies and performance are set out under the sections "Chairman's Statement" on pages 6 to 7, "Management Discussion and Analysis" on pages 8 to 20 and "Environmental, Social and Governance Report" on pages 21 to 52 of this Annual Report respectively.

Details of the Company's relationships with its employees, suppliers and customers that have a significant impact on the Group and on which the Group's success depends are set out under the section "Environmental, Social and Governance Report" of this Annual Report.

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

## RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of comprehensive income on page 82 of this report.

The Board recommends the payment of final dividend HK$0.22 per share to shareholders whose names appear on the register of members of the Company at the close of business on 28 June 2021.

## DIVIDEND POLICY

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

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

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

(c) any corporate development plans;

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

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

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

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

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

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

## SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 33 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 85 and note 42 to the consolidated financial statements respectively.

## DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2020 amounted to approximately HK$673.5 million.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$8,000.

# Report of the Directors

## TAX RELIEF AND EXEMPTION

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

## PROPERTY, PLANT AND EQUIPMENT

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

## INFORMATION ON SUBSIDIARIES

Particulars of the subsidiaries are set out in note 41 to the consolidated financial statements.

## FIVE-YEAR FINANCIAL SUMMARY

The following is a summary of the consolidated results, assets and liabilities of the Group for each of the last five years ended 31 December 2020.

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 | 2018<br>HK$'000 | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|---|---|
| **RESULTS** | | | | | |
| Revenue | **7,761,758** | 7,556,477 | 9,122,319 | 8,555,368 | 5,837,964 |
| Profit before income tax | **247,720** | 983 | 316,859 | 358,973 | 157,672 |
| Income tax | **(39,683)** | 8,837 | (46,877) | (26,900) | (7,610) |
| Profit for the year | **208,037** | 9,820 | 269,982 | 332,073 | 150,062 |
| Attributable to: | | | | | |
| Owners of the Company | **207,276** | 10,266 | 270,843 | 332,293 | 150,189 |
| Non-controlling interests | **761** | (446) | (861) | (220) | (127) |
| | **208,037** | 9,820 | 269,982 | 332,073 | 150,062 |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | **3,987,383** | 4,031,773 | 4,357,972 | 4,098,979 | 2,904,408 |
| Total liabilities | **(2,883,605)** | (3,152,050) | (3,480,648) | (2,890,939) | (1,971,214) |
| Total equity | **1,103,778** | 879,723 | 877,324 | 1,208,040 | 933,194 |

## PRE-EMPTIVE RIGHTS

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

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

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year.

## SHARE OPTION SCHEME

The shareholders of the Company approved and adopted a 2016 Share Option Scheme on 17 June 2016. Particulars of 2016 Share Option Scheme of the Company are set out in note 34 to the consolidated financial statements.

As at the date of this Annual Report, the total number of shares available for issue under 2016 Share Option Scheme of the Company was 15,880,000, representing 4.27% 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.

# Report of the Directors

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

## EQUITY-LINKED AGREEMENTS

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

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except as disclosed in note 37 to the consolidated financial statements, no transaction, arrangement or contract of significance to which the Company, any of its holding companies or fellow subsidiaries, was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' SERVICE CONTRACTS

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

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

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

## MANAGEMENT CONTRACT

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

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

As at 31 December 2020, the interests and short positions of each Director and chief executive of the Company in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong) ("SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, were as follows:

### Long Positions in Shares

| Name of Director | Type of interest | Number of Shares held | Percentage of shareholding |
|---|---|---|---|
| Mrs. HO WONG Mary Mee-Tak | Interest in controlled corporations (note) | 54,850,000 | 14.74% |
| Mr. WONG Shik Ho Tony | Beneficial owner | 54,405,750 | 14.62% |
| Mr. WONG Fong Pak | Beneficial owner | 26,639,750 | 7.15% |
| Mr. LEUNG Wah Kan | Beneficial owner | 24,100,500 | 6.47% |
| Mr. HO Nai Nap | Beneficial owner | 20,462,538 | 5.50% |
| Mr. MAN Wai Hung | Beneficial owner | 4,807,065 | 1.29% |

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

### Long Positions in Share Options of the Company

| Name of Director | Date of grant | Number of underlying Shares | Percentage of shareholding |
|---|---|---|---|
| Mr. WONG Shik Ho Tony | 22 September 2020 | 1,000,000 | 0.27% |
| Mr. WONG Fong Pak | 22 September 2020 | 1,000,000 | 0.27% |
| Mr. LEUNG Wah Kan | 22 September 2020 | 1,000,000 | 0.27% |
| Mr. HO Nai Nap | 22 September 2020 | 1,000,000 | 0.27% |
| Mr. MAN Wai Hung | 22 September 2020 | 1,000,000 | 0.27% |
| Mrs. HO WONG Mary Mee-Tak | 22 September 2020 | 200,000 | 0.05% |
| Mr. LAI Kin Jerome | 22 September 2020 | 200,000 | 0.05% |
| Mr. IP Shing Hing | 22 September 2020 | 200,000 | 0.05% |
| Mr. CHEUNG Ying Sheung | 22 September 2020 | 200,000 | 0.05% |

# Report of the Directors

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2020, 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 (note 1) | 54,850,000 | 14.76% |
| Mr. WONG Shik Ho Tony | Long position | Beneficial owner | 55,405,750 (note 2) | 14.89% |
| Mr. WONG Fong Pak | Long position | Beneficial owner | 27,639,750 (note 2) | 7.42% |
| Mr. LEUNG Wah Kan | Long position | Beneficial owner | 25,100,500 (note 2) | 6.74% |
| Mr. HO Nai Nap | Long position | Beneficial owner | 21,462,538 (note 2) | 5.77% |

Note 1: As the entire issued share capital of Perfect Choice Limited are owned by Mrs. HO WONG Mary Mee-Tak, Mrs. HO WONG Mary Mee-Tak is deemed to be interested in the 54,850,000 Shares held by Perfect Choice Limited under the SFO.

Note 2: These shares include share options granted by the Company.

## MAJOR CUSTOMERS AND SUPPLIERS

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

| | 2020<br>% | 2019<br>% |
|---|---|---|
| Sales | | |
| — the largest customer | **4%** | 7% |
| — five largest customers combined | **19%** | 24% |
| Purchases | | |
| — the largest supplier | **60%** | 58% |
| — five largest suppliers combined | **72%** | 68% |

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

## CONNECTED TRANSACTIONS

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

## SUFFICIENCY OF PUBLIC FLOAT

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

## CORPORATE GOVERNANCE

The corporate governance report is set out on pages 53 to 63 of this report.

## PERMITTED INDEMNITY

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

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

# Report of the Directors

## AUDITOR

The financial statements for the year ended 31 December 2020 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, 26 March 2021

# INDEPENDENT AUDITOR'S REPORT

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

## OPINION

We have audited the consolidated financial statements of PC Partner Group Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 82 to 175, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

# Independent Auditor's Report

## KEY AUDIT MATTERS

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

***Provision for obsolete inventories***

*Refer to notes 4(h), 5 and 25 to the consolidated financial statements*

As at 31 December 2020, inventories net of provision for obsolescence of HK$130,162,000, amounted to HK$908,261,000 which represent approximately 22.8% of total assets of the Group. The inventories are measured at the lower of cost and net realisable value. Sale of video graphics cards and other PC related products and components can be extremely volatile with the launching in the market of new computer products based on more advanced technology. As a result there is significant risk that the carrying value of inventories exceed their net realisable value. In view of the above, management has made estimates based on certain assumptions relating to inventory obsolescence. Obsolescence provision considerations included inventories ageing profiles, as well as different market factors impacting the sales of these models of products. In addition, the determination of the method and period to use to determine the provisioning percentages to be applied to aged inventories as a result of changing trends, requires significant judgement based on experience.

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

Our response:

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

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

- Assessing whether there were inventories which were sold with a negative margin by checking to sales invoices or available market information subsequent to 31 December 2020 on a sample basis to validate management's assessment of inventory obsolescence; and

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

***Impairment of trade receivables***

*Refer to notes 4(i)(ii), 5, 21 and 39(a) to the consolidated financial statements*

As at 31 December 2020, the Group had trade receivables measured at amortised cost of HK$1,375,207,000, and accumulated impairment losses of HK$9,924,000 has been made over the balance.

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

Our response:

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

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

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

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

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

## OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# Independent Auditor's Report

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**BDO Limited**
*Certified Public Accountants*

**Li Pak Ki**
*Practising Certificate no. P01330*

Hong Kong, 26 March 2021

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| Revenue | 6, 7 | **7,761,758** | 7,556,477 |
| Cost of sales | | **(6,966,403)** | (7,040,163) |
| Gross profit | | **795,355** | 516,314 |
| Other revenue and other gains and losses | 8 | **94,804** | (9,417) |
| Selling and distribution expenses | | **(132,928)** | (98,420) |
| Administrative expenses | | **(497,586)** | (365,464) |
| Impairment losses on financial assets | | **(1,782)** | (5,960) |
| Finance costs | 9 | **(30,193)** | (53,499) |
| Share of profit of a joint venture | | **20,050** | 17,429 |
| Profit before income tax | 10 | **247,720** | 983 |
| Income tax | 11 | **(39,683)** | 8,837 |
| **Profit for the year** | | **208,037** | 9,820 |
| **Other comprehensive income, after tax** | | | |
| **Items that will not be reclassified to profit or loss:** | | | |
| Changes in fair value of equity instruments at FVTOCI | | **(2,868)** | (507) |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Exchange differences on translating foreign subsidiaries | | **3,245** | (1,824) |
| Exchange differences on translating a joint venture | | **10,770** | (5,154) |
| Reclassification adjustments for a foreign subsidiary disposed of during the year | | **—** | 16 |
| **Total comprehensive income for the year** | | **219,184** | 2,351 |
| **Profit for the year attributable to:** | | | |
| — Owners of the Company | | **207,276** | 10,266 |
| — Non-controlling interests | | **761** | (446) |
| | | **208,037** | 9,820 |
| **Total comprehensive income for the year attributable to:** | | | |
| — Owners of the Company | | **218,423** | 2,792 |
| — Non-controlling interests | | **761** | (441) |
| | | **219,184** | 2,351 |
| | | **HK$** | HK$ |
| Earnings per share | 15 | | |
| — Basic | | **0.56** | 0.03 |
| — Diluted | | **0.56** | 0.03 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | 144,174 | 215,480 |
| Right-of-use assets | 17 | 136,459 | 156,106 |
| Intangible assets | 18 | 4,825 | 6,355 |
| Interest in a joint venture | 20 | 174,655 | 143,835 |
| Other financial asset | 19 | 7,518 | 10,386 |
| Trade and other receivables | 21 | 205,137 | 212,897 |
| Deferred tax assets | 23 | 10,430 | 25,944 |
| Total non-current assets | | 683,198 | 771,003 |
| **Current assets** | | | |
| Inventories | 25 | 908,261 | 1,126,023 |
| Trade and other receivables | 21 | 1,218,270 | 1,190,592 |
| Right of return assets | 24 | 52,610 | 37,271 |
| Derivative financial asset | 22 | 452 | — |
| Cash and bank balances | 26 | 1,124,592 | 906,884 |
| Total current assets | | 3,304,185 | 3,260,770 |
| Total assets | | 3,987,383 | 4,031,773 |
| **Current liabilities** | | | |
| Trade and other payables | 27 | 1,484,058 | 1,410,321 |
| Refund liabilities | 28 | 62,759 | 47,725 |
| Contract liabilities | 29 | 76,150 | 31,629 |
| Amount due to a related party | 37(i) | — | 2,683 |
| Borrowings | 30 | 1,070,038 | 1,475,412 |
| Provision | 31 | 31,447 | 18,670 |
| Lease liabilities | 32 | 27,662 | 25,904 |
| Current tax liabilities | | 17,208 | 7,329 |
| Total current liabilities | | 2,769,322 | 3,019,673 |
| **Net current assets** | | 534,863 | 241,097 |
| **Total assets less current liabilities** | | 1,218,061 | 1,012,100 |

# Consolidated Statement of Financial Position

As at 31 December 2020

| | Notes | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| **Total non-current liabilities** | | | |
| Lease liabilities | 32 | 114,283 | 132,377 |
| **NET ASSETS** | | 1,103,778 | 879,723 |
| **Capital and reserves** | | | |
| Share capital | 33 | 37,209 | 37,209 |
| Reserves | | 1,065,879 | 842,585 |
| **Equity attributable to owners of the Company** | | 1,103,088 | 879,794 |
| Non-controlling interests | | 690 | (71) |
| **TOTAL EQUITY** | | 1,103,778 | 879,723 |

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 2020

| | Equity attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium (note (a)) | Translation reserve | Merger reserve (note (b)) | Other reserve (note (c)) | Legal reserve (note (d)) | Financial asset at FVTOCI reserve | Share-based payment reserve | Retained profits | Total | Non-controlling interests | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2019 | 37,209 | 165,033 | 388 | 6,702 | 21,776 | 3,799 | (4,727) | – | 647,107 | 877,287 | 37 | 877,324 |
| Profit for the year | – | – | – | – | – | – | – | – | 10,266 | 10,266 | (446) | 9,820 |
| Other comprehensive income | | | | | | | | | | | | |
| – exchange differences on translating foreign subsidiaries | – | – | (1,821) | – | (3) | – | – | – | – | (1,824) | – | (1,824) |
| – exchange differences on translating a joint venture | – | – | (5,154) | – | – | – | – | – | – | (5,154) | – | (5,154) |
| – changes in fair value of equity instruments at FVTOCI | – | – | – | – | – | – | (507) | – | – | (507) | – | (507) |
| – Reclassification adjustments for a foreign subsidiary disposed of during the year | – | – | 11 | – | – | – | – | – | – | 11 | 5 | 16 |
| Total comprehensive income | – | – | (6,964) | – | (3) | – | (507) | – | 10,266 | 2,792 | (441) | 2,351 |
| Transfer to legal reserve | – | – | – | – | – | 2,594 | – | – | (2,594) | – | – | – |
| Acquisition of non-controlling interests | – | – | – | – | – | – | – | – | (285) | (285) | 285 | – |
| Capital contributed by non-controlling interests | – | – | – | – | – | – | – | – | – | – | 48 | 48 |
| At 31 December 2019 and 1 January 2020 | **37,209** | **165,033** | **(6,576)** | **6,702** | **21,773** | **6,393** | **(5,234)** | **–** | **654,494** | **879,794** | **(71)** | **879,723** |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **207,276** | **207,276** | **761** | **208,037** |
| Other comprehensive income | | | | | | | | | | | | |
| – exchange differences on translating foreign subsidiaries | **–** | **–** | **3,248** | **–** | **(3)** | **–** | **–** | **–** | **–** | **3,245** | **–** | **3,245** |
| – exchange differences on translating a joint venture | **–** | **–** | **10,770** | **–** | **–** | **–** | **–** | **–** | **–** | **10,770** | **–** | **10,770** |
| – changes in fair value of equity instruments at FVTOCI | **–** | **–** | **–** | **–** | **–** | **–** | **(2,868)** | **–** | **–** | **(2,868)** | **–** | **(2,868)** |
| Total comprehensive income | **–** | **–** | **14,018** | **–** | **(3)** | **–** | **(2,868)** | **–** | **207,276** | **218,423** | **761** | **219,184** |
| Transfer to legal reserve | **–** | **–** | **–** | **–** | **–** | **772** | **–** | **–** | **(772)** | **–** | **–** | **–** |
| Equity settled share-based transactions (note 34) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **4,871** | **–** | **4,871** | **–** | **4,871** |
| At 31 December 2020 | **37,209** | **165,033** | **7,442** | **6,702** | **21,770** | **7,165** | **(8,102)** | **4,871** | **860,998** | **1,103,088** | **690** | **1,103,778** |

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

Notes:

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

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

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

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before income tax | | 247,720 | 983 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | 80,492 | 34,869 |
| Depreciation of right-of-use assets | | 30,928 | 27,870 |
| Impairment of intangible asset | | 1,530 | — |
| Interest income | | (15,280) | (5,438) |
| Net fair value gains on derivative financial instruments | | (1,325) | (486) |
| Interest expense | | 30,193 | 53,499 |
| Bad debts written off | | 2,180 | 162 |
| Gain on disposal of property, plant and equipment | | (141) | (160) |
| Gain on derecognised right-of-use assets | | (2) | — |
| Property, plant and equipment written off | | 15 | 46 |
| Impairment losses on financial assets | | 1,782 | 5,960 |
| Provision for obsolete inventories | | 25,580 | 13,669 |
| Provision/(reversal of provision) for product warranties and returns, net | | 30,452 | (3,598) |
| Share of net profit of a joint venture | | (20,050) | (17,429) |
| Share-based payment | | 4,871 | — |
| Rent concession | | (1,752) | — |
| Gain on disposal of a subsidiary | | — | (21) |
| Operating profit before working capital changes | | 417,193 | 109,926 |
| Inventories | | 192,224 | 1,092,337 |
| Right of return assets | | (15,339) | (11,316) |
| Trade and other receivables | | (23,877) | (497,755) |
| Trade and other payables | | 4,014,724 | 3,357,049 |
| Refund liabilities | | 15,034 | 8,168 |
| Contract liabilities | | 44,521 | (9,868) |
| Amount due to a related party | | (2,683) | 593 |
| Provision for product warranties and returns | | (17,675) | (5,975) |
| Cash generated from operations | | 4,624,122 | 4,043,159 |
| Interest paid | | (30,193) | (53,499) |
| Income tax paid | | (14,508) | (13,870) |
| **Net cash generated from operating activities** | | 4,579,421 | 3,975,790 |
| **Investing activities** | | | |
| Payments to acquire property, plant and equipment | | (9,315) | (14,612) |
| Proceeds from disposal of property, plant and equipment | | 159 | 349 |
| Payments to acquire right-of-use assets | | — | (21) |
| Interest received | | 15,280 | 5,438 |
| Investment in a joint venture | | — | (18,146) |
| Net cash received on settlement of derivative financial instruments | | 873 | 950 |
| Disposal of a subsidiary, net of cash disposed | | — | (72) |
| **Net cash generated from/(used) in investing activities** | | 6,997 | (26,114) |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2020

| | Notes | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| **Financing activities** | | | |
| Capital contribution from non-controlling interests | | — | 48 |
| Proceeds from bank loans | | 3,014 | — |
| Repayment of bank loans | | (198,315) | (348,307) |
| Repayment of import loans | | (4,154,929) | (3,466,583) |
| Proceeds from discounted bills and factoring loans | | — | 8,191 |
| Repayment of discounted bills and factoring loans | | — | (18,235) |
| Repayment of principal of lease liabilities | | (27,095) | (25,677) |
| **Net cash used in financing activities** | | (4,377,325) | (3,850,563) |
| **Net increase in cash and cash equivalents** | | 209,093 | 99,113 |
| **Cash and cash equivalents at beginning of year** | | 906,432 | 813,045 |
| **Effect of exchange rate changes on cash and cash equivalents** | | 8,618 | (5,726) |
| **Cash and cash equivalents at end of year, representing Cash and bank balances (net of pledged time deposit)** | 26 | 1,124,143 | 906,432 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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 Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman, KYI-1108, Cayman Islands. Its principal place of business is situated at 19/F., Shatin Galleria, 18–24 Shan Mei Street, Fo Tan, New Territories, Hong Kong.

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

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

### (a) Adoption of revised HKFRSs

The Group has adopted the following 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 2020.

| | |
|---|---|
| Amendments to HKFRS 3 | Definition of a Business |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material |
| Conceptual Framework for Financial Reporting (Revised) | |

The Group has not early applied any amended HKFRS that is not yet effective for the current accounting period except for the amendment to HKFRS 16 COVID-19-Related Rent Concessions. The early adoption of the amendment to HKFRS 16 has resulted in the recognition of COVID-19-related rent concessions of HK$1,752,000 in profit and loss as set out in note 8.

Other than amendment to HKFRS 16, the above amended HKFRSs did not have any material impact on the Group's accounting policies.

#### *Amendments to HKFRS 3: Definition of a Business*

The amendments clarify the definition of a business and introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election to apply the concentration test is made for each transaction. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the concentration test is met, the set of activities and assets is determined not to be a business. If the concentration test is failed, the acquired set of activities and assets is further assessed based on the elements of a business.

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

### (a) Adoption of revised HKFRSs (continued)

***Amendments to HKAS 1 and HKAS 8: Definition of Material***

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

***Amendment to HKFRS 16: COVID-19-Related Rent Concessions***

HKFRS 16 was amended to provide a practical expedient to lessees in accounting for rent concessions arising as a result of the COVID-19 pandemic, by including an additional practical expedient in HKFRS 16 that permits entities to elect not to account for rent concessions as modifications. The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 pandemic and only if all of the following criteria are satisfied:

(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) the reduction in lease payments affects only payments originally due on or before 30 June 2021; and

(c) there is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with this practical expedient, which means the lessee does not need to assess whether the rent concession meets the definition of lease modification. Lessees shall apply other requirements of HKFRS 16 in accounting for the rent concession.

Accounting for rent concessions as lease modifications would have resulted in the Group remeasuring the lease liability to reflect the revised consideration using a revised discount rate, with the effect of the change in the lease liability recorded against the right-of-use asset. By applying the practical expedient, the Group is not required to determine a revised discount rate and the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

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

### (a) Adoption of revised HKFRSs (continued)

***Amendment to HKFRS 16: COVID-19-Related Rent Concessions (continued)***

The Group has elected to utilise the practical expedient for all rent concessions that meet the criteria. In accordance with the transitional provisions, the Group has applied the amendment retrospectively, and has not restated prior period figure. As the rent concessions have arisen during the current financial period, there is no retrospective adjustment to opening balance of retained profits at 1 January 2020 on initial application of the amendment.

***Conceptual Framework for Financial Reporting (Revised)***

The revised Framework is not a Standard nor an Accounting Guideline. It does not override any Standard, any requirement in a Standard or Accounting Guideline. The revised Framework includes: new chapters on measurement and reporting financial performance; new guidance on derecognition of assets and liabilities; updated definitions of asset and liability; and clarifications in the roles of stewardship, prudence and measurement uncertainty in financial reporting.

### (b) Revised HKFRSs that have been issued but are not yet effective

The following 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 HKAS 1 | Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[4] |
| Amendments to HKAS 16 | Proceeds before Intended Use[2] |
| Amendments to HKAS 37 | Onerous Contracts — Cost of Fulfilling a Contract[2] |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework[3] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5] |
| Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 | Interest Rate Benchmark Reform — Phase 2[1] |
| Annual Improvements to HKFRSs 2018–2020[2] | |

1 Effective for annual periods beginning on or after 1 January 2021.

2 Effective for annual periods beginning on or after 1 January 2022.

3 Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

4 Effective for annual periods beginning on or after 1 January 2023.

5 The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

### (b) Revised HKFRSs that have been issued but are not yet effective (continued)

***Amendments to HKAS 1: Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause***

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

HK Interpretation 5 (2020) was revised as a consequence of the Amendments to HKAS 1 issued in August 2020. The revision to HK Interpretation 5 (2020) updates the wordings in the interpretation to align with the Amendments to HKAS 1 with no change in conclusion and do not change the existing requirements.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

***Amendments to HKAS 16: Proceeds before Intended Use***

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The directors of the Company is currently assessing the impact that the application of the amendments will have on the consolidated financial statements.

***Amendments to HKAS 37: Onerous Contracts — Cost of Fulfilling a Contract***

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The directors of the Company is currently assessing the impact that the application of the amendments will have on the consolidated financial statements.

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

### (b) Revised HKFRSs that have been issued but are not yet effective (continued)

***Amendments to HKFRS 3: Reference to the Conceptual Framework***

The amendments update HKFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the consolidated financial statements.

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

Amendments to HKFRS 10 and HKAS 28 address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

The directors of the Company anticipate that the application of these amendments may have an impact on the consolidated financial statements in future periods should such transaction arise.

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

### (b) Revised HKFRSs that have been issued but are not yet effective (continued)

***Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16: Interest Rate Benchmark Reform — Phase 2***

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the "Reform"). The amendments complement those issued in November 2019 and relate to (a) changes to contractual cash flows in which an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; (b) hedge accounting in which an entity will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and (c) disclosures in which an entity will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the consolidated financial statements.

***Annual Improvements to HKFRSs 2018–2020***

Details of the amendments that are expected to be applicable to the Group are as follow:

HKFRS 9, Financial Instruments, which clarify the fees included in the '10 per cent' test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other's behalf are included.

HKFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the consolidated financial statements.

## 3. BASIS OF PREPARATION

### (a) Statement of compliance

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

### (b) Basis of measurement

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

### (c) Functional and presentation currency

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

## 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive processes and whether the acquired set has the ability to produce outputs.

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

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

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 interests' share of subsequent changes in equity. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to owners of the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (b) Subsidiary

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

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

### (c) Joint arrangements

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

The Group classifies its interests in joint arrangements as either:

(i) Joint ventures: where the Group has rights to only the net assets of the joint arrangement; or

(ii) Joint operations: where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

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

(i) The structure of the joint arrangement;

(ii) The legal form of joint arrangements structured through a separate vehicle;

(iii) The contractual terms of the joint arrangement agreement; and

(iv) Any other facts and circumstances (including any other contractual arrangements).

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Goodwill

Goodwill represents the excess of the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree over the fair value of the identifiable assets and liabilities measured as at the acquisition date.

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

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

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

### (e) Property, plant and equipment

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (e) 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 improvements | Over the remaining lease terms |
| Plant and machinery | 2 to 5 years |
| Office and testing equipment | 2 to 5 years |
| Furniture and fixtures | 2 to 5 years |
| Motor vehicles | 3 years |
| Moulds | 2 to 4 years |
| Machinery leased out under operating lease | 5 years or over the lease terms, whichever the shorter |

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

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

### (f) Intangible assets

#### *(i) Acquired intangible assets*

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

| | |
|---|---|
| Non-contractual customer lists and relationship | 5 years |

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)

### (f) Intangible assets (continued)

#### *(ii) Research and development expenditure*

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

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

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

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

— the ability to use or sell the intangible asset;

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

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

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Intangible assets (continued)

#### *(iii) Impairment*

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

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Leasing

#### *(i) The Group as a lessee*

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

*Right-of-use asset*

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

*Lease liability*

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

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

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Leasing (continued)

#### *(i) The Group as a lessee (continued)*

*Lease liability (continued)*

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

When the Group renegotiates the contractual terms of a lease with the lessor, if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease, in all other cases, where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount. With the exception to which the practical expedient for COVID-19-Related Rent Concessions applies (see note 2(a)), if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date and the right-of-use asset is adjusted by the same amount.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Leasing (continued)

#### *(ii) The Group as a lessor*

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

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease terms.

### (h) Inventories

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

### (i) Financial instruments

#### *(i) Financial assets*

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Financial instruments (continued)

#### *(i) Financial assets (continued)*

*Debt instruments*

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

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

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

*Equity instruments*

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Financial instruments (continued)

#### *(ii) Impairment loss on financial assets*

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

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

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

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

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Financial instruments (continued)

#### *(ii) Impairment loss on financial assets (continued)*

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status.

The Group considers a financial asset to be credit-impaired when:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in "FVTOCI reserve (recycling)".

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 3 years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Financial instruments (continued)

#### *(iii) Financial liabilities*

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

*Financial liabilities at amortised cost*

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

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

#### *(iv) Modification of contractual cash flows*

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the gross carrying amount of the financial asset shall be recalculated as present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate.

#### *(v) 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.

#### *(vi) Equity instruments*

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

#### *(vii) Derecognition*

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (j) Revenue recognition

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

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

- provides all of the benefits received and consumed simultaneously by the customer;

- creates or enhances an asset that the customer controls as the Group performs; or

- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (j) Revenue recognition (continued)

#### *(i) Sales of video graphics cards ("VGA Cards"), electronics manufacturing services ("EMS") and other PC related products and components*

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

Some of the Group's contracts with customers from the sale of products provide customers a right of return. The right of return allows the returned goods to be refunded in cash for specific customers. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. At the same time, the Group has a right to recover the product when customers exercise their right of return. Consequently, the Group recognises a right of return asset and a corresponding adjustment to cost of sales. The Group uses its accumulated historical experience to estimate sales amount of returned goods as refund liability. At the end of each reporting period, the refund liability is re-measured arising from any changes in expectations about the amount of refunds with corresponding adjustments as revenue (or reductions of revenue). The right of return asset is recognised by reference to the former carrying amount of the products less any expected costs to recover those products including potential decrease in the value to the Group of returned products. At the end of each reporting period, the carrying amount of the right of return asset is re-measured arising from any changes in expectations about products to be returned.

#### *(ii) Other Income*

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (k) Contract assets and contract liabilities

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

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

### (l) Contract costs

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

### (m) Income taxes

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill not deductible for tax purposes and initial recognition of assets and liabilities that are not part of the business combination which affect neither accounting nor taxable profits, taxable temporary differences arising on investments in subsidiaries and joint venture 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, 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, provided that the deductible temporary differences do not arise from initial recognition of assets and liabilities in a transaction other than in a business combination that affects neither taxable profit nor the accounting profit. 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 and reflect any uncertainty related to income tax.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income tax levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (m) Income taxes (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

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 or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

### (n) Foreign currency

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

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

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (o) Employee benefits

#### *(i) Short term employee benefits*

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

#### *(ii) Defined contribution retirement plan*

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

#### *(iii) Pension obligations*

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

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

#### *(iv) Termination benefits*

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (p) Impairment of non-financial assets

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

- property, plant and equipment (including right-of-use assets);
- intangible assets with finite useful lives; and
- investment in a subsidiary and a joint venture.

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

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

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

### (q) Share-based payments

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (q) Share-based payments (continued)

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

### (r) Capitalisation of borrowing costs

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

### (s) Government grants

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

### (t) Provisions and contingent liabilities

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (u) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

The key sources of estimation uncertainty are discussed below.

### Impairment of property, plant and equipment (including right-of-use assets)

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on the higher of value in use calculations and fair value less cost of disposal. These calculations require the use of judgements and estimates.

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

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

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

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

### Fair value measurement of financial assets

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

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

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

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

The Group measures a number of items at fair value:

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

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

### 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.

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

### Impairment of trade receivables

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

The assessment of the correlation between historical observed default rates, forecast of economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast of economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 39(a).

### Warranty provision and refund liabilities

As explained in notes 28 and 31, the Group makes provisions under the warranties and right of return it gives on sales of its electronic products taking into account the Group's cumulative past claim experience. As the Group is continually upgrading its product designs and launching new models, it is possible that the cumulative past claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

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

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

The Group has several lease contracts that include extension options which are exercisable at the discretion of the Group. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise the extension option. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control. The Group typically exercises its option to renew for these leases of properties used for production because there will be a significant negative effect on production if a replacement asset is not readily available and there was significant customisation to the leased asset. The majority of extension options held are exercisable only by the Group and not by the respective lessor. The Group assessed and concluded that it is reasonably certain that the Group will exercise extension options included in all of the lease arrangements of which the additional periods covered by extension options ranged from 1 to 6 years.

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

### Estimating the incremental borrowing rate — the Group as lessee

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

To determine the IBR, the Group:

— Where possible, use recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, and

— Makes adjustments specific to the lease, e.g. term, country, currency and security.

### Recognition of deferred tax assets

Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. The Group has recognised HK$3,375,000 (2019: HK$20,933,000) as deferred tax assets due to tax losses carried forward. These losses relate to subsidiaries that have taxable temporary difference or tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. Further details on deferred tax are disclosed in note 23.

## 6. SEGMENT REPORTING

### (a) Reportable segments

The Group determines its operating segments based on the regional reports reviewed by the chief operating decision-maker that are used to make strategic decisions. The Group principally operates in one business segment, which is the design, manufacturing and trading of electronics and PC parts and accessories. The following summary describes the operation of the Group's reportable segments:

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

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Design, manufacturing and trading of electronics and PC parts and accessories | **7,761,758** | 7,556,477 |

## 6. SEGMENT REPORTING (CONTINUED)

### (a) Reportable segments (continued)

***Disaggregation of revenue from contracts with customers***

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

| For the year ended 31 December | Design, manufacturing and trading of electronics and PC parts and accessories | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| **Primary geographical markets** | | |
| Asia Pacific ("APAC") | **3,158,979** | 2,922,853 |
| North and Latin America ("NALA") | **1,139,745** | 1,216,637 |
| PRC | **1,638,322** | 2,090,055 |
| Europe, Middle East, Africa and India ("EMEAI") | **1,824,712** | 1,326,932 |
| | **7,761,758** | 7,556,477 |
| **Major products/services** | | |
| VGA Cards | **6,177,355** | 5,924,392 |
| EMS | **690,563** | 628,462 |
| Other PC related products and components | **893,840** | 1,003,623 |
| | **7,761,758** | 7,556,477 |
| **Brand and non-brand businesses** | | |
| Brand businesses | **4,357,194** | 3,879,437 |
| Non-brand businesses | **3,404,564** | 3,677,040 |
| | **7,761,758** | 7,556,477 |
| **Timing of revenue recognition** | | |
| At a point in time | **7,761,758** | 7,556,477 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 6. SEGMENT REPORTING (CONTINUED)

### (b) Geographic information

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

| | Revenue from external customers (by customer location) | | Specified non-current assets | |
|---|---|---|---|---|
| | **2020 HK$'000** | 2019 HK$'000 | **2020 HK$'000** | 2019 HK$'000 |
| APAC | **3,158,979** | 2,922,853 | **23,049** | 24,198 |
| NALA | **1,139,745** | 1,216,637 | **23,479** | 24,080 |
| PRC | **1,638,322** | 2,090,055 | **618,515** | 686,065 |
| EMEAI | **1,824,712** | 1,326,932 | **207** | 330 |
| | **7,761,758** | 7,556,477 | **665,250** | 734,673 |

### (c) Information about the major customer

During the years ended 31 December 2020 and 2019, none of the customers contributed 10% or more of the Group's revenue.

## 7. REVENUE

Revenue represents the net invoiced value of goods sold and service income earned by the Group. The following table provides information about contract liabilities from contracts with customers.

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| Contract liabilities (note 29) | **76,150** | 31,629 |

The contract liabilities mainly relate to the advance consideration received from customers and volume rebates and sales allowances to customers. HK$14,443,000 of the contract liabilities as at 1 January 2020 and HK$20,845,000 of the contract liabilities as at 1 January 2019 has been recognised as revenue for the year ended 31 December 2020 and 2019 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.

## 8. OTHER REVENUE AND OTHER GAINS AND LOSSES

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Government grants (note (a)) | 10,805 | 1,014 |
| Interest income (note 21(d)) | 15,280 | 5,438 |
| Net exchange gains/(losses) | 40,485 | (23,341) |
| Net fair value gains on derivative financial instruments | 1,325 | 486 |
| Gain on disposal of property, plant and equipment | 141 | 160 |
| Sundry income | 8,718 | 2,971 |
| Rental income | 28,647 | 3,834 |
| COVID-19-related rent concessions (note (b)) | 1,752 | — |
| Loss on modification of repayment terms of trade receivables (note 21(d)) | (12,349) | — |
| Gain on disposal of subsidiary | — | 21 |
| | 94,804 | (9,417) |

Notes:

(a) Included in profit or loss is HK$9,003,000 (2019: Nil) of government grants obtained from 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 not reduce employee head count below prescribed levels for a specified period of time. The Group does not have other unfulfilled obligations relating to this program. The remaining government grants were received from several PRC local government authorities on a discretionary basis before year end. There is no unfulfilled conditions and other contingencies attaching to the government grants that have been recognised.

(b) The Group has received rent concessions in the form of rent forgiveness from lessors as the Group was unable to operate for certain period of time in 2020. As disclosed in note 2(a), the Group has elected to apply the practical expedient introduced by the amendment to HKFRS 16 to all rent concessions that satisfy the criteria. All of the rent concessions received during the year ended 31 December 2020 satisfy the criteria to apply the practical expedient. The application of the practical expedient has resulted in the reduction of total lease liabilities of HK$1,752,000. The effect of this reduction has been recorded in profit or loss in the period in which the event or condition that triggers those payments occurs.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 9. FINANCE COSTS

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Interest on bank advances and other borrowings | **24,857** | 47,972 |
| Interest on lease liabilities | **5,336** | 5,527 |
| | **30,193** | 53,499 |

## 10. PROFIT BEFORE INCOME TAX

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

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Inventories recognised as expense (note (a)) | **6,966,403** | 7,040,163 |
| Staff costs (note 12) | **448,059** | 368,785 |
| Auditor's remuneration | **1,671** | 1,696 |
| Bad debts written off | **2,180** | 162 |
| Depreciation of property, plant and equipment | **80,492** | 34,869 |
| Depreciation of right-of-use assets | **30,928** | 27,870 |
| Impairment of intangible asset (note 18) | **1,530** | — |
| Impairment losses on financial assets (note 39(a)) | **1,782** | 5,960 |
| Short-term lease expenses | **322** | 4,772 |
| Low-value assets leases expenses | **22** | 96 |
| Property, plant and equipment written off | **15** | 46 |
| Provision/(reversal of provision) for product warranties and returns, net (note 31) | **30,452** | (3,598) |
| Research and development expenditure (note (b)) | **58,113** | 50,814 |

Notes:

(a) Included in the figures disclosed above is write down of inventories to net realisable value of approximately HK$59,201,000 (2019: HK$341,277,000) of which approximately HK$Nil (2019: HK$112,461,000) is related to the inventories transferred to a joint venture as set out in note 20.

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

## 11. INCOME TAX

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Current tax — Hong Kong | | |
| — provision for the year | **16,014** | 2 |
| — over provision in respect of prior year | **(91)** | (2,136) |
| Current tax — PRC | | |
| — provision for the year | **1,922** | 9,507 |
| — under provision in respect of prior years | **4,755** | 300 |
| Current tax — others | | |
| — provision for the year | **1,493** | 2,725 |
| — under provision in respect of prior year | **74** | 54 |
| | **24,167** | 10,452 |
| Deferred tax | | |
| — origination and reversal of temporary differences (note 23) | **15,516** | (19,289) |
| Income tax expense/(credit) | **39,683** | (8,837) |

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

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

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

Under the two-tiered profits tax rates regime, if the entity has one or more connected entity, the two-tiered profit tax rates would only apply to the one which is nominated to be chargeable at the two-tiered rates. Hong Kong profits tax of the nominated entity is calculated at 8.25% on assessable profits up to HK$2 million and 16.5% on any part of assessable profits over HK$2 million. For those entities which do not qualify for two-tiered profits tax rates, a profits tax rate of 16.5% on assessable profits shall remain in calculating Hong Kong profits tax. For the years ended 31 December 2020 and 2019, 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.

# Notes to the Consolidated Financial Statements

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## 11. INCOME TAX (CONTINUED)

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

The Company's wholly-owned subsidiary located in the PRC, 東莞栢能電子科技有限公司 successfully obtained the "High Technology Enterprise" status during 2012 and renewed successfully for three years from 2018 to 2020 and the applicable PRC enterprise income tax rate for the year is 15% (2019: 15%). Other PRC subsidiaries of the Company are subject to PRC enterprise income tax at a statutory rate of 25% (2019: 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 2020.

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:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Profit before income tax | **247,720** | 983 |
| Tax calculated at Hong Kong profits tax rate | **40,874** | 162 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **2,706** | 605 |
| Tax effect of non-taxable net income relating to offshore operation | **(10,034)** | (559) |
| Tax effect of expenses not deductible for tax purposes | **11,695** | 4,422 |
| Tax effect of revenue not taxable for tax purposes | **(10,042)** | (6,979) |
| Tax effect of tax losses and deductible temporary differences not recognised | **2,599** | 3,894 |
| Utilisation of tax losses and deductible temporary differences previously not recognised | **(2,663)** | (4,976) |
| Under/(over) provision in respect of prior year | **4,738** | (1,782) |
| Tax rebate and tax concession | **(685)** | (3,774) |
| Others | **495** | 150 |
| Income tax expense/(credit) | **39,683** | (8,837) |

## 12. STAFF COSTS

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Staff costs (including directors' emoluments) comprise: | | |
| Wages and salaries | **410,907** | 331,171 |
| Pension contribution | **4,040** | 4,021 |
| Social insurance (note) | **16,432** | 21,236 |
| Share-based payment (equity-settled) | **4,856** | — |
| Provision for long services payment, annual leave and others | **11,824** | 12,357 |
| | **448,059** | 368,785 |

Note: The PRC government's grant in the form of exemption of payment of social insurance of HK$11,720,000 is reflected by reducing the related expenses for the year ended 31 December 2020.

## 13. EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

### (a) Directors' emoluments

The emoluments paid or payable to each of the ten (2019: ten) directors and chief executive were as follows:

***Year ended 31 December 2020***

| Name of directors | Fees<br>HK$'000 | Basic salaries<br>HK$'000 | Discretionary bonuses<br>HK$'000 | Pension contribution<br>HK$'000 | Housing and other allowances and benefits in kind<br>HK$'000 | Sub-total<br>HK$'000 | Share-based payment (note (i))<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | |
| Mr. WONG Shik Ho Tony | – | 4,321 | 10,606 | 18 | 587 | 15,532 | 311 | 15,843 |
| Mr. WONG Fong Pak | – | 4,038 | 4,411 | – | 5 | 8,454 | 311 | 8,765 |
| Mr. LEUNG Wah Kan | – | 4,133 | 7,969 | 18 | 30 | 12,150 | 312 | 12,462 |
| Mr. MAN Wai Hung | – | 2,189 | 1,602 | 18 | 18 | 3,827 | 311 | 4,138 |
| Mr. HO Nai Nap | – | 2,398 | 4,051 | 14 | 44 | 6,507 | 312 | 6,819 |
| **Non-executive Directors** | | | | | | | | |
| Mrs. HO WONG Mary Mee-Tak | 60 | – | – | – | – | 60 | 61 | 121 |
| Mr. CHIU Wing Yui (note (iii)) | 60 | – | – | – | – | 60 | – | 60 |
| Mr. IP Shing Hing | 240 | – | – | – | – | 240 | 61 | 301 |
| Mr. LAI Kin Jerome | 240 | – | – | – | – | 240 | 61 | 301 |
| Mr. CHEUNG Ying Sheung | 240 | – | – | – | – | 240 | 61 | 301 |
| | 840 | 17,079 | 28,639 | 68 | 684 | 47,310 | 1,801 | 49,111 |

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

### (a) Directors' emoluments (continued)

***Year ended 31 December 2019***

| Name of directors | Fees | Basic salaries | Discretionary bonuses | 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$'000 | HK$'000 |
| **Executive Directors** | | | | | | | | |
| Mr. WONG Shik Ho Tony | – | 3,979 | 168 | 18 | 602 | 4,767 | – | 4,767 |
| Mr. WONG Fong Pak | – | 3,719 | 32 | – | – | 3,751 | – | 3,751 |
| Mr. LEUNG Wah Kan | – | 3,807 | 122 | 18 | 30 | 3,977 | – | 3,977 |
| Mr. MAN Wai Hung | – | 2,008 | – | 18 | 54 | 2,080 | – | 2,080 |
| Mr. HO Nai Nap | – | 2,208 | 55 | 18 | – | 2,281 | – | 2,281 |
| **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 | 15,721 | 377 | 72 | 686 | 17,696 | – | 17,696 |

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(q).

The details of these benefits-in-kind, including the principal terms and number of options granted, are disclosed in note 34.

(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, five (2019: four) were directors of the Company whose emoluments are included in the disclosure in note 13(a) above.

Emoluments paid or payable to the highest paid individual who was senior management personnel in 2019, and within the band of HK$2,000,001 to HK$2,500,000 in the disclosure in note 13(c) below, is as follows:

| | **2020<br>HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Salaries, allowances and other benefits | **–** | 2,076 |
| Discretionary bonuses | **–** | – |
| Retirement benefit scheme contributions | **–** | 18 |
| | **–** | 2,094 |

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 (2019: HK$Nil). In addition, none of the directors waived or agreed to waive any emoluments during the year (2019: None).

### (c) Senior management's emoluments

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

| | **2020<br>No. of<br>individuals** | 2019<br>No. of<br>individuals |
|---|---|---|
| HK$Nil to HK$1,000,000 | **6** | 7 |
| HK$1,000,001 to HK$1,500,000 | **4** | 4 |
| HK$1,500,001 to HK$2,000,000 | **1** | 1 |
| HK$2,000,001 to HK$2,500,000 | **2** | 2 |

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## 14. DIVIDENDS

The directors of the Company proposed a final dividend of HK$0.22 (2019: HK$Nil) per share, totalling HK$81,861,000 (2019: HK$Nil) after the end of the reporting period. The final dividend has 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 2020 and 2019 is based on the following data:

| **Profit** | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share | **207,276** | 10,266 |

| **Number of shares** | **2020** | 2019 |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **372,093,668** | 372,093,668 |
| Effect of dilutive potential ordinary shares:<br>— share options | **138,282** | — |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **372,231,950** | 372,093,668 |

## 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$'000 | Machinery leased out under operating leases HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | | |
| At 1 January 2019 | 25,184 | 37,183 | 283,540 | 80,002 | 2,483 | 5,673 | 7,799 | – | 441,864 |
| Additions | – | 529 | 2,553 | 7,880 | 12 | 803 | 2,835 | 151,836 | 166,448 |
| Disposals/written off | – | (3,330) | (2,105) | (3,818) | (641) | (1,204) | – | – | (11,098) |
| Exchange adjustments | (131) | (20) | – | (53) | (10) | – | – | – | (214) |
| At 31 December 2019 and 1 January 2020 | **25,053** | **34,362** | **283,988** | **84,011** | **1,844** | **5,272** | **10,634** | **151,836** | **597,000** |
| Additions | **–** | **1,267** | **6,080** | **617** | **10** | **–** | **1,341** | **–** | **9,315** |
| Disposals/written off | **–** | **–** | **(4,771)** | **(1,569)** | **–** | **–** | **(206)** | **–** | **(6,546)** |
| Exchange adjustments | **(119)** | **36** | **–** | **90** | **5** | **–** | **–** | **–** | **12** |
| At 31 December 2020 | **24,934** | **35,665** | **285,297** | **83,149** | **1,859** | **5,272** | **11,769** | **151,836** | **599,781** |
| **Accumulated depreciation:** | | | | | | | | | |
| At 1 January 2019 | 1,042 | 31,405 | 246,635 | 68,674 | 1,756 | 4,165 | 3,910 | – | 357,587 |
| Depreciation | 331 | 1,448 | 10,007 | 11,005 | 251 | 1,101 | 3,713 | 7,013 | 34,869 |
| Written back on disposals/written off | – | (3,330) | (2,047) | (3,793) | (619) | (1,074) | – | – | (10,863) |
| Exchange adjustments | (7) | (14) | – | (44) | (8) | – | – | – | (73) |
| At 31 December 2019 and 1 January 2020 | **1,366** | **29,509** | **254,595** | **75,842** | **1,380** | **4,192** | **7,623** | **7,013** | **381,520** |
| Depreciation | **328** | **1,323** | **10,377** | **6,390** | **143** | **715** | **3,287** | **57,929** | **80,492** |
| Written back on disposals/written off | **–** | **–** | **(4,738)** | **(1,569)** | **–** | **–** | **(206)** | **–** | **(6,513)** |
| Exchange adjustments | **(7)** | **32** | **–** | **77** | **6** | **–** | **–** | **–** | **108** |
| At 31 December 2020 | **1,687** | **30,864** | **260,234** | **80,740** | **1,529** | **4,907** | **10,704** | **64,942** | **455,607** |
| **Net book value:** | | | | | | | | | |
| At 31 December 2020 | **23,247** | **4,801** | **25,063** | **2,409** | **330** | **365** | **1,065** | **86,894** | **144,174** |
| At 31 December 2019 | 23,687 | 4,853 | 29,393 | 8,169 | 464 | 1,080 | 3,011 | 144,823 | 215,480 |

# Notes to the Consolidated Financial Statements

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## 17. RIGHT-OF-USE ASSETS

| | Land and buildings (note) HK$'000 | Motor vehicles HK$'000 | Office and testing equipment HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2019 | 167,871 | 239 | 419 | 168,529 |
| Additions | 18,357 | 398 | — | 18,755 |
| Depreciation | (27,469) | (160) | (241) | (27,870) |
| Effect of modification to lease terms | (3,189) | — | — | (3,189) |
| Disposal | — | (27) | — | (27) |
| Foreign exchange movement | (78) | (14) | — | (92) |
| At 31 December 2019 and 1 January 2020 | **155,492** | **436** | **178** | **156,106** |
| Additions | **643** | **—** | **720** | **1,363** |
| Depreciation | **(30,510)** | **(241)** | **(177)** | **(30,928)** |
| Effect of modification to lease terms | **9,966** | **—** | **—** | **9,966** |
| Disposal | **—** | **—** | **(97)** | **(97)** |
| Foreign exchange movement | **41** | **8** | **—** | **49** |
| At 31 December 2020 | **135,632** | **203** | **624** | **136,459** |

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

## 18. INTANGIBLE ASSETS

| | Brand name | Non-contractual customer lists and relationship | Goodwill | Total |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Cost:** | | | | |
| At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020 | **6,196** | **10,074** | **1,530** | **17,800** |
| **Accumulated amortisation and impairment:** | | | | |
| At 1 January 2019, 31 December 2019 and 1 January 2020 | 1,371 | 10,074 | — | 11,445 |
| Impairment | — | — | 1,530 | 1,530 |
| At 31 December 2020 | **1,371** | **10,074** | **1,530** | **12,975** |
| **Carrying amount:** | | | | |
| At 31 December 2020 | **4,825** | **—** | **—** | **4,825** |
| At 31 December 2019 | 4,825 | — | 1,530 | 6,355 |

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

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

For impairment testing, brand name of Innovision's brand is allocated to the cash generating unit (CGU) — VGA Cards retailing business that contribute the cash flows.

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 18. INTANGIBLE ASSETS (CONTINUED)

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

| | 2020 | 2019 |
|---|---|---|
| Profit margin (average of next three years) | **1.67%** | 3.03% |
| Long-term growth rate | **2%** | 2% |
| Growth rate for 2021 (2019: 2020) | **–1%** | 6% |
| Growth rate for 2022 to 2023 (2019: 2021 to 2022) | **2%** | 6% |
| Discount rate | **30.61%** | 22.88% |

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

The recoverable amount of the CGU based on the estimated value in use calculations was higher than its carrying amount at 31 December 2020. Accordingly, no provision for impairment loss for Innovision's brand name is considered necessary.

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

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

| | 2020 | 2019 |
|---|---|---|
| Profit margin (average of next five years) | 0.84% | 0.83% |
| Long-term growth rate | 2% | 2% |
| Growth rate for 2021 (2019: 2020) | –12.84% | 5% |
| Growth rate of 2022 to 2023 (2019: 2021 to 2022) | 2% | 6% |
| Growth rate for 2023 to 2024 | 2% | 4% |
| Discount rate | 12.53% | 11.83% |

Management determined the profit margin based on past performance and its expectations regarding market development. The long-term growth rate does not exceed the long-term average growth rate for the industry. The discount rate used is pre-tax and reflects specific risks relating to the CGU. The recoverable amount of the CGU (including goodwill) based on the higher of the fair value less cost to sell or its estimated value in use calculations was lower than its carrying amount at 31 December 2020. Accordingly, full provision for impairment loss for goodwill is considered necessary.

## 19. OTHER FINANCIAL ASSET

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| **Equity investment measured at FVTOCI — Non-current** | | |
| — Preferred stock in Dreamscape Immersive Inc. (note) | **7,518** | 10,386 |
| Total | **7,518** | 10,386 |

Note:

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

The Group has irrevocably elected at initial recognition to measure the investment at fair value through other comprehensive income upon adoption of HKFRS 9 as it is a strategic investment. No dividends were received on this investment during the year (2019: Nil). The reconciliation of unlisted equity investment is disclosed under note 40.

## 20. INTEREST IN A JOINT VENTURE

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Share of net assets other than goodwill | **174,655** | 143,835 |

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

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

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

# Notes to the Consolidated Financial Statements

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## 20. INTEREST IN A JOINT VENTURE (CONTINUED)

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| As 31 December | | |
| Current assets | 58,162 | 110,375 |
| Non-current assets | 755,065 | 183,712 |
| Current liabilities | (463,918) | (6,417) |
| Non-current liabilities | — | — |
| Net assets | 349,309 | 287,670 |
| *Included in the above amounts are:* | | |
| Cash and cash equivalents | 7,995 | 111 |
| Current financial liabilities (excluding trade and other payable) | — | — |
| Non-current financial liabilities (excluding other payable and provision) | — | — |
| Year/period ended 31 December | | |
| Revenue | 367,293 | 161,837 |
| **Profit for the year/period** | 40,101 | 34,857 |
| *Included in the above amounts are:* | | |
| Depreciation and amortisation | 121,879 | 37,255 |
| Interest income | 36 | 17 |
| Interest expense | — | — |
| Income tax expense | (15,142) | (11,619) |

## 21. TRADE AND OTHER RECEIVABLES

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Trade receivables at amortised cost | **1,375,207** | 1,338,011 |
| Less: Accumulated impairment losses | **(9,924)** | (10,411) |
| Trade receivables at amortised cost, net (note (a)) | **1,365,283** | 1,327,600 |
| Trade receivables at fair value through profit or loss (note (b)) | **32,038** | 50,177 |
| Other receivables (note (c)) | **5,535** | 7,134 |
| Deposits and prepayments | **24,798** | 20,557 |
| Less: Accumulated impairment losses | **(4,247)** | (1,979) |
| | **20,551** | 18,578 |
| | **1,423,407** | 1,403,489 |
| Less: Trade receivables — non-current portion (note (d)) | **(201,027)** | (212,897) |
| Rental deposits — non-current portion | **(4,110)** | — |
| | **(205,137)** | (212,897) |
| Trade and other receivables — current portion | **1,218,270** | 1,190,592 |

As at 31 December 2020 and 31 December 2019, the Group entered into trade receivables factoring arrangement and transferred certain trade receivables to banks. There are two types of arrangements which are discounted bills with full recourse and factoring loans without recourse.

As at 31 December 2020 and 31 December 2019, the Group had no outstanding bills discounted with full recourse with banks. During the year ended 31 December 2019, interest is charged at 2.61% to 3.72% on the proceeds received from the banks until the date the debtors pay.

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 21. 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 the year is as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Within 1 month | 615,737 | 469,729 |
| Over 1 month but within 3 months | 271,856 | 494,129 |
| Over 3 months but within 1 year | 16,749 | 361,968 |
| Over 1 year | 460,941 | 1,774 |
| | 1,365,283 | 1,327,600 |

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

The credit period on sale of goods is 30 to 90 days (2019: 30 to 90 days) from the invoice date. Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 39(a).

(b)

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Trade receivables at fair value through profit or loss | 32,038 | 50,177 |

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

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

As at 31 December 2020, the Group had drawn approximately HK$Nil (2019: HK$7,051,000) 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.

## 21. TRADE AND OTHER RECEIVABLES (CONTINUED)

Notes: (continued)

(b) (continued)

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$32,038,000 (2019: HK$50,177,000).

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Within 1 month | 6,122 | 22,428 |
| Over 1 month but within 3 months | 25,431 | 26,157 |
| Over 3 months but within 1 year | 485 | 1,592 |
| | 32,038 | 50,177 |

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

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Not past due | 13,101 | 38,604 |
| Within 1 month past due | 18,452 | 11,530 |
| Over 1 month but within 3 months past due | 485 | 43 |
| | 32,038 | 50,177 |

(c) The balance includes a claim of HK$2,442,000 (2019: HK$2,454,000) under an insurance policy as detailed in note 27(b).

(d) During the year ended 31 December 2019, the Group entered into a sales contract with a customer for sale of VGA Cards under which the sales amount will be paid by the customer in instalments the last of which will fall in May 2021. During 2020, a revised repayment schedule was agreed by both parties and the last instalment will fall in September 2022. The resulting modification loss of approximately HK$12,349,000 which is accounted for in accordance with the Group's accounting policy set out in note 4(i)(iv) is recognised in profit or loss as set out in note 8. As at 31 December 2020, the total outstanding balance due from the customer amounted to HK$464,441,000 (2019: HK$540,462,000) of which HK$201,027,000 (2019: HK$212,897,000) will be due beyond one year which is discounted at 3.1% (2019: 3.1%) and included under non-current assets. The sales contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months and is accounted for in accordance with the Group's accounting policy set out in note 4(j). Interest income of HK$13,993,000 (2019: HK$3,904,000) was recognised for the year and included under note 8.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 22. DERIVATIVE FINANCIAL INSTRUMENT

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| **Derivative financial assets** | | |
| Foreign exchange forward contracts | 452 | — |

| Notional amount | Trade dates | Contracted exchange rates | Fair value 2020 HK$'000 | Fair value 2019 HK$'000 |
|---|---|---|---|---|
| US$2,000,000 | 8 July 2020 to 7 July 2022 | HK$7.80 to $7.85 | 452 | — |
| | | | 452 | — |

The fair value of the above derivative as at 31 December 2020 was determined based on valuation performed by Stirling Appraisals Limited, a qualified valuer. Under the terms of the foreign exchange contract, the contract will be terminated when accumulative gain reaches the target amount. According to the valuation, the contract will be terminated within one year, so the asset is classified as current asset as at 31 December 2020.

## 23. DEFERRED TAX

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

| | Decelerated tax depreciation HK$'000 | Provision for doubtful debts, annual leave and warranty HK$'000 | Tax losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2019 | 493 | 6,162 | — | 6,655 |
| (Charged)/credited to profit or loss | (452) | (1,192) | 20,933 | 19,289 |
| At 31 December 2019 and 1 January 2020 | **41** | **4,970** | **20,933** | **25,944** |
| Credited/(charged) to profit or loss | **204** | **1,838** | **(17,558)** | **(15,516)** |
| Exchange difference | **—** | **2** | **—** | **2** |
| At 31 December 2020 | **245** | **6,810** | **3,375** | **10,430** |

Deferred tax asset has not been recognised for the followings:

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| Unused tax losses | **28,399** | 4,355 |
| Other deductible temporary differences | **30,882** | 34,733 |
| | **59,281** | 39,088 |

The PRC subsidiaries of the Company are subject to PRC withholding income tax at a statutory rate of 10% (2019: 10%) on any dividend declared.

No deferred tax asset has been recognised in respect of the unused tax losses of HK$28,399,000 (2019: HK$4,355,000) due to the unpredictability of future profit streams. No deferred tax asset has been recognised in relation to other deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised. Losses amounting to approximately HK$4,417,000 (2019: HK$2,393,000) could be carried forward indefinitely. Remaining losses amounting to approximately HK$23,982,000 (2019: HK$1,962,000) will expire in 2025.

The temporary difference associated with investment in subsidiaries for which deferred tax liabilities have not been recognised amounted to approximately HK$89,134,000 (2019: HK$54,268,000). The Group has determined that the undistributed profits of its subsidiaries will not be distributed in the foreseeable future.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 24. RIGHT OF RETURN ASSETS

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Right of return assets | **52,610** | 37,271 |

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

## 25. INVENTORIES

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Raw materials | **572,361** | 525,276 |
| Work in progress | **9,310** | 14,831 |
| Finished goods | **456,752** | 705,611 |
| | **1,038,423** | 1,245,718 |
| Less: Provision for obsolete inventories | **(130,162)** | (119,695) |
| | **908,261** | 1,126,023 |

## 26. CASH AND BANK BALANCES

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Cash and bank balances | **1,124,592** | 906,884 |
| Less: Pledged time deposit | **(449)** | (452) |
| Cash and cash equivalents in the consolidated statement of cash flows | **1,124,143** | 906,432 |

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Renminbi | **75,555** | 92,999 |
| Japanese Yen | **21,627** | 6,899 |
| Taiwan Dollars | **1,871** | 2,018 |
| United States Dollars | **862,775** | 564,153 |
| Hong Kong Dollars | **126,320** | 222,080 |
| Korean Won | **34,123** | 17,638 |
| Euro | **1,272** | 625 |
| Others | **600** | 20 |
| | **1,124,143** | 906,432 |

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 27. TRADE AND OTHER PAYABLES

| | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|
| Trade payables | **1,279,516** | 1,311,199 |
| Other payables and accruals (notes (a), (b)) | **204,542** | 99,122 |
| | **1,484,058** | 1,410,321 |

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

Notes:

(a) As at 31 December 2020, other payables and accruals mainly comprised provision for bonus and accrued expenses.

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

The Group was not aware of the winding up action against Changtel. The management has sought for legal opinion from a local independent lawyer. According to the legal opinion, such payment may be valid if validation order is granted by the court to the Group. However, the lawyer does not consider that any application for a validation order by the Group is likely to succeed. As such, the Group has made a provision of HK$6,409,000 in respect of the abovementioned demand, of which HK$2,442,000 is covered by insurance policy (note 21(c)).

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

| | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|
| At 1 January | **6,439** | 6,473 |
| Exchange difference | **(30)** | (34) |
| At 31 December | **6,409** | 6,439 |

## 27. TRADE AND OTHER PAYABLES (CONTINUED)

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Within 1 month | 688,034 | 394,288 |
| Over 1 month but within 3 months | 531,917 | 755,159 |
| Over 3 months but within 1 year | 53,746 | 156,146 |
| Over 1 year | 5,819 | 5,606 |
| | 1,279,516 | 1,311,199 |

## 28. REFUND LIABILITIES

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Refund Liabilities | 62,759 | 47,725 |

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 29. CONTRACT LIABILITIES

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Contract liabilities arising from: | | |
| Sale of goods | **76,150** | 31,629 |

### Movements in contract liabilities

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| At 1 January | **31,629** | 41,823 |
| Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year | **(14,443)** | (20,845) |
| Decrease in contract liabilities as a result of settlement of volume rebates and sales allowances during the year that was included in the contract liabilities at the beginning of the year | **(10,669)** | (12,271) |
| Increase in contract liabilities as a result of advance consideration received from customers | **61,355** | 11,529 |
| Increase in contract liabilities as a result of volume rebates and sales allowances to customers | **8,287** | 11,784 |
| Decrease in contract liabilities as a result of disposal of a subsidiary during the year | **—** | (327) |
| Over provision of volume rebate in prior year | **(223)** | — |
| Exchange difference | **214** | (64) |
| At 31 December | **76,150** | 31,629 |

## 30. BORROWINGS

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Bank loans — guaranteed | **50,000** | 248,569 |
| Bank loans — non-guaranteed (note (iv)) | **3,000** | — |
| Import loans — guaranteed | **1,017,038** | 1,226,843 |
| | **1,070,038** | 1,475,412 |

## 30. BORROWINGS (CONTINUED)

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

| | **2020** | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Denominated in** | | | Denominated in | | |
| | **HK$** | **US$** | **Total** | HK$ | US$ | Total |
| | **HK$'000** | **HK$'000** | **HK$'000** | HK$'000 | HK$'000 | HK$'000 |
| Bank loans — guaranteed | **50,000** | **—** | **50,000** | 100,000 | 148,569 | 248,569 |
| Bank loans — non-guaranteed | **—** | **3,000** | **3,000** | — | — | — |
| Import loans — guaranteed | **—** | **1,017,038** | **1,017,038** | 555,904 | 670,939 | 1,226,843 |
| | **50,000** | **1,020,038** | **1,070,038** | 655,904 | 819,508 | 1,475,412 |

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

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within 1 year | **1,069,371** | 1,475,412 |
| Over 1 year but within 2 years | **667** | — |
| | **1,070,038** | 1,475,412 |

(i) At 31 December 2020, except for the US$ loan referred to in note 30(iv) below, the above borrowings bear interest at effective interest rates ranging from 1.0% to 1.5% (2019: 1.0% to 1.5%) per annum over cost of funds for the year.

(ii) Some of the Group's banking facilities are secured by bank deposits of HK$449,000 (2019: HK$452,000).

(iii) 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.

(iv) During the year ended 31 December 2020, the Group obtained a bank loan under Paycheck Protection Program which is supported by US Small Business Administration. The bank loan is repayable by instalments up to 2022 and interest bearing at fixed rate of 1.0% per annum.

# Notes to the Consolidated Financial Statements
For the year ended 31 December 2020

## 31. PROVISION

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| **Provision for product warranties** | | |
| At 1 January | 18,670 | 28,243 |
| Additional/(reversal of) provision, net | 30,452 | (3,598) |
| Utilisation | (17,675) | (5,975) |
| Net movement for the year | 12,777 | (9,573) |
| At 31 December | 31,447 | 18,670 |

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

## 32. LEASES

### Nature of leasing activities (in the capacity as lessee)

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

## 32. LEASES (CONTINUED)

### Lease liabilities

| | Land and buildings HK$'000 | Office and testing equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2019 | 167,871 | 450 | 239 | 168,560 |
| Additions | 18,336 | — | 398 | 18,734 |
| Interest expense | 5,513 | 10 | 4 | 5,527 |
| Disposal | — | — | (27) | (27) |
| Effect of modification to lease terms | (3,189) | — | — | (3,189) |
| Lease payments | (30,801) | (240) | (163) | (31,204) |
| Foreign exchange movements | (106) | — | (14) | (120) |
| At 31 December 2019 and 1 January 2020 | **157,624** | **220** | **437** | **158,281** |
| Additions | **643** | **720** | **—** | **1,363** |
| Interest expense | **5,318** | **12** | **6** | **5,336** |
| COVID-19-related rent concessions (note 8(b)) | **(1,752)** | **—** | **—** | **(1,752)** |
| Disposal | **—** | **(99)** | **—** | **(99)** |
| Effect of modification to lease terms | **9,966** | **—** | **—** | **9,966** |
| Lease payments | **(31,991)** | **(194)** | **(246)** | **(32,431)** |
| Foreign exchange movements | **1,273** | **—** | **8** | **1,281** |
| At 31 December 2020 | **141,081** | **659** | **205** | **141,945** |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 32. LEASES (CONTINUED)

### Lease liabilities (continued)

Future lease payments are due as follows:

| | **Minimum lease payments 31 December 2020 HK$'000** | **Interest 31 December 2020 HK$'000** | **Present value 31 December 2020 HK$'000** |
|---|---|---|---|
| Not later than 1 year | **32,829** | **5,167** | **27,662** |
| Later than 1 year and not later than 2 years | **27,527** | **4,335** | **23,192** |
| Later than 2 years and not later than 5 years | **65,358** | **7,948** | **57,410** |
| Later than 5 years | **34,998** | **1,317** | **33,681** |
| | **160,712** | **18,767** | **141,945** |

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

The present value of future lease payments are analysed as:

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| Current liabilities | **27,662** | 25,904 |
| Non-current liabilities | **114,283** | 132,377 |
| | **141,945** | 158,281 |

## 32. LEASES (CONTINUED)

### Disclosures under HKFRS 16

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Short term lease expense | 322 | 4,772 |
| Low value lease expense | 22 | 96 |
| Aggregate undiscounted commitments for short term leases | 34 | 359 |

### Operating leases — lessor

The Group leases out a number of items of machinery under operating leases. The leases typically run for an initial period of 3 years, with an option to renew the lease upon expiry at which time all terms are renegotiated. During the year ended 31 December 2019, lease payments are entirely variable based on the actual usage of the machinery by the lessee. Since April 2020, lease payments are fixed. The rental income during the year ended 31 December 2020 was HK$28,647,000 (2019: HK$3,834,000).

The minimum fixed rent receivables under non-cancellable operating leases are as follows:

| | 2020<br>HK$'000 |
|---|---|
| Not later than 1 year | 55,356 |
| Later than 1 year and not later than 2 years | 32,563 |
| | 87,919 |

## 33. SHARE CAPITAL

| | 2020<br>Number of shares | 2020<br>Amount<br>HK$'000 | 2019<br>Number of shares | 2019<br>Amount<br>HK$'000 |
|---|---|---|---|---|
| Authorised: | | | | |
| Ordinary shares of HK$0.10 each | 1,000,000,000 | 100,000 | 1,000,000,000 | 100,000 |
| Issued and fully paid: | | | | |
| Ordinary shares of HK$0.10 each | 372,093,668 | 37,209 | 372,093,668 | 37,209 |

## 34. SHARE-BASED PAYMENT

A share option scheme (the "2016 Share Option Scheme") was adopted by the Company on 17 June 2016. The primary purpose of the 2016 Share Option Scheme is to provide incentives or rewards to eligible participants.

### 2016 Share Option Scheme

#### a) *Purpose of the 2016 Share Option Scheme*

The purpose of the 2016 Share Option Scheme is to enable the Company to grant Options to participants as incentives or rewards for their retention and contribution or potential contribution to the Group.

#### b) *Participants of the 2016 Share Option Scheme*

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

#### c) *Maximum number of Shares available for subscription*

The maximum number of shares in respect of which options may be granted under the 2016 Share Option Scheme is 41,751,866 shares, representing 10% of issued share capital of the Company as at the date of adoption of the 2016 Share Option Scheme.

## 34. SHARE-BASED PAYMENT (CONTINUED)

### 2016 Share Option Scheme (continued)

***d) Total Maximum Entitlement of each Eligible Participant***

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

***e) Duration of the 2016 Share Option Scheme***

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

***f) Option Period***

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

***g) Payment of Acceptance of an Option***

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

***h) Subscription Price***

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

## 34. SHARE-BASED PAYMENT (CONTINUED)

### 2016 Share Option Scheme (continued)

The fair values for 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. The weighted average remaining contractual life of the share options outstanding at 31 December 2020 is 2.25 years.

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

| | Weighted average exercise price HK$ | Directors '000 | Employees '000 | External consultant '000 | Total '000 |
|---|---|---|---|---|---|
| Outstanding at 31 December 2019 and 1 January 2020 | – | – | – | – | – |
| Granted during the year | 1.61 | 5,800 | 10,030 | 50 | 15,880 |
| Outstanding at 31 December 2020 | 1.61 | 5,800 | 10,030 | 50 | 15,880 |
| Exercisable at 31 December 2019, 1 January and 31 December 2020 | – | – | – | – | – |

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

| Director | At 1 January 2020 | Granted during the year | Exercised during the year | Lapsed during the year | At 31 December 2020 |
|---|---|---|---|---|---|
| Mr. WONG Shik Ho Tony | – | 1,000,000 | – | – | 1,000,000 |
| Mr. WONG Fong Pak | – | 1,000,000 | – | – | 1,000,000 |
| Mr. LEUNG Wah Kan | – | 1,000,000 | – | – | 1,000,000 |
| Mr. MAN Wai Hung | – | 1,000,000 | – | – | 1,000,000 |
| Mr. HO Nai Nap | – | 1,000,000 | – | – | 1,000,000 |
| Mrs. HO WONG Mary Mee-Tak | – | 200,000 | – | – | 200,000 |
| Mr. LAI Kin Jerome | – | 200,000 | – | – | 200,000 |
| Mr. IP Shing Hing | – | 200,000 | – | – | 200,000 |
| Mr. CHEUNG Ying Sheung | – | 200,000 | – | – | 200,000 |
| Total | – | 5,800,000 | – | – | 5,800,000 |

## 34. SHARE-BASED PAYMENT (CONTINUED)

### 2016 Share Option Scheme (continued)

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 | 1.61 |
| Weighted average exercise price | 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.

# Notes to the Consolidated Financial Statements
For the year ended 31 December 2020

## 35. NOTE SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Cash and cash equivalents comprise:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Cash available on demand | **1,124,143** | 906,432 |

### (b) Non-cash transactions:

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

(i) capital contribution of inventory items of HK$113,414,000 to the joint venture as detailed in note 20; and

(ii) utilisation of inventory items of HK$151,836,000 for machinery leasing business as detailed in note 32.

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

| | Borrowings<br>(note 30)<br>HK$'000 | Lease liabilities<br>(note 32)<br>HK$'000 |
|---|---|---|
| At 1 January 2020 | 1,475,412 | 158,281 |
| Proceeds of bank loans | 3,014 | — |
| Repayment of bank loans | (198,315) | — |
| Repayment of lease liabilities | — | (27,095) |
| Repayment of import loans | (4,154,929) | — |
| Total changes from financing cash flows: | (4,350,230) | (27,095) |
| Other changes: | | |
| Decrease in trade payables | 3,940,987 | — |
| Addition | — | 1,363 |
| COVID-19-related rent concessions | — | (1,752) |
| Effect of modification to lease terms | — | 9,966 |
| Disposal | — | (99) |
| Exchange difference | 3,869 | 1,281 |
| Total other changes | 3,944,856 | 10,759 |
| At 31 December 2020 | 1,070,038 | 141,945 |

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

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

| | Borrowings (note 30) HK$'000 | Lease liabilities (note 32) HK$'000 |
|---|---|---|
| At 1 January 2019 | 1,709,646 | 168,560 |
| Repayment of bank loans | (348,307) | — |
| Proceeds from discounted bills | 8,191 | — |
| Repayment of discounted bills | (18,235) | — |
| Repayment of lease liabilities | — | (25,677) |
| Repayment of import loans | (3,466,583) | — |
| Total changes from financing cash flows: | (3,824,934) | (25,677) |
| Other changes: | | |
| Decrease in trade payables | 3,594,996 | — |
| Addition | — | 18,734 |
| Effect of modification to lease terms | — | (3,189) |
| Disposal | — | (27) |
| Exchange difference | (4,296) | (120) |
| Total other changes | 3,590,700 | 15,398 |
| At 31 December 2019 | 1,475,412 | 158,281 |

## 36. CAPITAL COMMITMENTS

At 31 December 2020 and 2019, the Group had the following capital commitments contracted for but not provided in respect of:

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| Acquisition of property, plant and equipment | **257** | 33 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 37. RELATED PARTIES DISCLOSURES

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

### (i) Amount due to a related party

Amount due to a related party is unsecured, interest-free and repayable on demand. Maximum amount due from a related party during the year was HK$Nil (2019: HK$1,177,000). The credit period on sales of good is Nil days (2019: 30 days) from the invoice date.

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| **(ii) Related parties transactions** | | |
| Related party controlled by a subsidiary's key management personnel | | |
| — sales | **–** | (30,039) |
| — service income | **–** | (458) |
| — commission expense | **–** | 5,700 |
| — agency fee expense | **–** | 564 |
| Related company owned by a director of the Company | | |
| — rental expense | **840** | 840 |
| Director of a subsidiary | | |
| — rental expense | **264** | 248 |

Rental expenses were charged according to the agreements.

The directors are of the opinion that these transactions were conducted on normal business terms and in the ordinary course of business.

Members of key management during the year comprised the directors only whose remuneration is set out in note 13.

## 38. CAPITAL MANAGEMENT

The capital structure of the Group consists of debts, which includes the borrowings disclosed in note 30 and the lease liabilities disclosed in note 32 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:

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Debts | **1,211,983** | 1,633,693 |
| Cash and bank balances | **(1,124,592)** | (906,884) |
| Net debts | **87,391** | 726,809 |
| Total equity | **1,103,778** | 879,723 |
| Net debt to equity ratio | **7.9%** | 82.6% |

## 39. FINANCIAL RISK MANAGEMENT

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

### (a) Credit risk

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

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

As at 31 December 2020, the Group has a certain concentration of credit risk as 6.2% (2019: 39.2%) and 10.5% (2019: 51.3%) of the total trade receivables were due from the Group's largest customer and the five largest customers respectively.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix.

#### *Measurement of expected credit loss on individual basis*

Receivables relating to the customer with instalment arrangement as set out in note 21(d) is assessed individually for provision for impairment allowance. As at 31 December 2020, the balance of loss allowance in respect of these individually assessed receivables was HK$4,225,000 (2019: HK$3,422,000).

#### *Measurement of expected credit loss on collective basis*

Expected credit losses are also estimated by grouping the remaining receivables. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

## 39. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables assessed on collective basis as at 31 December 2020:

| | Expected loss rate % | Gross carrying amount HK$'000 | Expected credit loss HK$'000 |
|---|---|---|---|
| Not past due | **0.014%** | **707,182** | **101** |
| Within 1 month past due | **0.097%** | **173,247** | **168** |
| Over 1 month but within 3 months past due | **0.686%** | **23,019** | **158** |
| Over 3 months but within 1 year past due | **0.910%** | **1,868** | **17** |
| Over 1 year past due | **96.422%** | **5,450** | **5,255** |
| | | **910,766** | **5,699** |

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables assessed on collective basis as at 31 December 2019:

| | Expected loss rate % | Gross carrying amount HK$'000 | Expected credit loss HK$'000 |
|---|---|---|---|
| Not past due | 0.016% | 540,915 | 85 |
| Within 1 month past due | 0.135% | 192,655 | 260 |
| Over 1 month but within 3 months past due | 1.027% | 43,048 | 442 |
| Over 3 months but within 1 year past due | 8.763% | 14,425 | 1,264 |
| Over 1 year past due | 75.899% | 6,506 | 4,938 |
| | | 797,549 | 6,989 |

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

As at 31 December 2020, the Group held pledges of landed properties for certain of these balances amounted to HK$4,761,000 (2019: HK$Nil) while the fair value of pledged landed properties amounted to HK$3,646,000 (2019: HK$Nil). The Group does not have the right to sell or re-pledge the properties held as collateral in the absence of default by customers.

## 39. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (continued)

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| At 1 January | 10,411 | 6,238 |
| Impairment losses reversed/recognised during the year | (486) | 5,008 |
| Amounts written off during the year | – | (884) |
| Exchange difference | (1) | 49 |
| At 31 December | 9,924 | 10,411 |

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

Other receivables measured at amortised costs are subject to the ECLs model and the loss allowances are limited to 12-month ECLs as there has not been a significant increase in credit risk since initial recognition. The ECLs of other receivables as at 31 December 2020 were determined to be immaterial.

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

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| At 1 January | 1,979 | 1,027 |
| Impairment losses recognised during the year | 2,268 | 952 |
| At 31 December | 4,247 | 1,979 |

## 39. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Liquidity risk

The Group's policy is to regularly monitor its current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the Group's remaining contractual maturities for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause can be exercised at the bank's sole discretion. The analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity dates for other financial liabilities are based on the agreed repayment dates.

| | Carrying amount | Total contractual undiscounted cash flows | On demand or within 1 year | Over 1 year but within 2 years | More than 2 years |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **At 31 December 2020** | | | | | |
| Trade and other payables | **1,484,058** | **1,484,058** | **1,484,058** | **–** | **–** |
| Borrowings | **1,070,038** | **1,070,038** | **1,070,038** | **–** | **–** |
| Lease liabilities | **141,945** | **160,712** | **32,829** | **27,527** | **100,356** |
| Total | **2,696,041** | **2,714,808** | **2,586,925** | **27,527** | **100,356** |
| **At 31 December 2019** | | | | | |
| Trade and other payables | 1,410,321 | 1,410,321 | 1,410,321 | – | – |
| Borrowings | 1,475,412 | 1,475,412 | 1,475,412 | – | – |
| Lease liabilities | 158,281 | 181,057 | 31,547 | 26,396 | 123,114 |
| Total | 3,044,014 | 3,066,790 | 2,917,280 | 26,396 | 123,114 |

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## 39. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Liquidity risk (continued)

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 | Total contractual undiscounted cash flows | Within 1 year | Over 1 year but within 2 years |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **31 December 2020** | **1,070,038** | **1,073,631** | **1,072,964** | **667** |
| 31 December 2019 | 1,475,412 | 1,484,931 | 1,484,931 | — |

### (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:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Effective interest rate (per annum)** | **HK$'000** | Effective interest rate (per annum) | HK$'000 |
| Variable rate borrowings: | | | | |
| Bank loans | **1.58%** | **53,000** | 3.53% | 248,569 |
| Import loans | **1.41%** | **1,017,038** | 3.33% | 1,226,843 |
| | | **1,070,038** | | 1,475,412 |
| Fixed rate borrowings: | | | | |
| Lease liabilities | **3.1%** | **141,945** | 3.7% | 158,281 |

## 39. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (c) Interest rate risk (continued)

At 31 December 2020, 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 2020 by approximately HK$4,467,000 (2019: HK$$6,160,000) 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 2019.

### (d) Currency risk

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

The following table details the Group's exposure at 31 December 2020 and 2019 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.

| | **2020 Renminbi HK$'000** | 2019 Renminbi HK$'000 | **2020 Euro HK$'000** | 2019 Euro HK$'000 |
|---|---|---|---|---|
| Trade and other receivables | **36,294** | 11,974 | **143** | 283 |
| Cash and bank balances | **38,915** | 57,587 | **253** | 361 |
| Trade and other payables | **(21,802)** | (12,576) | **(1,395)** | (2,157) |
| Lease liabilities | **(755)** | (429) | **—** | — |
| Overall net exposure | **52,652** | 56,556 | **(999)** | (1,513) |

## 39. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (d) Currency risk (continued)

The following table indicates the approximate change in the Group's profit after income tax and retained profits and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit for the year and other equity where the HK$ weakens against the relevant currency. For a strengthening of the HK$ against the relevant currency, there would be an equal and opposite impact on the profit for the year and other equity, and the balances below would be negative.

| | Increase in foreign exchange rates | Effect on profit after income tax HK$'000 |
|---|---|---|
| **As at 31 December 2020** | | |
| Renminbi | **5%** | **2,198** |
| Euro | **5%** | **(42)** |
| **As at 31 December 2019** | | |
| Renminbi | 5% | 2,361 |
| Euro | 5% | (63) |

The sensitivity analysis has been determined assuming that the change in foreign exchange rate had occurred at the end of the reporting period and had been applied to each of the group entities; exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rate over the periods until the next annual reporting date. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit for the year and equity measured in the respective functional currencies, translated into HK$ at the exchange rate ruling at the end of reporting period for presentation purposes. The analysis is performed on the same basis as 2019.

## 40. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

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

| | 2020 Carrying amount HK$'000 | 2019 Carrying amount HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets at fair value through profit or loss | | |
| — Derivatives | 452 | — |
| — Trade receivables at fair value through profit or loss | 32,038 | 50,177 |
| Financial assets at amortised cost | | |
| — Cash and cash equivalents | 1,124,143 | 906,432 |
| — Trade and other receivables | 1,381,709 | 1,342,996 |
| Financial assets at fair value through other comprehensive income: | | |
| — Unlisted equity investment | 7,518 | 10,386 |
| **Financial liabilities** | | |
| Financial liabilities measured at amortised cost | | |
| — Trade and other payables | 1,478,293 | 1,407,470 |
| — Refund liabilities (note (a)(a)) | 62,759 | 47,725 |
| — Contract liabilities (note (a)(b)) | 10,406 | 13,031 |
| — Amount due to a related party | — | 2,683 |
| — Borrowings | 1,070,038 | 1,475,412 |
| — Lease liabilities | 141,945 | 158,281 |

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

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

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

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

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

| | Group 2020 | | | |
|---|---|---|---|---|
| | **Level 1 HK$'000** | **Level 2 HK$'000** | **Level 3 HK$'000** | **Total HK$'000** |
| Financial assets at fair value through profit or loss | | | | |
| — Derivatives | **—** | **452** | **—** | **452** |
| — Trade receivables at fair value through profit or loss | **—** | **32,038** | **—** | **32,038** |
| Financial assets at fair value through other comprehensive income | | | | |
| — Unlisted equity investments | **—** | **—** | **7,518** | **7,518** |
| | **—** | **32,490** | **7,518** | **40,008** |

| | Group 2019 | | | |
|---|---|---|---|---|
| | Level 1 HK$'000 | Level 2 HK$'000 | Level 3 HK$'000 | Total HK$'000 |
| Financial assets at fair value through profit or loss | | | | |
| — Trade receivables at fair value through profit or loss | — | 50,177 | — | 50,177 |
| Financial assets at fair value through other comprehensive income | | | | |
| — Unlisted equity investments | — | — | 10,386 | 10,386 |
| | — | 50,177 | 10,386 | 60,563 |

There were no transfers between levels during the year.

## 40. 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** | |
|---|---|---|
| | **2020** **HK$'000** | 2019 HK$'000 |
| At 1 January | **10,386** | 10,893 |
| Total gains or losses: | | |
| — in other comprehensive income (included in changes in fair value of financial assets at FVTOCI) | **(2,868)** | (507) |
| At 31 December | **7,518** | 10,386 |

### (a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, amount due to a related party, trade and other payables and borrowings.

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

Notes:

(a) Refund liabilities represent the estimated cash refund resulting from goods returned from customers during the Warranty Period.

(b) Contract liabilities included in above represent the estimated volume rebate to be settled in cash to customers. Contract liabilities of HK$65,744,000 (2019: HK$18,598,000) relating to receipt in advance from customers are not financial liabilities and excluded from above.

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

### (b) Financial instruments measured at fair value

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

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

#### *Information about level 2 fair value measurements*

The fair value of currency forward contract is determined based on the forward exchange rate at the reporting date.

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

#### *Information about level 3 fair value measurements*

As at 31 December 2020, the fair value of the unlisted equity investment in Dreamscape Immersive Inc. is estimated by using Backsolve method and option pricing model based on assumptions that are supported by the transaction of preferred stocks in the investee company in December 2020. The valuation technique adopts expected volatility of 50% and risk-free rate of 0.147% as key unobservable inputs.

The Group considers that changes in the key inputs to the valuation technique disclosed above would not have a significant effect on fair value of the unlisted equity investment as at 31 December 2020. No quantitative analysis has been presented.

There were changes to the valuation technique during the year from the price-to-sales ratios of comparable listed companies adopted in 2019 to the combination of Backsolve method and option pricing model because the Group considers that the current valuation technique adopted is more appropriate as at 31 December 2020.

As at 31 December 2019, the fair value of the unlisted equity investment in Dreamscape Immersive Inc. is estimated using the price-to-sales ratios of comparable listed companies.

It is determined using the price-to-sales ratios of comparable listed companies adjusted for lack of marketability discount of 35%. The fair value measurement is negatively correlated to the discount for lack of marketability. As at 31 December 2019, it is estimated that with all other variables held constant, a decrease/increase in discount for lack of marketability by 5% would have increased/decreased the Group's other comprehensive income by HK$796,000.

## 41. PARTICULARS OF SUBSIDIARIES

As at 31 December 2020, the particulars of the Company's principal subsidiaries, all of which are companies with limited liability, are as follows:

| Name of subsidiary | Place and date of incorporation/ establishment | Place of operations | Issued and fully paid-up share capital/ registered capital | Attributable equity interest held | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Directly | Indirectly | |
| PC Partner Holdings Limited | BVI 2 May 1997 | Hong Kong | US$4,264,757 | 100% | – | Investment holding |
| Active Smart Limited (note ii) | 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 | BVI 10 July 2003 | Hong Kong | US$20,000,000 | – | 100% | Investment holding |
| PC Partner Limited | Hong Kong 12 February 1988 | Hong Kong | HK$26,520,000 | – | 100% | Design, manufacture and sale of computer accessories and computers |
| Zotac International Macau Limited | Macau 20 September 2006 | Macau | MOP100,000 | – | 100% | Trading of computer accessories and computers |
| Zotac Korea Co., Ltd. | Korea 12 May 2010 | Korea | KRW559,820,000 | – | 100% | Trading of computer accessories and computers |
| Zotac USA Inc. (Nevada) | United States of America (USA) 9 October 2007 | USA | US$200,000 | – | 100% | Trading of computer accessories and computers |
| 東莞栢能電子科技有限公司 (note i) | PRC 10 July 2009 | PRC | US$21,298,265 | – | 100% | Subcontracting of computer accessories and computers |
| 索泰(東莞)電子科技有限公司 (note i) | PRC 20 June 2016 | PRC | RMB600,000 | – | 100% | Trading of computer accessories and computers |

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## 41. PARTICULARS OF SUBSIDIARIES (CONTINUED)

| Name of subsidiary | Place and date of incorporation/ establishment | Place of operations | Issued and fully paid-up share capital/ registered capital | Attributable equity interest held | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Directly | Indirectly | |
| Zotac Europe GmbH | Germany 25 September 2012 | Germany | EUR25,000 | – | 100% | Provision of technical support service |
| PC Vision Limited | Hong Kong 14 June 2013 | Hong Kong | HK$6,500,000 | – | 100% | Design and sale of computer accessories |
| PC Partner Wealth Investment Limited | Hong Kong 12 August 2013 | Hong Kong | HK$20,000,000 | – | 100% | Investment holding |
| VRSense Solutions Ltd | BVI 14 September 2016 | Hong Kong | US$2,000,000 | – | 100% | Investment holding |
| Excelsior Technology Limited | BVI 18 July 1997 | Hong Kong | US$1 | – | 100% | Investment holding |
| Zotac Technology Limited | Hong Kong 20 July 2005 | Hong Kong | HK$150,000,000 | – | 100% | Trading of computer accessories and computer |
| Max Profit Limited | BVI 23 March 1998 | Hong Kong | US$1 | – | 100% | Investment holding |
| 卓能(東莞)數碼技術有限公司 (note i) | PRC 11 December 2017 | PRC | RMB1,000,000 | – | 100% | Trading of computer accessories and computer |
| Zotac International Limited | Hong Kong 30 October 2017 | Hong Kong | HK$1 | – | 100% | Holding of intellectual properties |
| Zotac Nippon Corporation | Japan 5 September 2018 | Japan | JPY50,000,000 | – | 80% | Trading of computer accessories and computer |

Remark: # Skyield Limited was deregistered on 14 December 2020.

Notes:

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

(ii) The Company was deregistered on 5 March 2021.

## 42. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| **Non-current assets** | | |
| Investment in a subsidiary | 535,745 | 532,690 |
| **Current assets** | | |
| Prepayments and other receivables | 419 | 338 |
| Amounts due from subsidiaries | 202,228 | 181,258 |
| Cash and cash equivalents | 1,485 | 673 |
| Total current assets | 204,132 | 182,269 |
| **Current liabilities** | | |
| Accruals | 29,167 | 557 |
| Amounts due to subsidiaries | – | 4,345 |
| Total current liabilities | 29,167 | 4,902 |
| **Net current assets** | 174,965 | 177,367 |
| **NET ASSETS** | 710,710 | 710,057 |
| **Capital and reserves** | | |
| Share capital | 37,209 | 37,209 |
| Reserves (note) | 673,501 | 672,848 |
| **TOTAL EQUITY** | 710,710 | 710,057 |

On behalf of the Board

WONG Shik Ho Tony
*Director*

WONG Fong Pak
*Director*

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## 42. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020 (CONTINUED)

Note:

Movements of the reserves of the Company are as follows:

| | Share premium<br>HK$'000 | Other reserve (note)<br>HK$'000 | Share-based payment reserve<br>HK$'000 | Retained profits<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2019 | 165,033 | 495,778 | — | 14,966 | 675,777 |
| Loss for the year | — | — | — | (2,929) | (2,929) |
| At 31 December 2019 and 1 January 2020 | **165,033** | **495,778** | **—** | **12,037** | **672,848** |
| Loss for the year | **—** | **—** | **—** | **(4,218)** | **(4,218)** |
| Equity settled share-based transactions (note 34) | **—** | **—** | **4,871** | **—** | **4,871** |
| At 31 December 2020 | **165,033** | **495,778** | **4,871** | **7,819** | **673,501** |

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.

## 43. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD AND EFFECT OF COVID-19

(i) The directors resolved to declare a final dividend of HK$0.22 per share as detailed in note 14.

(ii) The World Health Organisation ("WHO") declared coronavirus and COVID-19 a global health emergency on 30 January 2020. Since then, the Group has experienced some disruption to its production resulting from the temporary closure of its factory and interruption of material supply in January and February 2020.

Fortunately, the world is moving faster than expected to come up with coronavirus vaccines and many countries have started vaccine injection for their citizens before end of the year which might mitigate some of the impact of the COVID-19 pandemic to the results and liquidity position of the Group. However, there were coronavirus mutations being reported in different countries. The WHO is still gathering data and monitoring the development closely, hopefully the new vaccines can also offer sufficient protection to human being to fight against the virus and the mutated virus. It would be a risk to the Group if vaccines cannot offer the expected protection to human being and the outbreak of COVID-19 pandemic continues for a much longer period of time that may hurt supply chain and logistics, productivity, and both consumer and corporate demands. The directors of the Company are continuously assessing the implications of COVID-19 pandemic to the financial conditions and operating results of the Group and cannot predict the exact impact at the date of this report.

## 44. COMPARATIVE FIGURES

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

## 45. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 26 March 2021.

# 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 |