

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Directors”) of PFC Device Inc. (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company and its subsidiaries. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chow Kai Chiu, David
Mr. Hong James Man-fai (*Chief Executive Officer*)

Non-executive Directors

Mr. Yung Kwok Kee, Billy (*Chairman*)
Mr. Tang Che Yin

Independent Non-executive Directors

Mr. Lam, Peter
Mr. Leung Man Chiu, Lawrence
Mr. Fan Yan Hok, Philip

AUDIT COMMITTEE

Mr. Leung Man Chiu, Lawrence (*Chairman*)
Mr. Fan Yan Hok, Philip
Mr. Yung Kwok Kee, Billy

REMUNERATION COMMITTEE

Mr. Fan Yan Hok, Philip (*Chairman*)
Mr. Lam, Peter
Mr. Yung Kwok Kee, Billy

NOMINATION COMMITTEE

Mr. Yung Kwok Kee, Billy (*Chairman*)
Mr. Fan Yan Hok, Philip
Mr. Lam, Peter

PRINCIPAL BANKER

The Hong Kong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited

COMPANY SECRETARY

Ms. Lee Ka Man *ACG, ACS*

REGISTERED OFFICE

Windward 3, Regatta Office Park, PO Box 1350,
Grand Cayman KY1-1108, Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

1/F, Shell Industrial Building, 12 Lee Chung Street,
Chai Wan, Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54 Hopewell Centre, 183 Queen's Road East,
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Chow Kai Chiu, David
Mr. Hong James Man-fai

COMPLIANCE OFFICER

Mr. Chow Kai Chiu, David

AUDITOR

BDO Limited
Certified Public Accountants

COMPANY'S WEBSITE

www.pfc-device.com

STOCK CODE

8231

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I am pleased to present the audited financial results of the Group for the year 2020.

Overview

During 2020, the global operating environment faced with the unprecedented challenges from COVID-19 pandemic and the ongoing impact of the US-China trade war. Despite headwinds of COVID-19 and a sluggish global economy, the semiconductor industry performed better than expected, with revenue rebounding after a decline in 2019. The stay-at-home orders have fueled the robust demand for computing systems, such as PCs and servers to support the home-based working, learning and entertainment.

The Group's revenue in 2020 was approximately US\$21.1 million, representing an increase of 17.2% over the prior year period. Profit attributable to owners of the Company for 2020 was approximately US\$0.6 million compared to a loss attributable to owners of the Company of US\$1.4 million for the prior year.

Looking ahead to 2021, we remain cautiously optimistic that the global economy is expected to rebound when the coronavirus pandemic gets under control. The 5G deployment is another key factor in driving growth in semiconductor market for PCs, servers and mobile phone. The Group's challenge in 2021 is to resolve the supply shortage, in particular, the wafer foundry capacities. The Group was actively explore new foundry suppliers to ensure adequate supply for our business growth.

Appreciation

On behalf of the Board, I would like to express our gratitude to our staff, and the support from all of our shareholders and stakeholders.

On behalf of the Board

Mr. Yung Kwok Kee, Billy
Chairman

Hong Kong, 18 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The year 2020 saw a robust V-shaped recovery for the semiconductor industry. Worldwide stay-at-home measures resulted in strong demand for TV, gaming, and computing systems (such as PC, laptops, tablet, and servers) to support home-based working, learning, and entertainment. As a result, the Group experienced an increase of 17.2% in revenue and 88.5% in gross profit over the year. Demand outstripped supplies as the Group's revenue was limited by the wafer output capacity of our partnered foundries.

Production output at the Shunde factory was impacted in Q1 due to Covid-19 lock-down and the extended CNY closure and it resumed back to normal with minimal impact for the remaining year. As such, the Group's revenue for the first two months of 2020 was affected, resulting in a drop by approximately 33% compared to similar period in 2019. As a result of the stay-at-home order in many countries surged the demand for consumer electronics products, the Group's annual total revenue for 2020 increased by US\$3.1 million. With previously implemented cost and expenses control measures along with higher overall production utilization rate at the factory resulted in a gross margin improvement of 8.8% from the prior year period.

BUSINESS OUTLOOK

We forecast 2021 to be a strong growth year for the semiconductor industry. Major growth comes from 5G and AI computing devices and we expect that demand will continue to outstrip supplies. As such, a major challenge for the Group is to ensure sufficient wafer supplies for the year. The Group is currently exploring and qualifying additional foundry which we hope to bring into production in Q2.

With China being able to control the spread of the coronavirus and as more people are getting vaccinated, the Group does not expect the coronavirus will have much negative impact to our business and operations. Suppliers and customers of the Group are principally located across China while a majority of our customers' completed end products are exported to the US and Europe.

The Directors consider the business environment to remain challenging. In addressing the adverse impact resulted from any uncertainties, we will endeavor to identify areas for cost savings and devote resources to enhance productivity and operating efficiencies.

PRINCIPAL RISK AND UNCERTAINTIES

The principal risks and uncertainties in implementing the Group's business strategies include the followings:

1. Customer base

Our five largest customers accounted for a significant portion of our revenue. If any of the key customer reduces, delays or cancels its orders to the Group, our profit level may be adversely affected.

2. Supply of materials

We are dependent on the continuous supply of epitaxy and wafer foundry capacities from a few suppliers. Any shortage or delay in the supply of the necessary materials and foundry capacities, or any significant change in these costs in which the Group may not be able to shift the costs to its customers, resulting in adverse impact on our business and results of operation.

3. Research and development

The Group maintains its own research and development team, primarily focusing on improvement of product performance, new product models and technology improvement. Failure to launch new products to the market to meet customers' demand may results in adverse impact on the Group competitive edge.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

4. Packaging production capacity

The Group relies on stable operation of its production facilities and adequate labour force for production. Any equipment failure, industrial accidents and other catastrophic events, which could have a material adverse effect on our business and results of operations.

In addressing these risks and uncertainties, the Group continues to implement its strategies to expand its products portfolio and strives to explore potential customers. The Group makes great effort to establish good relationship with our suppliers. The production facilities of the Group are subject to regular inspection, maintenance and part replacement, as well as appropriate training is provided to all operating and administrative staff on safety matters.

Financial Review

Revenue and Operating Results

Revenue from the Group's operations for the year ended 31 December 2020 amounted to approximately US\$21.1 million, representing an increase of US\$3.1 million or 17.2% compared to US\$18 million for 2019. Such increase was primarily attributable to the increase in sales volume of the power discrete semiconductors.

The Group's gross profit for the year ended 31 December 2020 amounted to US\$4.9 million, representing an increase of US\$2.3 million as compared to US\$2.6 million for the year ended 31 December 2019. The gross profit margin for the year ended 31 December 2020 was 23.2%, representing an increase of 8.8 percentage points as compared to 14.4% for 2019. The increase in the Group's gross profit was mainly due to the increase in sales volume resulted in a lower manufacturing overhead per unit. In addition, there was a reversal of US\$0.4 million slow moving stock consumed back in manufacturing of the Group's products, the overall provision for inventories significantly reduced as compared to 2019.

Profit attributable to the owners of the Company for the year ended 31 December 2020 was US\$0.6 million as compared to a loss attributable to owners of the Company of US\$1.4 million in 2019. The turnaround from loss to profit was mainly attributable to the increase in gross profit mentioned above.

Liquidity, Financial Resources and Capital Structure

The Group was able to maintain a sound financial position with its financial resources and liquidity position consistently monitored and put in place in a healthy state throughout the period under review. Given the current economic situation, the Group would constantly re-evaluate its operational and investment status with a view to improving its cash flow and minimising its financial risks.

Despite the COVID-19 challenging environment this year, the Group have sufficient working capital to meet its financial obligations. As at 31 December 2020, the Group had a total cash and bank balances of approximately US\$9.6 million, which is mainly denominated in Renminbi (2019: approximately US\$6.8 million, which is mainly denominated in United States dollars).

The Group had no bank borrowing as at 31 December 2020 (31 December 2019: Nil). During the year, the interest coverage calculated as operating profit divided by total interest expenses from bank borrowings net of interest income, stood at nil as at 31 December 2020 (2019: 41 times).

The capital of the Group comprises only ordinary shares. As at 31 December 2020, there were 1,618,032,277 ordinary shares in issue. There has been no change in the Company's capital structure since 7 October 2016 (the "Listing Date").

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Foreign Exchange Exposure

Operations of the Group are mainly conducted in United States dollars, Taiwan dollars and Renminbi. It is the Group's treasury policy to closely monitor its foreign exchange position and manage its foreign currency exposure whenever its financial impact is material to the Group. During the year ended 31 December 2020, the Group did not engage in any hedging activities.

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the year ended 31 December 2020. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Gearing Ratio

The Group targets to maintain a gearing ratio to be in line with expected changes in economic and financial conditions, expressed as a percentage of total bank borrowings net of cash and bank balances to total equity of the Group. The gearing ratio of the Group as at 31 December 2020 was nil (31 December 2019: nil) as the Group had net cash balances at the respective year end.

Capital Commitments

As at 31 December 2020, the Group had total capital commitments of approximately US\$1.01 million (2019: US\$0.05 million) for the acquisition of property, plant and equipment.

Capital Expenditure

The Group had capital expenditures on property, plant and equipment totalling US\$0.6 million during the year ended 31 December 2020 (2019: US\$0.3 million).

Contingent Liabilities

As at 31 December 2020, the Group did not have any significant contingent liabilities (2019: nil).

Segment Information

Segment Information for the Group is presented as disclosed on note 6 to the consolidated financial statements.

Significant Investments/Material Acquisitions and Disposal

During the year ended 31 December 2020, the Group had not made any significant investments or material acquisitions and disposal of subsidiaries.

Employees and Remuneration Policies

As at 31 December 2020, the Group had 138 employees (2019: 129). The Group's total employee benefit expenses for the year ended 31 December 2020 amounted to approximately US\$3.3 million (2019: US\$3.4 million). The pay levels of these employees are commensurate with their responsibilities, performance and market condition. In addition, share option schemes are put in place as a longer term incentive to align interests of employees to those of shareholders.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Chow Kai Chiu, David (周啟超), aged 56, Chartered Financial Analyst, joined the Group in 2006 and was appointed as an Executive Director of the Company on 21 March 2016. Mr. Chow received his Bachelor degree of Applied Science in Computer Engineering and his Master's degree in Business Administration from the University of Waterloo and York University, Canada. He has previously held positions at First Marathon Securities Limited in Canada, Asian Capital Partners, and HSBC Private Equity (Asia) Limited in the corporate finance and investment management field. He is also a director of all subsidiaries of the Group and the Deputy Chief Executive of Shell Electric Holdings Limited.

Mr. Hong James Man-fai (洪文輝), aged 48, was appointed as an Executive Director of the Company on 21 March 2016. Mr. Hong is the Chief Executive Officer of the Group and primarily responsible for the overall management and operations and the implementation of the strategic planning of the Group. Mr. Hong is also a director of a number of the subsidiaries of the Group.

Mr. Hong obtained a Bachelor degree in Electrical Engineering and Computer Science from University of California, Berkeley, USA and a Master of Business Administration from University of Southern California, USA. Mr. Hong has more than 20 years of experience in the manufacturing and retail of semiconductor products with extensive knowledge in business development of semiconductor product. Prior to joining the Group, Mr. Hong was employed by Advanced Micro Devices, Inc., Pittiglio Rabin Todd & McGrath, APD Semiconductor, Inc., Diodes Incorporated, and Skyworks Solutions, Inc.

Non-executive Directors

Mr. Yung Kwok Kee, Billy (翁國基), aged 67, was appointed as a Director of the Company on 2 March 2016 and was re-designated as a non-executive Director and Chairman of the Board of the Company on 19 September 2016. Mr. Yung is primarily responsible for the strategic direction and overall management of the strategic planning of the Group. Mr. Yung is the Chairman of the Nomination Committee and a member of both the Audit Committee and the Remuneration Committee of the Company. He is a substantial shareholder of the Company. Mr. Yung is also a director of a number of the subsidiaries of the Group.

Mr. Yung obtained a bachelor degree in Electrical Engineering from University of Washington, USA and a master degree in Industrial Engineering from Stanford University, USA. Mr. Yung has over 40 years of experience in managing manufacturing, transportation, property investment and development, semiconductor and computer hardware and software businesses in China, Hong Kong and USA.

Prior to founding the Group, Mr. Yung had been the Executive Director of Shell Electric Mfg. (Holdings) Co. Ltd. from 1973 to 2010, now known as China Overseas Grand Oceans Group Ltd., which shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 0081). Since 27 February 2010, Mr. Yung has become a non-executive Director and Vice Chairman of the Board of that company. Mr. Yung has been the Chairman and the Chief Executive of Shell Electric Holdings Limited since 2009. Mr. Yung is currently a non-executive director and chairman of the board of directors of SMC Electric Limited, which shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 2381). Mr. Yung is currently the Permanent Honorary President of Friends of Hong Kong Association Ltd., the Honorary President of Shun Tak Fraternal Association, a member of Senior Police Call Central Advisory Board and was awarded the Honorary Citizen of the City of Guangzhou and the Honorary Citizen of the City of Foshan.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Mr. Tang Che Yin (鄧自然), aged 65, was appointed as a Director of the Company on 21 March 2016 and was re-designated as a non-executive Director of the Company on 19 September 2016. Mr. Tang is primarily responsible for assisting the chairman of the Board in the overall management of the strategic planning and overseeing the human resource and operation of the Group's China manufacturing operation. Mr. Tang is also a director of Guangdong PFC Device Limited.

Mr. Tang obtained his Master of Science from the University of Manchester of the United Kingdom and his Master degree of Business Administration from the Chinese University of Hong Kong. He was elected as a member of The Institution of Electronic and Radio Engineers in April 1986. He obtained the qualification of Chartered Engineer of The Engineering Council in the United Kingdom. He was admitted as a Chartered Electrical Engineer by the Institution of Electrical Engineers. Mr. Tang has over 20 years of experience in technical and factory management. Mr. Tang is currently an executive director of SMC Electric Limited, whose shares are listed on the Main Board of the Stock Exchange (stock code: 2381).

Independent non-executive Directors

Mr. Lam, Peter (林晉光), aged 68, was appointed as an independent non-executive Director of the Company on 19 September 2016. He is also a member of both the Remuneration Committee and the Nomination Committee of the Company. Mr. Lam received a Bachelor degree in Civil Engineering from Lehigh University and a Master degree in Construction Management from Stanford University. He is the President of Lam Construction Group Limited. He has over 30 years of experience in construction, project management and real estate development.

Mr. Leung Man Chiu, Lawrence (梁文釗), aged 72, was appointed as an independent non-executive Director of the Company on 19 September 2016. He is also the Chairman of the Audit Committee of the Company. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He has been in public practice for over 47 years and is now practicing as a partner in Tang and Fok, certified public accountants. Mr. Leung is currently an independent non-executive director of Safety Godown Company Limited (stock code: 237), Pak Fah Yeow International Limited (stock code: 239) and SMC Electric Limited (stock code: 2381), all companies whose shares are listed on the Main Board of the Stock Exchange. Mr. Leung ceased to be a non-executive director of World Super Holdings Limited with effect from 21 July 2020, whose shares are listed on the GEM of the Stock Exchange (stock code: 8612).

Mr. Fan Yan Hok, Philip (范仁鶴), aged 71, was appointed as an independent non-executive Director of the Company on 19 September 2016. He is also the Chairman of the Remuneration Committee and a member of both the Audit Committee and the Nomination Committee of the Company. Mr. Fan is also an independent non-executive director of the following Hong Kong listed public companies, namely China Everbright Environment Group Limited (formerly known as China Everbright International Limited), Hysan Development Company Limited, First Pacific Company Limited, China Aircraft Leasing Group Holdings Limited.

Senior management

Mr. Liu Hsin-Hsien (劉信賢), aged 51, is the sales vice president of PFC Device Corporation (Taiwan Branch) (the "PFC Device (TW)"). He joined the Group on 2 November 2014 and he is primarily responsible for the customer development and sales management.

Mr. Liu obtained a Bachelor degree of Material Engineering from National Taipei University of Technology, Taiwan. Mr. Liu has over 22 years of experience in the semiconductor industry. Mr. Liu previously worked in Avnet Asia Pte Ltd Taiwan Branch (Singapore), Arrow Electronics, KC Uppertech Co., Limited, Immense Advance Technology Corp., Diodes Incorporated., and Chip Integration Technology Corporation.

CORPORATE GOVERNANCE REPORT

Pursuant to Rule 18.44(2) of the GEM Listing Rules, the Board is pleased to present hereby the corporate governance report of the Company for the year ended 31 December 2020.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to achieving high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the continuing growth of the Group and for safeguarding and maximising shareholders' interests.

The Corporate Governance Code and Corporate Governance Report (the "CG Code") set out in Appendix 15 to the GEM Listing Rules have been duly adopted by the Board as the code on corporate governance practices of the Company.

Throughout the year ended 31 December 2020, the Company had complied with the applicable code provisions of the CG Code as set out in Appendix 15 of the GEM Listing Rules.

BOARD OF DIRECTORS

The key responsibilities of the Board include formulation of the Group's overall strategies, the setting of management targets and supervision of management performance. The management is delegated with the authority and responsibility by the Board for the management and administration of the Group. In addition, the Board has also delegated various responsibilities to the board committees of the Company (the "Board Committees"). Further details of the Board Committees are set out below in this annual report.

The Board is responsible for performing the corporate governance duties set out in code provision D.3.1 of the CG Code and the duties of the Board in respect of the corporate governance are as follows:

1. to develop and review the policies and practices on corporate governance of the Group and make recommendations;
2. to review and monitor the training and continuous professional development of the Directors and senior management;
3. to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;
4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to Directors and employees; and
5. to review the Company's compliance with the Code and disclosure in the corporate governance report of the Company.

The Board has performed the above duties during the year ended 31 December 2020.

CORPORATE GOVERNANCE REPORT (Continued)

Composition of the Board

During the year ended 31 December 2020 and up to the date of this annual report, the Board comprises of seven Directors, including two executive Directors, two non-executive Directors and three independent non-executive Directors (the “INED”). In particular, the composition of the Board is set out as follows:

Executive Directors

Mr. Chow Kai Chiu, David

Mr. Hong James Man-fai (*Chief Executive Officer*)

Non-executive Directors

Mr. Yung Kwok Kee, Billy (*Chairman*)

Mr. Tang Che Yin

Independent non-executive Directors

Mr. Lam, Peter

Mr. Leung Man Chiu, Lawrence

Mr. Fan Yan Hok, Philip

In compliance with rules 5.05(1), 5.05(2) and 5.05A of the GEM Listing Rules, the Board consisted of three INEDs during the reporting period, with at least one INED possessing appropriate professional qualifications or accounting or related financial management expertise. During the reporting period, the number of INEDs represents more than one-third of the Board as required under the GEM Listing Rules. As such, there is a strong independent element in the Board to provide independent judgement.

The Company has entered into a service contract with each of the non-executive Director and the executive Director under which each non-executive Director and executive Director is appointed for a specific term. The Company has entered into a letter of appointment with each of the INEDs under which each INED is appointed for a specific term.

Each of the service contract/letter of appointment carries a fixed term of three years initially commencing from Listing Date and has been renewed for another term of three years commencing on 7 October 2019 unless terminated by either party in accordance with the terms thereof.

Pursuant to Article 108 of the Articles of Association of the Company (the “Articles”), one-third of the Directors shall retire from office by rotation at each annual general meeting and every Director shall be subject to retirement by rotation at least once every three years. However, a retiring Director shall be eligible for re-election.

Specific enquiry has been made by the Company to each of the INEDs to confirm their independence pursuant to rule 5.09 of the GEM Listing Rules. In this connection, the Company has received positive confirmations from all of the three INEDs. Based on the confirmations received, the Company considers all the INEDs to be independent under the GEM Listing Rules.

Save as disclosed in the section “Biographical Details of Directors and Senior Management” in this annual report, there is no financial, business, family or other material or relevant relationship among members of the Board and senior management.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman is Mr. Yung Kwok Kee, Billy and the chief executive officer (the “CEO”) is Mr. Hong James Man-fai. The roles of the Chairman and the CEO are clearly defined and segregated to ensure independence and proper checks and balances. The Chairman focuses on formulating business strategies and direction of the Company and has executive responsibilities, provides leadership for the Board and ensures proper and effective functioning of the Board in discharging its responsibilities. The CEO is accountable to the Board for the overall implementation of the Company’s strategies and the co-ordination of overall business operations.

CORPORATE GOVERNANCE REPORT (Continued)

BOARD AND GENERAL MEETINGS

For the year ended 31 December 2020, a total of seven (including four regular) board meetings and one annual general meeting (the “AGM”) of the Company were held. The attendance record of each Director at the board meeting is set out in the table below:

Name of Director	Number of Attendance/ number of board meetings	Attendance of the AGM held on 11 May 2020
<i>Executive Directors</i>		
Mr. Chow Kai Chiu, David	7/7	1/1
Mr. Hong James Man-fai	7/7	1/1
<i>Non-executive Directors</i>		
Mr. Yung Kwok Kee, Billy	7/7	1/1
Mr. Tang Che Yin	6/7	1/1
<i>Independent non-executive Directors</i>		
Mr. Lam, Peter	7/7	1/1
Mr. Leung Man Chiu, Lawrence	7/7	1/1
Mr. Fan Yan Hok, Philip	7/7	1/1

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by the Directors in respect of the shares of the Company (the “Code of Conduct”). The Company has made specific enquiry to all Directors, and all Directors have confirmed that they have fully complied with the required standard of dealings set out in the Code of Conduct throughout the year ended 31 December 2020.

DIRECTORS’ CONTINUING PROFESSIONAL DEVELOPMENT PROGRAMME

Pursuant to the Code Provision A.6.5 under Appendix 15 of the GEM Listing Rules, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

During the year, all Directors have participated in continuous professional development trainings such as attending seminars, conferences and forums or reading materials relevant to the Group’s business, regulatory updates, corporate governance and the duties and responsibilities of a listed company director. According to the training records maintained by the Company, the continuing professional development programmes received by each of the Directors during the year are summarised as follows:

CORPORATE GOVERNANCE REPORT (Continued)

Name of Director	Type of trainings
<i>Executive Directors</i>	
Mr. Chow Kai Chiu, David	B
Mr. Hong James Man-fai	B
<i>Non-executive Directors</i>	
Mr. Yung Kwok Kee, Billy	B
Mr. Tang Che Yin	B
<i>Independent non-executive Directors</i>	
Mr. Lam, Peter	A
Mr. Leung Man Chiu, Lawrence	A and B
Mr. Fan Yan Hok, Philip	A

A: attending training session/seminars/workshops/conferences/forums

B: reading materials relevant to the business of the Group, regulatory updates, corporate governance and directors' duties and responsibilities

BOARD DIVERSITY POLICY

Pursuant to the Code, the Board has adopted a board diversity policy (the "Policy") in September 2016. The Company recognises and embraces the benefits of having a diverse Board. All Board appointments are made on merits and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. High emphasis is placed on ensuring a balanced composition of skills, experience and background at the Board level. The Company also takes into consideration the benefits of diversity on the Board and also the needs of the Board without focusing on a single diversity aspect in determining the optimal composition of the Board.

In selection of suitable candidates for directorship, the Nomination Committee has taken into account the measurable objectives as set out in the board diversity policy. The Nomination Committee is of the view that the diversity level of the Board is appropriate in terms of knowledge, experience and skills of the Directors. The Nomination Committee will continue to monitor the implementation of the board diversity policy and review it from time to time and shall bring to the attention of the Board any significant issues or recommendations as and when necessary and appropriate.

NOMINATION POLICY

The nomination policy was approved and adopted by the board of directors of the Company by resolution passed on 13 November 2018. It sets out the criteria and procedures to be adopted when considering candidates to be appointed or re-appointed as directors of the Company.

The primary function of the Nomination Committee is to, inter alia, make recommendations to the Board for the appointment or re-appointment of directors of the Company. The Nomination Committee may also put forward candidates who are not nominated by Board members. The factors which would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate for Director include, inter alia, reputation for integrity, professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy, willingness to devote adequate time to discharge duties as Board member, diversity of the Board, and such other perspectives appropriate to the Company's business. The Nomination Committee shall make recommendations for the Board's consideration and approval.

CORPORATE GOVERNANCE REPORT (Continued)

The Nomination committee utilises various methods for identifying director candidates, including recommendations from Board members, management, as well as nomination by shareholders are evaluated by the Nomination Committee based upon the director qualifications. While director candidates will be evaluated on the same criteria through review of resume, personal interview and performance of background checks. The Nomination Committee retains the discretion to establish the relative weighing of such criteria, which may vary based on the composition, skill sets, age, gender and experiences of the collective Board rather than on the individual candidate for the purpose of diversity perspectives appropriate to the requirement of the Company's business.

BOARD COMMITTEES

The Board has established three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, to oversee particular aspects of the Company's affairs. All committees have been provided with sufficient resources and support from the Group to discharge their duties. The relevant terms of reference of each of the three committees can be found on the Group's website (www.pfc-device.com) and the website of the Stock Exchange.

AUDIT COMMITTEE

The Audit Committee was established on 19 September 2016 with written terms of reference in compliance with the Corporate Governance Code. It consists of two INEDs and one non-executive Director, namely Mr. Leung Man Chiu, Lawrence, Mr. Fan Yan Hok, Philip and Mr. Yung Kwok Kee, Billy. Mr. Leung Man Chiu, Lawrence currently serves as the chairman of the Audit Committee. He has appropriate professional qualifications and experience in accounting matters. The members of the Audit Committee shall be appointed or removed by the Board. If any member of the Audit Committee ceases to be a Director, he will cease to be a member of the Audit Committee automatically.

The Audit Committee must comprise a minimum of three members, at least one of whom is an INED with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 5.28 of the GEM Listing Rules. In addition, the majority of the Audit Committee members shall be INEDs.

With reference to the terms of reference, the primary responsibilities of the Audit Committee are, among others, the following (for complete terms of reference, please refer to the Group's website at www.pfc-device.com or the website of the Stock Exchange):

1. to make recommendations to the Board on the appointment, re-appointment and removal of the Company's external auditor, and approve the remuneration and terms of engagement of the Company's external auditor;
2. to review and monitor the Company's external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
3. to monitor integrity of the Company's financial statements, annual report and accounts, half-year report and quarterly report and review significant financial reporting judgements contained in them;
4. to discuss the risk management and internal control systems with the Company's management to ensure that management has performed its duty to maintain the effectiveness of risk management and internal control systems;
5. to review the financial and accounting policies and practices of the Group;
6. to review the external auditor's management letter, any material queries raised by the auditor to the management in respect of accounting records, financial accounts or systems of control and management's response;

CORPORATE GOVERNANCE REPORT (Continued)

7. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter; and
8. to report to the Board on that matters pursuant to the terms of reference of the Audit Committee and consider other topics as defined by the Board.

The Board is of the view that the Audit Committee has properly discharged its duties and responsibilities during the reporting period and up to the date of this report.

The members of the Audit Committee should meet at least four times a year. During the year ended 31 December 2020, the Audit Committee meetings held four meetings and performed duties including reviewing the Group's annual report for the year ended 31 December 2019, the unaudited quarterly results for the three months ended 31 March 2020 and nine months ended 30 September 2020 and the interim report for the six months ended 30 June 2020 and reviewing and discussing the internal control and risk management systems of the Group and reviewing the performance and approving the re-appointment of the external auditor.

The attendance records of the members of the Audit committee are summarized below:

	Number of Attendance/ number of meetings
Mr. Leung Man Chiu, Lawrence (<i>Chairman</i>)	4/4
Mr. Yung Kwok Kee, Billy	4/4
Mr. Fan Yan Hok, Philip	4/4

The Audit Committee held a meeting on 18 March 2021 and reviewed with the management the Group's financial statements for the year ended 31 December 2020. It also reviewed the internal control and risk management systems and all connected transactions entered into by the Company and its subsidiaries during the financial year. The Audit Committee is of the opinion that the financial statements of the Group for the year ended 31 December 2020 comply with the applicable accounting standards and the GEM Listing Rules. The Audit Committee recommended to the Board for its consideration the same and the re-appointment of BDO Limited as the Company's external independent auditor at the forthcoming AGM to be held on 6 May 2021.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 19 September 2016 with written terms of reference in compliance with the Corporate Governance Code. It consists of two INEDs and one non-executive Director, namely Mr. Fan Yan Hok, Philip, Mr. Lam, Peter and Mr. Yung Kwok Kee, Billy. Mr. Fan Yan Hok, Philip currently serves as the chairman of the Remuneration Committee.

With reference to the terms of reference of the Remuneration Committee, the primary responsibilities of the Remuneration Committee include, among other things, the following (for the complete terms of references, please refer to the Group's website at www.pfc-device.com or the website of the Stock Exchange):

1. to consult the chairman of the Board and/of chief executive about their remuneration proposals for other executive Directors;
2. to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
3. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

CORPORATE GOVERNANCE REPORT (Continued)

4. to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management;
5. to make recommendations to the Board on the remuneration of non-executive Directors;
6. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
7. to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
8. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and
9. to ensure that no Director or any of their associates is involved in deciding their own remuneration.

The members of the Remuneration Committee should meet at least once a year. During the year ended 31 December 2020, a meeting of the Remuneration Committee was held and has, inter alia, reviewed the policy and structure for all remuneration of Directors and senior management, assessing performance of executive Directors and reviewed the remuneration packages for individual executive Directors and senior management of the Company, as well as the remunerations of independent non-executive Directors and made recommendations to the Board.

The emoluments payable to the Directors depend on their respective contractual terms under the service contracts or the appointment letters (as the case may be), and as recommended by the Remuneration Committee. Details of the Directors' emoluments and remuneration payable to senior management are set out in note 14 to the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee was established on 19 September 2016 with written terms of reference in compliance with the Corporate Governance Code. It consists of one non-executive Director and two INEDs, namely Mr. Yung Kwok Kee, Billy, Mr. Lam, Peter, Mr. Fan Yan Hok, Philip. Mr. Yung Kwok Kee, Billy currently serves as the chairman of the Nomination Committee.

With reference to the terms of reference of the Nomination Committee, the primary responsibilities of the Nomination Committee include, among other things, the following (for the complete terms of reference, please refer to the Group's website at www.pfc-device.com or the website of the Stock Exchange):

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on proposed changes, if any, to the Board to complement the Company's corporate strategy;
2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
3. to assess the independence of INEDs; and
4. to make recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for the Directors, in particular the Chairman and the chief executive.

The members of the Nomination Committee should meet at least once a year. During the year ended 31 December 2020, a meeting of the Nomination Committee was held and has, inter alia, reviewed the structure, size and composition of the Board, assessed the independence of the INEDs and considered the Directors to retire and re-appoint at the forthcoming annual general meeting.

CORPORATE GOVERNANCE REPORT (Continued)

AUDITORS' REMUNERATION

The amount of fees charged by the external auditor generally depends on the scope and volume of the external auditor's work performed.

	Fees paid/payable for the services rendered	
	2020 US\$'000	2019 US\$'000
Audit services – Annual audit	83	81
Non-audit services:		
Taxation services	3	2
Limited assurance services on continuing connected transactions	5	–
	91	83

COMPANY SECRETARY

The Company engages an external service provider to provide secretarial services and has appointed Ms. Lee Ka Man as the company secretary of the Company on 9 November 2016. Ms. Lee is not an employee of our Group and Mr. Chow Kai Chiu, David, an executive Director, is the person whom Ms. Lee can contact for the purpose of code provision F.1.1 of the Code.

During the year ended 31 December 2020, Ms. Lee has undertaken not less than 15 hours of relevant professional training in accordance with Rule 5.15 of the GEM Listing Rules.

COMPLIANCE OFFICER

Mr. Chow Kai Chiu, David, an executive Director, is the compliance officer of the Group. Please refer to the section “Biographical Details of Directors and Senior Management” for his biographical information.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board has overall responsibility for the establishment, maintenance and review of the Group's risk management and internal control system to safeguard the assets of the Group and shareholder investments. The maintenance of a sound and effective risk management and internal control system of the Group aims to facilitate effective and efficient operation which in turn minimizes the risks to which the Group is exposed. The Board has delegated the Audit Committee to review the Group's internal control and risk management systems. The system can only provide reasonable but not absolute assurance against misstatement or losses.

The Board has periodically conducted a review of the implemented system and procedures, covering financial, operational and legal compliance controls and risk management functions. The Directors consider that the Group has implemented appropriate internal control procedures and policies for safeguarding the Group's assets against unauthorized use or misappropriation, maintaining proper accounting records, segregation of duties and putting plans and routines into execution with appropriate authority and in compliance with the relevant laws and regulations.

CORPORATE GOVERNANCE REPORT (Continued)

The Group adopts a risk management framework which comprises the following processes:

- Identify significant risk in the Group's operation environment and evaluate the impacts of those risks on the Group's business;
- Develop necessary measures to manage those risks; and
- Monitor and review the effectiveness of such measures.

The Group formulated the policies and procedures of internal control and risk management as follows:

- The Group established an organizational structure with clear operating and reporting procedures, lines of responsibility and delegated authority;
- Each operating subsidiary maintains internal controls and procedures appropriate to its structure whilst complying with the Group's policies, standards and guidelines;
- Relevant executive Directors and senior management have been delegated with specific accountability for monitoring the performance of designated business operating units;
- A systematic review of the financial and business processes in order to provide management on the adequacy and effectiveness of internal controls. Where weaknesses are identified in the system of internal controls, management will evaluate and take necessary measures to ensure that improvements are implemented; and
- Code of ethics is established and adhered to by all employees to ensure high standards of conduct and ethical values in all business practices.

During the year ended 31 December 2020, the Board, through the Audit Committee with the assistance of the Company's internal auditor, has conducted four quarterly review of the effectiveness of the internal control and risk management systems of the Group covering the material aspects including the financial, operational and compliance controls and risk management functions. The Board considers that the Group's internal control and risk management systems are adequate and effective. The Board will continue to monitor and remedial measures will be taken, if any, to strength the risk management and internal control system of the Group.

DISSEMINATION OF INSIDE INFORMATION

The Company is committed to a consistent practice of timely, accurate and sufficiently detailed disclosure of material information about the Group. The Company has adopted a Policy on Disclosure of Inside Information which sets out the obligations, guidelines and procedures for handling and dissemination of inside information. With those guidelines and procedures, the Group has management controls in place to ensure that potential inside information can be promptly identified, assessed and escalated for the attention of the Board to decide about the need for disclosure.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Group for the year ended 31 December 2020, which give a true and fair view of the state of affairs, results and cash flows of the Group and are in compliance with the relevant accounting standards and principles, applicable laws and disclosure provisions required by the GEM Listing Rules.

CORPORATE GOVERNANCE REPORT (Continued)

The Directors are of the view that the consolidated financial statements of the Group for the year ended 31 December 2020 have been prepared on this basis.

The Directors were not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's and the Group's ability to continue as a going concern.

Statement of Company's external auditor's responsibilities in respect of the consolidated financial statements is set out in the independent auditor's report.

GENERAL MEETINGS WITH SHAREHOLDERS

The annual general meeting ("AGM") is a forum in which the Board and the shareholders communicate directly and exchange views concerning the affairs and overall performance of the Group, and its future developments, etc.

At the AGM, the Chairman of the Board and other members of the respective committee are available to attend to questions raised by the shareholders. The external auditor of the Company is also invited to be present at the AGM to address the queries of the shareholders concerning the audit procedures and the independent auditor's report.

The forthcoming AGM of the Company will be held on 6 May 2021, the notice of which shall be sent to the shareholders of the Company in accordance with the Articles, the GEM Listing Rules and other applicable laws and regulations.

SHAREHOLDERS' RIGHTS

Convening of Extraordinary General Meeting on Requisition by Shareholders

Pursuant to Article 64 of the Articles, the Board may, whenever it thinks fit, convene an extraordinary general meeting ("EGM"). EGMs shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within 2 months after the deposit of such requisition. If, within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) themselves may convene a meeting in accordance with the Articles 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 Putting Forward Proposals at General Meetings by Shareholders

There are no provisions in the Articles or the Companies Law (as consolidated and revised) of the Cayman Islands regarding procedures for shareholders to put forward proposals at general meetings other than a proposal of a person for election as director. Shareholders may follow the procedures set out above to convene an EGM for any business specified in such written requisition.

CORPORATE GOVERNANCE REPORT (Continued)

Procedures for Shareholders to Propose a Person for Election as a Director

Pursuant to Article 113 of the Articles, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director, notice in writing by that person of his willingness to be elected and the biographical details of that person as required under Rule 17.50(2) of the GEM Listing Rules for publication by the Company shall have been lodged at the head office and principal place of business in Hong Kong or at the registered office of the Company. The period for lodgment of the notices required under this Article will commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

Detailed procedures for shareholders to propose a person for election as a Director are available on the Company's website at www.pfc-device.com.

Procedures for directing shareholders' enquiries to the Board

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

Should there be any enquiries and concerns from shareholders, they may send in written enquiries addressed to the head office and principal place of business of the Company in Hong Kong at 1/F., Shell Industrial Building, 12 Lee Chung Street, Chai Wan, Hong Kong by post for the attention of the Board and/or the Company Secretary.

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

Investor Relations

The Company has established a range of communication channels between itself and its shareholders and investors. These include answering questions through the annual general meeting, the publication of annual, interim and quarterly reports, notices, announcements and circulars, the Company's website at www.pfc-device.com and meetings with shareholders. New update of the Group's business development and operation are also available on the Company's website.

Constitutional Documents

During the year ended 31 December 2020, there was no change in the Company's constitutional documents. The Company's Memorandum and Articles of Association are available on both the Company's and the Stock Exchange's websites.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Board present the Environmental, Social and Governance Report (the “ESG Report”) of the Group.

REPORTING PERIOD AND SCOPE

This ESG report for the year ended 31 December 2020 was prepared in accordance with the ESG reporting guide set out in Appendix 20 of the GEM Listing rules and adheres to the “comply or explain” provision of the Reporting Guide. It summarizes the performances of the Group’s environmental, social and governance areas and the relevant policies and measures in relation to the operational practices and environment protection. For the environmental aspect, it focused on Guangdong PFC Device Limited, and PFC Device Corporation (Taiwan Branch) which are engaged in the design, marketing and the manufacturing of the Group’s products.

ESG GOVERNANCE STRUCTURE

The Board of Directors has overall responsibility of the Group’s ESG-related strategies through formulation of policies, overseeing and ensuring that appropriate and effective ESG risk management and internal control systems are in place. Key management personnel are responsible to execute the policies and evaluate the performance in different aspects such as environmental, occupational health and safety, labor standards and product responsibilities in the ESG aspects.

REPORTING PRINCIPLES

According to the ESG Reporting Guide, the following reporting principles were applied in this report:

Materiality	Materiality assessments have been carried out to identify the material environmental and social issues to the Group by gathering the feedback of various stakeholder groups about their concerns and expectations of the Group’s sustainable development
Quantitative	Key performance indicators (“KPIs”) have been established in order to measure the effectiveness of environment, social and governance policies.
Balance	This report provides an unbiased picture of the Group’s ESG performance
Consistency	This report adopts methodologies and presentation of KPIs that are consistent with previous years to allow meaningful comparisons of related data over time

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

OUR VISION, MISSION AND VALUES

The Group believes that technology should make life better for everyone, everywhere, and in so doing make a better world. Sustainability inspires us to reinvent and build the future while delivering value for our customers and company.

Our Vision

To become the first-tier solution provider of high efficiency and energy saving components.

Our Mission

To initiate product innovation by advanced technology, provide customers with the best product quality and services and conform our products to the environment requirements.

Our Value

- Integrity – We conduct our business with integrity and ethical standards
- Innovation – We believe that technology innovations can promote human efficiency
- Quality – We provide high quality products that meets the expectations and requirements of our customers
- Continuity – We strive to achieve balance between the financial aspect of our business and social and environment aspects
- Collaboration – We build a strong, trusting relationship with our employees, customers and stakeholders

We have formulated policies covering the quality control, safety production management, occupational health management and environment protection management in both management and operational level, thereby strive to offer high quality products to our customers and achieve sustainable development. Our subsidiary, Guangdong PFC Device Ltd., has established the environment and quality management system, and was accredited with international certifications including: ISO 9001:2015, IATF 16949 and GB/T45001-2020/ISO 45001:2018.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

STAKEHOLDERS ENGAGEMENT AND MATERIALITY ASSESSMENT

The Group believes that understanding the views of our stakeholders provide a solid foundation to the long-term growth and success of the Group. Through the use of the stakeholder engagement process to identify the key stakeholders group, we can establish effective platforms to build a proactive two-way communication channels to maintain an ongoing communications with our stakeholders and provide them with appropriate information so that they can understand the process, the issues and values of the Group.

The Group's key stakeholders, their issues of concern and the main channels of communication are shown in the table below:

External Stakeholders	Communication Channel	Issues of concern
Shareholders	Annual general meeting Annual and interim report Announcement and circulars Company website	Investment returns Sustainable operations Corporate governance and risk control
Government and regulatory bodies	Regular meetings Regulatory documented information	Compliance with relevant laws and regulations Business integrity and ethics
Customers	Customers' visit and regular meetings Support service team E-mails	High quality and safety products Customer data and privacy protection
Suppliers	Suppliers' meetings Procurement process Regular review and assessment E-mails	Supplier evaluation and management Business integrity
Community and the public	Company website Company's announcement	Environmental issues of Greenhouse Gas Emission and Waste Management Social concern and charity events
Internal Stakeholders	Communication Channel	Issues of concern
Directors and senior management	Regular meetings Trainings	Emergency response plan Business development
Employees	Employee trainings and meetings Performance appraisals E-mails	Occupational health and safety Training and development Equal opportunity

The management and staff responsible for the key functions of the Group have participated in the preparation of the ESG Report in reviewing its operations and assessing the potential ESG issues and its importance to our business and stakeholders. Materiality assessment was conducted by consolidate the feedback from stakeholders and discussed among management to evaluate and determine the relevant and material ESG issues to the Group.

Base on the results of the materiality assessment, the management noticed that (i) Supplier evaluation and management, (ii) Environment issues of Greenhouse Gas Emission and Waste Management, (iii) Emergency response plan, (iv) Occupational health and safety and (v) Training and development are the key aspects to the Group's business operations and strategic development. In addition to compliance with the ESG Reporting Guide, the Group will include more details on such relevant matters. Effective risk management on these aspects are reinforced with the aim of enhancing the efficiency of operations and create long-term social and economic benefits to all stakeholders.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

ENVIRONMENT POLICY AND SUSTAINING EFFORTS

A1 EMISSIONS

Climate change has become a challenging problem for the world, and the connection between atmospheric concentrations of greenhouse gas emission, air pollution, atmospheric warming and specific weather events is very complex. We are aware of the risks associated with climate change. The Group's electricity consumption in the manufacturing process and fuel consumption for transportation are the major part in our greenhouse gas emission. Various energy saving measures have been undertaken to reduce energy consumption of the Group's operations.

The Group pledged to make continuous improvement on managing and monitoring waste gas, waste water, solid waste and noise. Every year, through engaging external licensed testing laboratory, we conduct testing on environmental parameters to evaluate the capability of existing facilities on meeting regulatory and environmental requirements and national standards.

Moreover, the Group's PRC manufacturing operations had formulated an environmental management system. This system provides a mechanism for us to deal with emergencies on an effective and timely manner in case of severe environmental accidents, as well as keeping track of the Group's energy efficiency and emission reduction targets.

During the year, the Group complied with the requirements as set out in the local environmental protection laws and regulations in the PRC, including but not limited to (i) The Environmental Protection Law of the People's Republic of China, (ii) Water Pollution Prevention and Control Law of the People's Republic of China, (iii) Atmospheric Pollution Prevention and Control Law of the People's Republic of China and (iv) Solid Waste Environmental Pollution Prevention and Control Law of the People's Republic of China.

Greenhouse gas (GHG) emission

During the year ended 31 December 2020, the greenhouse gas emission are generated from consumption of purchased electricity (Scope 2) as well as the upstream and downstream transportation and distribution and business travel GHG emission (Scope 3). The Group has implement various energy saving initiatives, including but not limited to the following:

- Install LED lights across offices and manufacturing regions;
- Proper maintenance of air-conditioning equipment to ensure our air-conditioning system achieve the required level of energy efficiency;
- Conduct periodic reviews of the machineries and equipment to confirm their installation and operation status, thereby lengthen its lifetime to reduce overall waste generation;
- To reduce the number of business trips or number of persons on trip, and to replace in form of phone or video conference meeting; and
- Increase employees' ecological awareness by providing environmental education and awareness programs.

Waste Management

In the course of operation and production, there is no significant hazardous waste generated. Non-hazardous waste generated from the manufacturing process mainly comprised of general industrial solid waste, such as waste copper and epoxy resin. Licensed service providers are engaged to collect the waste for recycling purposes or proper disposal to incineration. Other non-hazardous waste generated by the Group's offices mainly consist of paper. The waste generated as a result of the business operations within the Group's offices is insignificant, the Group currently does not implement any tracking mechanism.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Wastewater Management

High-purity water is a necessary for semiconductor manufacturing process as it is use in wafer back grinding, die sawing and plating. As the Group outsource the wafer back grinding and plating process to subcontractors, the wastewater generated mainly include die saw operation from our PRC manufacturing plant and other domestic wastewater from the operating regions of the Group. Water purification facilities has been set up to treat the industrial wastewater and under closely monitor and control before discharged. The wastewater generated from offices are directly discharged into the municipal sewage network.

The key environmental emission generated during the year ended 31 December 2020 is summarized as below:

Emission category	Key Performance Indicators	Unit	2020		2019	
			2020 Total emission	GHG emission intensity (unit per million pcs of manufactured quantities) ⁵	2019 Total emission	GHG emission intensity (unit per million pcs of manufactured quantities) ⁵
GHG emissions	Scope 1 ¹ – Direct emission	Tonnes CO ₂ e	–	–	59.25	0.44
	Scope 2 ² – Indirect emission	Tonnes CO ₂ e	2,754.58	16.86	2,492.10	18.68
	Scope 3 ³ – Other indirect emission	Tonnes CO ₂ e	75.54	0.46	10.66	0.08
	Total emission		2,830.12	17.32	2,562.01	19.20
Non-hazardous waste	Solid waste ⁴	Tonnes	86.92	0.53	71.14	0.53

Notes:

1 Scope 1: Combustion of fuel for mobile vehicles.

2 Scope 2: Indirect emission from electricity consumption for PRC factory, and branch offices in Taiwan and Shenzhen.

3 Scope 3: Other indirect emission due to (1) outsourced road transport from PRC manufacturing site to plating house in Shenzhen and Huizhou, as well as delivery of finished goods to Hong Kong warehouse, and (2) taking flights for business trips.

4 The total volume of non-hazardous solid wastes generated in the manufacturing process mainly comprises of waste copper and epoxy resin.

5 Intensity is calculated based on the total manufactured quantities during the respective years.

There has been a restatement of 2019 GHG emission intensity, emission intensity per kilometre across scope 1 and scope 3 as well as the emission intensity per million pcs of shipped quantities for scope 2, adjusted to the calculation of emission intensity per million pcs of manufactured quantities. The management are of the view that such disclosures can provide better understanding of the operational efficiency in waste management control.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

A2 USE OF RESOURCES

During the year ended 31 December 2020, the main resources consumed by the Group were electricity, water, various packaging materials and paper. The Group is committed to continuing monitoring and improving resource efficiency as well as complying with relevant government policies and environmental regulations.

Total use of resources by the Group for the year ended 31 December 2020 is summarized as below:

Use of resources	Unit	Consumption in 2020	Intensity (unit per million pcs manufactured quantities) in 2020	Consumption in 2019	Intensity (unit per million pcs manufactured quantities) in 2019
Electricity	kWh	4,372,354	26,761.91	3,955,714	29,653.21
Water	Tonnes	27,551	168.63	19,169	143.70
Packaging materials	Tonnes	33	0.20	24	0.18

Energy consumption

Electricity consumption account for a substantial part of the energy consumption for the Group. During the year ended 31 December 2020, the Group increased the electricity consumption by 10.5% due to increase in manufactured quantities. The Group has formulated energy conservation rules and regulations to achieve the goal of electricity saving and efficient consumption. Staff are required to turn off all unnecessary lights, air conditioners and other office equipment when they are not in use. Also, uses LED lighting instead of traditional lighting. Monthly electricity consumption data is recorded and analysis if any abnormal consumption level were found.

Water consumption

The Group's water use is mainly high-purify water in its manufacturing operations and domestic water for offices and dormitory areas. During the year ended 31 December 2020, the Group did not experience any problem in sourcing water that was fit for its purpose. As mentioned above, in 2020 the Group increased the water consumption by 43.7% due to increase in manufactured quantities. The Group proactively implement water-saving measures, all employees are required to turn off water faucets when not in use. All water facilities and equipment are well-maintained and regular inspection are conducted to prevent water leakage. Similar to our energy conservation measures, we will record our water consumption data on a monthly basis and analysis if any abnormal consumption level occurred.

Packaging materials

To ensure that our products are safely protected during the delivery, the major packaging materials used by the Group are plastic packaging tubes, anti-static bags and carton boxes. During the year ended 31 December 2020, the Group has consumed 33 tonnes packaging materials. The Group strives to improve our sustainability practice and committed no excessive use of packaging materials are used. Production department are required to properly plan the use of raw materials and packaging materials, so as to improve the economic and environmental benefits to the greatest extent, while effectively reducing the cost of production and packaging materials.

Paper consumption

Paper consumption is unavoidable and is mainly use by the Group in its offices. Although the consumption level is insignificant as compared to that of other resources used in the Group operation activities, we have nevertheless developed the corresponding green office measures to reduce paper consumption. We have implemented office automation (OA) system to encourage the use of e-forms for internal communications, such as application for business trips and expenses claims. The adoption of electronic human resources management system. Set duplex printing as the default mode for printers when printout are needed. Besides, all customers agreed to receive electronic statements.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

A3 THE ENVIRONMENT AND NATURAL RESOURCES

Due to the Group's business nature, semiconductor manufacturing necessarily entails the use of the natural resources as key inputs to production, including energy, water and raw materials input such as aluminum wire. We recognised that the consumption of these nature resources has been the major source of the Group's impacts on the environment. The Group take social responsibility and environmental protection as part of our overall corporate strategy. We has implemented policies and guidelines into our business operations, with an aim of reducing the environmental impacts such as exploitation of energy resources and GHG emission, and pursue environmental sustainability.

The Group's PRC manufacturing operations inevitably create noise pollution by the use of machineries and generate wastewater in the manufacturing process. The management actively manage and minimize such environmental impact and appoint the licensed testing laboratory annually to evaluate the environmental pollution parameters to ensure that it is within the accepted range.

SOCIAL ACCOUNTABILITY POLICY AND SUSTAINING EFFORTS

B1 EMPLOYMENT

Employees are important assets of the Group, we care about their well-being, respect their personal traits, make sure that all employees are subject to legislative protection and have equal opportunity in their career path. Also, we strive to increase their sense of belonging. In this connection, we conduct a comprehensive recruitment and continuous training programs, with the view to cultivate technical and management personnel. The Group has established the essential policies and procedures, such as human resources management policy, occupational health and safety policy and operational environment management procedures.

During the year ended 31 December 2020, the Group actively complied with labour laws and regulations, including but not limited to the Labor Contract Law of the People's Republic of China, Labour Law of the People's Republic of China, Labour Standards Act of Taiwan and the Employment Ordinance of Hong Kong and has not found any violations against the laws and regulations.

The Group's employment handbook stipulates the policies relating to relevant labor laws, covering areas such as working hours, rest periods, compensation and dismissal, diversity and other benefits and welfare. Our remuneration and benefits are reviewed on a yearly basis through performance assessment and market practice. Employees are entitled to mandatory provident fund, medical insurance and a variety of paid holidays including annual leave, sick leave and maternity leave.

As stipulated in our Social Responsibility Manual, we are committed to maintain our workplace free from discrimination and harassment of any form and provide equal opportunities for all our employees at different aspects, including recruitment, compensations and benefits, training, promotions, and transfers. All employees are assessed periodically based on their ability, performance and contribution, irrespective of their nationalities, races, religious, genders, ages, disabilities or any other forms of discrimination. The Group has zero tolerance in any form of discrimination or sexual harassment in our workplace. During the year, we have no incident of violation and abuse reported from our employees. There are also no complaints of any discrimination or sexual harassment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

As at 31 December 2020, we had 138 (2019: 129) staff and the staff turnover rate at around 1.4%. Our staff demography are as below.

Workforce by Age Group	2020		2019	
	Numbers of employee	%	Numbers of employee	%
18 to 30	37	27%	40	31%
31 to 45	70	50%	57	44%
46 to 60	27	20%	28	22%
61 or above	4	3%	4	3%
	138	100%	129	100%

Workforce by Gender	2020		2019	
	Numbers of employee	%	Numbers of employee	%
Female	75	54%	67	52%
Male	63	46%	62	48%
	138	100%	129	100%

Workforce by Region	2020		2019	
	Numbers of employee	%	Numbers of employee	%
PRC	105	76%	96	74%
Taiwan	27	20%	28	22%
Hong Kong	6	4%	5	4%
	138	100%	129	100%

B2 HEALTH AND SAFETY

The Group understands the importance of occupational health and safety management as a significant element of the business. The Group is committed to providing health and safe working environment for all employees and strive to achieve zero non-compliance and incidents. In addition, the Group has established a comprehensive occupational health and safety policy which facilitate investigation and rectification of safety hazards, development of preventive mechanisms ahead of potential incidents and effective regulation over production activities. To enhance employees' safety awareness, we organize appropriate trainings for staff on regular basis, includes safety production regulations, fire prevention safety training.

The Group's PRC subsidiary has appointed an environmental research institution, performed the environmental risks assessment and formulated the Contingency Plan for Environmental Emergencies. The environmental emergency response team headed by the non-executive director, regularly review the emergency management programs to ensure that they are functioning as intended. In the event of any accident, the team members are responsible to conduct governance and rehabilitation work in a timely, orderly and efficient manner, to prevent or reduce any injuries.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

The COVID-19 pandemic creates special challenges in the Environmental, Social and Governance domains, in particular the health, safety considerations. The Group implemented precautionary measures such as temperature screening before entering the office and provide our employees with surgical masks and disinfectant. We also implemented flexible work arrangement in our Hong Kong office and encourage our staff to attend virtual meetings instead of face-to-face meetings. The Group are constantly update relevant policies to keep in line with the government's regulations.

During the year ended 31 December 2020, the Group had not identified any non-compliance with the relevant laws and regulations, including but are not limited to the Occupational Safety and Health Act of Taiwan, the Occupational Safety and Health Ordinance of Hong Kong, Production Safety Law of the People's Republic of China. The Group rigorously complied with the Occupational Health Safety Management System Standard: GB/T45001-2020/ISO45001:2018.

During 2020, there were no work-related fatalities or work-related injury occurred.

B3 DEVELOPMENT AND TRAINING

The Group aim to foster both personal and professional growth for employees at all level of the organization through role-specific training and professional development opportunities. This will enhance their work quality, efficiency and improve the overall quality of the Group's business operations as well as staff career development.

The Group is committed to providing employees with various training programs, including on-the-job trainings, external courses. Orientation training are provided to all newly recruited employees to familiarize themselves with the corporate culture and the background of the Company. We also encourage our employees to attend external seminars to enrich their knowledge in discharging their duties. Continual assessment is conducted to keep track results of the training programs and make further improvement.

During the year ended 31 December 2020, our PRC subsidiary company had arranged on-the-job trainings which cover the aspects including, quality management, safety production, occupational health and safety and environment protection.

During 2020, the Group's employees of different levels have participated in on-the-job training, details are summarized as follows:

	Total no. of attendances	Total no. of hours
Male	62	824
Female	66	850
	128	1,674

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

B4 LABOUR STANDARDS

The Group is committed to upholding the elimination of all forms of child labour and forced labour. In line with this objective, we have formulated the internal Social Responsibility Manual in accordance to the SA8000 Social Responsibility Standards. The SA8000 reflects labour provisions, including the prohibition of child labour and forced labour, the prohibition of discrimination, health and safety, freedom of association, working hours and wage standards etc.

All employees are recruited through the human resources department of each subsidiary company. During the process to assist in the selection of suitable candidates, they are responsible to verify the candidates' age and background information by examining the originals of their identity documents. Employment below the minimum statutory age and forced labour are strictly prohibited. Also, the Group avoid engaging vendors which are already known to employ child labour or forced labour in their operations.

During the year ended 31 December 2020, the Group did not identify any non-compliance with all applicable laws and regulations related to child labour and forced labour at all operating regions, including but not limited to the major laws and regulations such as the Labour Law of the People's Republic of China, the Provisions on the Prohibition of Using Child Labor of the People's Republic of China, the Labour Standards Act of Taiwan and the Employment Ordinance of Hong Kong.

B5 SUPPLY CHAIN MANAGEMENT

The Group strives to maintain a long-term and stable relationships with our suppliers. As stipulated in our Procurement and Supplier Management Procedures, fair opportunities are provided to capable and qualified suppliers and subcontractors, to ensure the quality of purchased materials and outsourcing wafer process complied with the relevant laws and regulations. During the qualification process, suppliers and subcontractors are subject to assessment, on-site audits on product quality and capabilities as well as quality consistency tests made by our quality department. The Group only made purchases or subcontracting work orders from the approved vendor list. Key suppliers are subject to annual review to ensure their capability to meet our quality standards.

Environmental and social performance of suppliers are also considered in our procurement process. Suppliers have to sign the "Supplier General Rules of Conduct" that demonstrate their compliance labour and human rights, health and safety, environmental protection, business ethics with reference made to the SA8000 Social Responsibility Standards.

Our supply chain structure consists of direct materials suppliers, foundry and subcontractor providers. In 2020, the Group worked closely with 37 suppliers and service providers. In which 14 were from Taiwan, 22 were from the People's Republic of China, and 1 supplier was from the United States.

B6 PRODUCT RESPONSIBILITY

The Group strive to achieve high standard of quality control with regard to the manufacturing of our semiconductor products. To ensure product safety and to guarantee product quality, the Group has implemented stringent quality control measures at different stages from incoming materials to the production process. During 2020, the Group was not aware of any non-compliance of applicable laws and regulation pertaining to product and service quality and customer privacy.

Product safety

In connection with product quality, we have obtained ISO9001:2015 quality system accreditation. Product quality control is performed by our quality inspection department to ensure compliance to our raw materials, semi-finished products and finished products with relevant quality standards. To ensure our products are free from environmentally harmful substance, we have comply with Restriction of Hazardous Substance Directive (RoHs) and all applicable regional and international environment regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Customer satisfaction

Understanding the needs and concerns of our customers enable us to deliver high quality and safety products. The Group maintain constant communications with our customers through our sales teams. All customer complaints are dealt with in a timely manner.

During the year ended 31 December 2020, the Group received and recorded a total of 33 complaints. Among the complaints received, around 94% was related to functionality, 3% was related to product appearance and 3% was related to other miscellaneous issues. However, none of the complaints received is related to non-compliance to relevant environmental standards.

Customer privacy protection

The Group collects customers' information during the course of business. We recognize the fundamental importance of customers' data in terms of privacy, security and data protection and had implemented relevant policies to ensure integrity, cybersecurity to prevent from accidental or intentional unauthorized modification, destruction or disclosure. Computers and servers are protected with access password and only authorized personnel have access to customers' data. Employees are required to comply with all the internal rules and regulations on information protection and handle and store customer-related information with prudence and care. The IT department is responsible for the cybersecurity measures such as anti-virus security, in-house and offsite backup.

B7 ANTI-CORRUPTION

The Group values and upholds integrity, honesty in how it conducts business, and has zero tolerance for bribery, corruption and money laundering. As stipulated in the Staff Handbook, all employees are prohibited to offer and accept any forms of advantages from any business associates. The advantages include but not limited to money, gifts, services and benefits-in-kind.

In order to achieve and maintain the highest standards of openness, probity and accountability, the Group has established a Whistle-blowing Policy, under which all units or individuals have the rights to report any violations of the Company or its departments. All information concerning the informer is kept in strict confidence. The Chairman of the Board is responsible to monitor the reporting system, conduct investigation as well as report to the Board of Directors. Whistle-blowers can report in writing to the Chairman of the Board or the Audit Committee Chairman with regard to any suspected misconduct with full details and supporting evidence. Once a relevant complaint is received, an investigation procedures will be taken place to identify the reason of the complaint. Employees who breach the anti-corruption policy will face disciplinary action, which could result in dismissal for serious misconduct.

During the year ended 31 December 2020, the Group did not identify any cases of non-compliance with laws and regulations regarding to bribery, fraud, corruption and money laundering, including but not limited to the Prevention of Bribery Ordinance (Cap. 201) of Hong Kong.

There is no lawsuit regarding corruption brought against the Company or its employees during 2020.

B8 COMMUNITY INVESTMENT

As a socially responsible member, the Group is committed to cater for the needs of the communities where we operate. The Group strive to build a pleasant and healthy community and hope to cultivate employees' sense of social responsibility. Although the Group has not established specific community policy, we encourage our staff to serve the community and promote a volunteering cultural and make greater contributions to society. All employees of the Group are encouraged to participate in environmental protection activities and raise the environmental awareness of people in the community. We believe that by participating in community activities, we can increase employees' consciousness of citizenship and build positive value.

During the Year 2020, the Group has not identified any appropriate community project that fit in our business philosophy. We will continue to identify any appropriate opportunities to contribute to the community in which the Group operates.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

During the current year, the principal activities of the Group are the design, manufacturing and sales of its own branded power discrete semiconductors namely Schottky and MOSFET. Details of the activities of its principal subsidiaries are set out in note 1 to the consolidated financial statements. There are no significant changes in the nature of the Group's principal activities during the year.

Business review of the Group for the year ended 31 December 2020 as required by Schedule 5 to the Hong Kong Companies Ordinance, can be found in the Management Discussion and Analysis set out on pages 4 to 6 of this annual report which forms part of this directors' report.

For the key performance indicators of the Group, please refer to the section of "Financial Review" in this annual report.

An analysis of the Group's performance for the year by operating and geographical segments is set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

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

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020. During the year, no interim dividend was paid.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements during the year in the share capital of the Company and outstanding share options of the Company are set out in notes 25 and 27 to the consolidated financial statements respectively.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 26 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately US\$17,795,000. This includes the Company's share premium in the amount of approximately US\$21,067,000 as at 31 December 2020, which may be 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 and when they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles and there was no restriction against such rights under the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DIRECTORS' REPORT (Continued)

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group, as extracted from the audited financial statements for the past five financial years, is set out on page 100. This summary does not form part of the audited financial statements.

ENVIRONMENTAL POLICY

The Group is committed to fulfilling its corporate social responsibility in community affairs, environmental protection and corporate governance during its business operation in order to achieve its sustainable development. The Company's Environment, Social and Governance Report is set out on pages 20 to 30 of this annual report.

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

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the listed shares of the Company during the year ended 31 December 2020.

DIRECTORS

The Directors during the year and up to date of this report are as follows:

Executive Directors

Mr. Chow Kai Chiu, David
Mr. Hong James Man-fai

Non-Executive Directors

Mr. Yung Kwok Kee, Billy
Mr. Tang Che Yin

Independent Non-Executive Directors

Mr. Lam, Peter
Mr. Leung Man Chiu, Lawrence
Mr. Fan Yan Hok, Philip

In accordance with the Articles 108 of the Articles, Mr. Chow Kai Chiu, David, Mr. Yung Kwok Kee, Billy and Mr. Lam, Peter shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company still considers such Directors to be independent.

DIRECTORS' REPORT (Continued)

DIVIDEND POLICY

The Company has adopted a dividend policy ("Dividend Policy") on 21 September 2016. In deciding whether to propose a dividend and in determining the dividend amount, the Board will take into account the results of operations, working capital, financial position, future prospects and capital requirements, as well as any other factors which the Directors may consider relevant. The payment of dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands and the articles of association of the Company.

EMOLUMENT POLICY

In order to attract and retain high quality staff and to enable smooth operation within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience). The remuneration packages are subject to review on a regular basis.

The emoluments of the Directors are recommended by the Remuneration Committee of the Company, having regard to the Group's operating results, market competitiveness, individual performance and achievement, to the Board for determination.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and the five individuals with the highest emoluments are set out in note 14 to the consolidated financial statements.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and non-executive Directors have entered into a service contract with the Company under which their terms of appointment is three years from 7 October 2016 which has been renewed for a term of further 3 years from 7 October 2019. The appointment of the executive Directors may be terminated by either party by giving at least three months' written notice to the other.

Each of the INEDs have enter into a letter of appointment with the Company under which their term of appointment is three years from 7 October 2016 which has been renewed for a term of further 3 years from 7 October 2019. The appointment of each of the INEDs may be terminated by either party by giving at least one month's written notice to the other.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2020.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in the section "Compliance of Non-Competition Undertaking" in this directors' report, as at 31 December 2020, none of the directors of the Company are considered to be in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' REPORT (Continued)

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2020, the Directors and chief executives of the Company and/or any of their respective associates had the following interests and short positions in the shares (the "Shares"), underlying Shares and debentures of the Company and/or any of its associated corporations (which has the same meaning as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules:

I. Long Position in the Shares of the Company:

Name of Director	Capacity/Nature of interest	Number of Shares held/ interested in the Company	Percentage of shareholding as at 31 December 2020
Mr. Yung Kwok Kee, Billy ("Mr. Yung")	Interest in a controlled corporation (<i>note</i>)	949,127,925	58.65%
Mr. Hong James Man-fai ("Mr. Hong")	Beneficial interest	9,071,657	0.56%
Mr. Chow Kai Chiu, David ("Mr. Chow")	Beneficial interest	2,703,838	0.17%

Note:

Mr. Yung is interested in 100% of the issued share capital of Red Dynasty Investments Limited ("Red Dynasty"). Red Dynasty holds 80.47% interest in Shell Electric Holdings Limited ("Shell Holdings"). Lotus Atlantic Limited ("Lotus Atlantic") is wholly and beneficially owned by Sybond Venture Limited ("Sybond Venture"), and Sybond Venture is wholly and beneficially owned by Shell Holdings. Mr. Yung is therefore deemed to be interested in 949,127,925 Shares held by Lotus Atlantic which is an indirect wholly-owned subsidiary of Shell Holdings for the purpose of SFO.

II. Long Position in the underlying Shares

Name of Director	Capacity	Number of underlying Shares held	Percentage of shareholding as at 31 December 2020
Mr. Hong	Beneficial interest	5,408,343 (<i>note 1</i>)	0.33%
Mr. Tang Che Yin ("Mr. Tang")	Beneficial interest	2,800,000 (<i>note 2</i>)	0.17%

Notes:

- These underlying Shares represent 5,408,343 Shares to be issued upon exercise of the unlisted physically settled share options granted to Mr. Hong on 22 March 2017 pursuant to the share option scheme of the Company adopted on 19 September 2016 under which the said options can be exercised by Mr. Hong from 1 April 2017 to 31 March 2027 (both days inclusive) at the exercise price of HK\$0.165 per Share.
- These underlying Shares represent 2,800,000 Shares to be issued upon exercise of the unlisted physically settled share options granted to Mr. Tang on 22 March 2017 pursuant to the share option scheme of the Company adopted on 19 September 2016 under which the said options can be exercised by Mr. Tang from 1 April 2017 to 31 March 2027 (both days inclusive) at the exercise price of HK\$0.165 per Share.

DIRECTORS' REPORT (Continued)

Save as disclosed above, as at 31 December 2020, none of Directors nor chief executive of the Company and/or any of their respective associates has registered an interest or short positions in the Shares, underlying shares or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules.

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

As at 31 December 2020, the interest and short positions of the person (other than the interest of the Directors or chief executive of the Company as disclosed above) or company which was required to be recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Capacity/nature of interest	Number of Shares held/interested in	Long/short position	Percentage of shareholding as at 31 December 2020
Lotus Atlantic	Beneficial owner	949,127,925 (Note 1)	Long	58.65%
Sybond Venture	Interest in a controlled corporation	949,127,925 (Note 1)	Long	58.65%
Shell Holdings	Interest in a controlled corporation	949,127,925 (Note 1)	Long	58.65%
Red Dynasty	Interest in a controlled corporation	949,127,925 (Note 1)	Long	58.65%
Ms. Vivian Hsu	Family interest	949,127,925 (Note 2)	Long	58.65%

Notes:

- Red Dynasty holds 80.47% interest in Shell Holdings. Lotus Atlantic is wholly and beneficially owned by Sybond Venture, and Sybond Venture is wholly and beneficially owned by Shell Holdings. Each of these companies is therefore deemed to be interested in 949,127,925 Shares owned and held by Lotus Atlantic which is an indirect wholly-owned subsidiary of Shell Holdings for the purpose of the SFO.
- These Shares represent the interest held by Lotus Atlantic which is a controlled corporation of Mr. Yung. Ms. Vivian Hsu ("Mrs. Yung") is the spouse of Mr. Yung. Under the SFO, Mr. Yung is deemed to be interested in all of the Shares owned by Lotus Atlantic and Mrs. Yung is deemed to be interested in all the Shares in which Mr. Yung is interested.

Save as disclosed above, as at 31 December 2020 and so far as known to the Directors, no person, other than the Directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register required to be kept by the Company pursuant Section 336 of the SFO.

DIRECTORS' REPORT (Continued)

SHARE OPTION SCHEME

The Company has a share option scheme (the "Share Option Scheme") which was approved and adopted pursuant to the written resolutions on 19 September 2016. The terms of the Share Option Scheme are in accordance with Chapter 23 of the GEM Listing Rules. The following is a summary of the principal terms of the Share Option Scheme:

1. Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is, among others, to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Group.

2. Who may join

The Board may, at its discretion, offer to grant an option to any person belonging to any of the following classes of participants, to take up options to subscribe for the Shares:

- (a) any full-time or part-time employees, executives or officers of the Group;
- (b) any directors (including executive Directors, non-executive Directors and independent non-executive Directors) of the Group; and
- (c) any suppliers, customers, consultants, agents, advisers and related entities to the Group.

3. Maximum number of Shares

- (a) The maximum number of the Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the Company's issued share capital from time to time. No options may be granted under any schemes of the Company or the subsidiary if such grant will result in the maximum number being exceeded.
- (b) The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of the Company) must not in aggregate exceed 10% of the total number of Shares in issue at the time dealings in the Shares first commence on the Stock Exchange which amounts to 160,000,000 Shares (the "General Mandate Limit").

As at the date of this report, the total number of shares of the Company available for issue under the Share Option Scheme is 141,967,723 shares, representing approximately 8.8% of the Company's issued share capital as at the same date.

4. Maximum entitlement of each participant and connected persons

Unless approved by the Shareholders, the total number of Shares issued and to be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each participant in any 12-month period must not exceed 1% of the Shares in issue (the "Individual Limit").

DIRECTORS' REPORT (Continued)

5. Minimum period of holding an option and performance target

The Directors may fix any minimum period for which an option must be held, any performance targets that must be achieved and any other conditions that must be fulfilled before the options can be exercised upon the grant of an option to a participant, provided that such terms and conditions are fair and reasonable in the opinion of the Directors and not being inconsistent with the Share Option Scheme and the GEM Listing Rules.

6. Time of acceptance of option

An option may be accepted by a participant within 30 days from the date of the offer of grant of the option with a payment of HK\$1.00 to the Company by way of consideration to the grant.

7. Subscription Price of Shares

The subscription price of a Share in respect of any option granted under the Share Option Scheme, subject to any adjustments made in accordance with the Share Option Scheme, shall be such price as the Board in its absolute discretion shall determine, provided that such price will not be less than the highest of:

- (a) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (b) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (c) the nominal value of a Share.

8. Time for exercising option

An option may be exercised in accordance with the terms of Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

9. Period of the Share Option Scheme

Unless terminated by the Company by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional.

Details of the share option granted and summary of movements of the outstanding share options for the year ended 31 December 2020 under the Share Option Scheme are set out in note 27 to the consolidated financial statements.

DIRECTORS' REPORT (Continued)

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save for the related party transactions disclosed in note 31 to the consolidated financial statements, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries, fellow subsidiaries or its parent company was a party and in which a Director or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company, or any of its subsidiaries a party to any arrangement which enable the Directors and chief executives of the Company (including their respective spouse and children under 18 years of age) to acquire benefits by means of acquisition of shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2020, the five largest customers of the Group accounted for approximately 59% (2019: approximately 52%) of the total sales of the Group's turnover, of which 17% (2019: 13%) was attributable to the largest customer.

During the year ended 31 December 2020, the five largest suppliers of the Group accounted for approximately 71% (2019: approximately 73%) of the total purchases of the Group, of which 22% (2019: 23%) was attributable to the largest supplier.

None of the Directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) has an interest in the Group's five largest customers or suppliers.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available and within the knowledge of the Directors, at least 25% of the Company's issued share capital were held by the public as at the date of this report.

DIRECTORS' REPORT (Continued)

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2020, the Group had the following continuing connected transactions that is subject to the reporting requirements under Chapter 20 of the GEM Listing Rules, details of which are set out below:

(A) Lease of properties from associates of Shell Electric Holdings Limited (“Shell Holdings”)

(1) Tenancy Agreement 1

Date of agreement	: 31 December 2019
Parties	: Landlord – Shunde Multi-Media Products Company Limited (“Shunde Multi-Media”) Tenant – Guangdong PFC Device Limited (“PFC Device (GD)”)
Premises	: Factory spaces situated at 4th Floor, Block A, Bei Jiao Industrial Park, No. 18, San Le Dong Road, Bei Jiao County, Shunde District, Foshan, the PRC
Term	: 1 January 2020 to 31 December 2020
Transaction price	: Rental of Rmb16,000 per calendar month and management fee of Rmb2,500 per calendar month

The annual cap in respect of rent and management fee payable by PFC Device (GD) for the year ended 31 December 2020 was Rmb222,000. The rental and management fee payable under the Tenancy Agreement 1 was determined with reference to the market rent of the properties nearby and on normal commercial terms.

The actual transaction amount of rental and management fee under the Tenancy Agreement 1 during the year ended 31 December 2020 was Rmb222,000 (included value added tax, equivalent to approximately US\$32,300).

(2) Tenancy Agreement 2

Date of agreement	: 31 December 2019
Parties	: Landlord – Shunde Multi-Media Tenant – PFC Device (GD)
Premises	: Factory spaces situated at 1st and 4th Floor, Block B, Bei Jiao Industrial Park, No. 18, San Le Dong Road, Bei Jiao County, Shunde District, Foshan, the PRC
Term	: 1 January 2020 to 31 December 2020
Transaction price	: Rental of Rmb54,000 per calendar month and management fee of Rmb10,400 per calendar month

The annual cap in respect of rent and management fee payable by PFC Device (GD) for the year ended 31 December 2020 was Rmb772,800. The rental and management fee payable under the Tenancy Agreement 2 was determined with reference to the market rent of the properties nearby and on normal commercial terms.

The actual transaction amount of rental and management fee under the Tenancy Agreement 2 during the year ended 31 December 2020 was Rmb772,800 (included value added tax, equivalent to approximately US\$112,200).

DIRECTORS' REPORT (Continued)

(3) Dormitory Rental Agreement

Date of agreement	: 31 December 2019
Parties	: Landlord – Shunde Multi-Media Tenant – PFC Device (GD)
Premises	: Certain dormitory rooms at Bei Jiao Industrial Park, No. 18, San Le Dong Road, Bei Jiao County, Shunde District, Foshan, the PRC
Term	: 1 January 2020 to 31 December 2022
Transaction price	: Rental of Rmb1,000 and Rmb3,000 per month respectively for a single room and en suite at Block A; Rmb1,000 and Rmb600 per month respectively for an en suite room at Block B and a single room at Block C. PFC Device (GD) are charged based on actual number of dormitory rooms used

The annual cap in respect of rent payable by PFC Device (GD) for the year ended 31 December 2020 was Rmb150,000. The rental payable under the Dormitory Rental Agreement was determined with reference to the market rent of the properties nearby and on normal commercial terms.

The actual transaction amount of rental under the Dormitory Rental Agreement during the year ended 31 December 2020 was Rmb135,200 (included value added tax, equivalent to approximately US\$19,600).

(4) Xunsu Tenancy Agreement 1

Date of agreement	: 1 January 2020
Parties	: Landlord – Xunsu Asset Management (Shenzhen) Limited ("Xunsu Asset Management") Tenant – PFC Device (GD)
Premises	: Room 612-613, Block A, Xintian Century Business Centre, Shizia North 2nd Street, Futian District, Shenzhen, the PRC
Term	: 1 January 2020 to 31 December 2020
Transaction price	: Rental of Rmb44,000 per calendar month

The annual cap in respect of rent payable by PFC Device (GD) for the year ended 31 December 2020 was Rmb528,000. The rental payable under the Xunsu Tenancy Agreement 1 was determined with reference to the market rent of the properties nearby and on normal commercial terms.

The actual transaction amount of rental under the Xunsu Tenancy Agreement 1 during the year ended 31 December 2020 was Rmb528,000 (included value added tax, equivalent to approximately US\$76,700).

DIRECTORS' REPORT (Continued)

(5) Xunsu Tenancy Agreement 2

Date of agreement	: 1 January 2020
Parties	: Landlord – Xunsu Asset Management Tenant – PFC Device (GD)
Premises	: Room 1006, Block C, Xintian Century Business Centre, Shizia North 2nd Street, Futian District, Shenzhen, the PRC
Term	: 1 January 2020 to 31 December 2020
Transaction price	: Rental of Rmb15,750 per calendar month

The annual cap in respect of rent payable by PFC Device (GD) for the year ended 31 December 2020 was Rmb189,000. The rental payable under the Xunsu Tenancy Agreement 2 was determined with reference to the market rent of the properties nearby and on normal commercial terms.

The actual transaction amount of rental under the Xunsu Tenancy Agreement 2 during the year ended 31 December 2020 was Rmb189,000 (included value added tax, equivalent to approximately US\$27,400).

(6) Shell Tenancy Agreement

Date of agreement	: 15 January 2020
Parties	: Landlord – Shell Holdings Tenant – PFC Device (HK) Limited (“PFC Device (HK)”)
Premises	: A portion of the 1st and 4th floor of Shell Industrial Building, 12 Lee Chung Street, Chai Wan, Hong Kong
Term	: 1 January 2020 to 31 December 2020
Transaction price	: Rental of HK\$18,000 per calendar month and management fee of HK\$2,700 per calendar month

The annual cap in respect of rent and management fee payable by PFC Device (HK) for the year ended 31 December 2020 was HK\$248,400. The rental and management fee payable under the Shell Tenancy Agreement was determined with reference to the market rent of the properties nearby and on normal commercial terms.

The actual transaction amount of rental and management fee under the Shell Tenancy Agreement during the year ended 31 December 2020 was HK\$248,400 (equivalent to approximately US\$33,000).

(B) Sales of power discrete semiconductors or other products to associates of Shell Holdings

Supply Agreement

Date of agreement	: 7 January 2019
Parties	: SMC Electric (HK) Limited (“SMC Electric HK”) PFC Device (HK)
Description of transaction	: PFC Device (HK) and/or its fellow subsidiaries agree to sell the Group’s power discrete semiconductors or other products to SMC Electric HK and/or its subsidiaries
Term	: 1 January 2019 to 31 December 2021

The annual cap in respect of the Supply Agreement for the year ended 31 December 2020 was US\$25,500. The basis of pricing under the Supply Agreement was determined with reference to the market price available to independent third parties on arm’s length basis based on normal commercial terms in the ordinary and usual course of business.

DIRECTORS' REPORT (Continued)

The actual transaction amount of the power discrete semiconductors paid by SMC Electric HK to PFC Device (HK) during the year ended 31 December 2020 was US\$23,280.

(C) Provision of catering services from associate of Shell Holdings

Catering Service Agreement

Date of agreement	: 31 December 2018
Parties	: Shunde Multi-Media PFC Device (GD)
Description of transaction	: Provision of catering services by Shunde Multi-Media to the staff of PFC Device (GD)
Term	: 1 January 2019 to 31 December 2021
Transaction price	: Monthly fee of Rmb500 per person

The annual cap in respect of the Catering Service Agreement for the year ended 31 December 2020 was Rmb30,000. The basis of pricing under the Catering Service Agreement was determined with reference to the market price available to independent third parties on arm's length basis based on normal commercial terms in the ordinary and usual course of business.

The actual transaction amount of the service fees under the Catering Service Agreement during the year ended 31 December 2020 was Rmb30,000 (included value added tax, equivalent to approximately US\$4,400).

(D) Provision of wafer backside process services from associate of Shell Holdings

Subcontracting Agreement

Date of agreement	: 1 January 2018
Parties	: Guangdong Zhaoao Electronics Company Limited ("Guangdong Zhaoao") PFC Device (GD)
Description of transaction	: Provision of wafer backside process services by Guangdong Zhaoao to PFC Device (GD)
Term	: 1 January 2018 to 31 December 2020

The original annual cap in respect of the Subcontracting Agreement for the year ended 31 December 2020 was Rmb210,000. The basis of pricing under the Subcontracting Agreement was determined with reference to the market price available to independent third parties on arm's length basis based on normal commercial terms in the ordinary and usual course of business. As there was an unexpected sudden increase in demand for subcontracting services provided by Guangdong Zhaoao in the second quarter in 2020, the Company revised the annual cap for the Subcontracting Agreement for the year ended 31 December 2020 from Rmb210,000 to Rmb2,721,000.

The actual transaction amount of the provision of wafer backside process services fees under the Subcontracting Agreement during the year ended 31 December 2020 was Rmb2,360,960 (included value added tax, equivalent to approximately US\$342,800).

Further details on the revision of annual cap of continuing connected transactions were disclosed in the Company's announcement dated 6 August 2020.

DIRECTORS' REPORT (Continued)

Further to the Company's announcement dated 6 August 2020 and up to the date of this annual report, Shell Holdings holds indirectly 58.65% of the issued capital of the Company and is accordingly a controlling shareholder of the Company. Each of (i) Shunde Multi-Media; (ii) Xunsu Asset Management; and (iii) Guangdong Zhaoao, is an indirect wholly-owned subsidiary of Shell Holdings, a controlling shareholder of the Company. SMC Electric HK is a wholly owned by SMC Electric Limited, of which Shell Holdings holds 75% issued shares in SMC Electric Limited. As such, the above companies are the associates of Shell Holdings and are thus the connected persons of the Company under Chapter 20 of the GEM Listing Rules.

Under Chapter 20 of the GEM Listing Rules, (a) the rental and management fee payments in respect of Tenancy Agreement 1 and Tenancy Agreement 2 and Shell Tenancy Agreement; (b) the rental payments in respect of the Dormitory Rental Agreement, the Xunsu Tenancy Agreement 1 and Xunsu Tenancy Agreement 2; (c) the sales of power discrete semiconductors in respect of the Supply Agreement; (d) the service fee payments in respect of the Catering Service Agreement; and (e) the service fee payments in respect of the Subcontracting Agreement are thereof constitute continuing connected transactions. The aggregated continuing connected transactions (including the annual cap) are subject to the reporting, announcement and annual review requirements, but are exempted from the circular, independent shareholders' approval requirements.

All INEDs had reviewed the continuing connected transactions disclosed above and confirmed that the continuing connected transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance with the respective tenancy agreements, supply agreement, catering service agreement, dormitory rental agreement and subcontracting agreement governing the continuing connected transactions on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

BDO Limited, the auditor of the Company, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "*Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*" and with reference to Practice Note 740 "*Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules*" issued by the Hong Kong Institute of Certified Public Accountants. BDO Limited has issued an unqualified letter containing the findings and conclusions in respect of the continuing connected transactions for the year ended 31 December 2020 disclosed by the Group above in accordance with Rule 20.54 of the GEM Listing Rules.

A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

The details of the related party transactions during the year are set out in note 31 to the consolidated financial statements. The related party transactions are also the continuing connected transactions and have been complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

DIRECTORS' REPORT (Continued)

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Directors recognise that employees, customers and business partners are the keys to the sustainable development of the Group. The Group is committed to building a close and caring relationship with its employees and business partners, and improving the quality of services and products to its customers. Employees are regarded as the most important and valuable assets of the Group. The Group ensures all staff is reasonably remunerated and regular training is provided for its workers for the operation of different types of machinery, as well as work safety. The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills. The Group also stays connected with its customers and suppliers and has ongoing communication with the customers and suppliers through various channels to obtain their feedback and suggestions.

COMPLIANCE OF NON-COMPETITION UNDERTAKING

All the INEDs were delegated with the authority to review on an annual basis the compliance with the non-competition undertaking given by each of Lotus Atlantic, Sybond Venture, Shell Holdings, Red Dynasty and Mr. Yung, the controlling shareholders of the Company (collectively, the "Covenantors") in favour of the Company dated 19 September 2016 (the "Non-Competition Deed"). The Covenantors have provided to the Company all information necessary for the annual review by the INEDs and the Covenantors have confirmed to the Company that each of the Covenantors and his/its associates have not breached the terms of the undertakings contained in the Non-Competition Deed. All INEDs confirmed that they are not aware of any non-compliance with the Non-Competition Deed by the Covenantors since the effective date of the Non-Competition Deed and up to the date of this report, including a transaction approved by them as disclosed in the paragraph headed "Compliance of Non-Competition Undertaking" on pages 54-55 of the 2018 annual report.

PERMITTED INDEMNITY PROVISION

The Company has maintained appropriate directors and officers liability insurance and such permitted indemnity provision for the benefit of the Directors is currently in place and was in force throughout the year.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year, the Group was in compliance with all the laws and regulations applicable to the business operations of the Group.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme, no equity-linked agreements were entered into during the year or subsisted at the end of the year.

AUDITORS

The consolidated financial statements for the year ended 31 December 2020 have been audited by BDO Limited. A resolution will be submitted to the forthcoming annual general meeting to re-appoint BDO Limited as auditor of the Company.

On behalf of the Board

Mr. Yung Kwok Kee, Billy
Chairman

Hong Kong, 18 March 2021

INDEPENDENT AUDITOR'S REPORT



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111 Connaught Road Central
Hong Kong

To the shareholders of PFC Device Inc.
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of PFC Device Inc. (the “Company”) and its subsidiaries (the “Group”) set out on pages 49 to 99, 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 its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) 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 (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our report. We are independent of the Group in accordance with the HKICPA’s “Code of Ethics for Professional Accountants” (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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.

BDO Limited
香港立信德豪會計師事務所有限公司

BDO Limited, a Hong Kong limited company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

INDEPENDENT AUDITOR'S REPORT (Continued)

KEY AUDIT MATTERS (Continued)

Impairment of assets other than financial assets

(Refer to notes 4.15, 5.1(b), 17 and 18 to the consolidated financial statements)

As at 31 December 2020, the Group had property, plant and equipment, prepayment for acquisition of property, plant and equipment and right-of-use assets with net carrying amounts of US\$6,163,000, US\$196,000 and US\$244,000 respectively. At the end of each reporting period, the Group is required to review the carrying amounts of the above 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 be decreased. Management assessed that as at 31 December 2020, there were indications of impairment in respect of the above assets. Accordingly, management performed impairment testing for the above assets by comparing their carrying amounts with their recoverable amounts. The above assets are tested for impairment at cash-generating unit ("CGU") level and the Group as a whole is regarded as a CGU for the purposes of the impairment testing. The recoverable amount of the CGU which is comprised of the above assets is determined using value-in-use calculations. Based on the value-in-use calculations of the CGU, the recoverable amount of the CGU is higher than the carrying amounts of the above assets. Accordingly, management concluded that impairment provision is not necessary for the above assets.

We have identified impairment of assets other than financial assets as a key audit matter due to the preparation of value-in-use calculations requires significant estimation and judgment by the management with respect to the key assumptions adopted in the underlying cash flow projection including future revenue growth and gross profit margin, as well as the adoption of discount rate.

Our procedures in relation to management's impairment assessment on the above assets included:

- Checking the mathematical accuracy of the value-in-use calculation;
- Challenging the reasonableness of key assumptions of the cash flow projection including revenue growth, gross profit margin and discount rate based on our knowledge of the business and industry;
- Comparing current year's actual results with the figures included in the prior year's cash flow projection to consider whether the key assumptions used by the management had been over-optimistic;
- Reconciling input data to supporting evidence, such as approved budget and sales plan of customers, and considering the reasonableness of this evidence; and
- Performing sensitivity analysis.

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 (Continued)

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs 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 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 directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibilities in this regard.

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

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT (Continued)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- 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 the 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 the 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, 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

Lee Ming Wai

Practising Certificate no. P05682

Hong Kong, 18 March 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	2020 US\$'000	2019 US\$'000
Revenue	7	21,098	17,997
Cost of sales		(16,194)	(15,398)
Gross profit		4,904	2,599
Other income	8	162	20
Selling and distribution expenses		(175)	(124)
Administrative expenses		(3,525)	(3,533)
Other operating expenses		(314)	(227)
Finance costs	10	(8)	(38)
Other losses	9	(375)	(12)
Profit/(Loss) before income tax	11	669	(1,315)
Income tax expense	12	(23)	(110)
Profit/(Loss) for the year attributable to owners of the Company		646	(1,425)
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange difference arising from translation of overseas operations		1,192	(162)
Other comprehensive income for the year		1,192	(162)
Total comprehensive income for the year		1,838	(1,587)
		US Cents	US Cents
Earnings/(Loss) per share	16		
– Basic		0.040	(0.088)
– Diluted		0.040	(0.088)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 US\$'000	2019 US\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	17	6,163	6,941
Right-of-use assets	18	244	142
Prepayments for acquisition of property, plant and equipment		196	23
Deferred tax assets	24	241	183
		6,844	7,289
Current assets			
Inventories	19	5,252	3,936
Trade and other receivables, deposits and prepayments	20	5,293	6,160
Amount due from a fellow subsidiary	23	5	7
Cash and bank balances	21	9,594	6,803
		20,144	16,906
Current liabilities			
Trade and other payables	22	3,330	2,608
Lease liabilities	18	244	125
Amounts due to fellow subsidiaries	23	182	76
Tax payable		41	20
		3,797	2,829
Net current assets		16,347	14,077
Total assets less current liabilities		23,191	21,366
Non-current liabilities			
Lease liabilities	18	–	17
Net assets		23,191	21,349
CAPITAL AND RESERVES			
Share capital	25	2,085	2,085
Reserves	26	21,106	19,264
Total equity		23,191	21,349

On behalf of the directors

Chow Kai Chiu, David
Director

Hong James Man-Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital US\$'000	Share premium* US\$'000 note 26(a)	Share option reserve* US\$'000 note 26(b)	Merger reserve* US\$'000 note 26(c)	Capital contribution* US\$'000 note 26(d)	Translation reserve* US\$'000 note 26(e)	Accumulated losses* US\$'000 note 26(f)	Total equity US\$'000
At 1 January 2019	2,085	21,067	194	905	1,247	(553)	(2,023)	22,922
Loss for the year	-	-	-	-	-	-	(1,425)	(1,425)
Other comprehensive income for the year								
– Exchange difference arising from translation of overseas operations	-	-	-	-	-	(162)	-	(162)
Total comprehensive income for the year	-	-	-	-	-	(162)	(1,425)	(1,587)
Vested share options forfeited (note 27)	-	-	(2)	-	-	-	2	-
Transactions with owner:								
Share-based payment expense of options granted by the Company in 2017 (note 27)	-	-	14	-	-	-	-	14
At 31 December 2019 and 1 January 2020	2,085	21,067	206	905	1,247	(715)	(3,446)	21,349
Profit for the year	-	-	-	-	-	-	646	646
Other comprehensive income for the year								
– Exchange difference arising from translation of overseas operations	-	-	-	-	-	1,192	-	1,192
Total comprehensive income for the year	-	-	-	-	-	1,192	646	1,838
Vested share option forfeited (note 27)	-	-	(67)	-	-	-	67	-
Transactions with owner:								
Share-based payment expense of options granted by the Company in 2017 (note 27)	-	-	4	-	-	-	-	4
At 31 December 2020	2,085	21,067	143	905	1,247	477	(2,733)	23,191

* The total of these equity accounts at the end of the reporting period represents “Reserves” in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 US\$'000	2019 US\$'000
Cash flows from operating activities		
Profit/(Loss) before income tax	669	(1,315)
Adjustments for:		
Interest income	(39)	(7)
Finance costs	8	38
Depreciation on property, plant and equipment	1,610	1,653
Depreciation on right-of-use assets	232	345
Write-off of property, plant and equipment	12	–
Write down of inventories to net realisable value	151	406
Share-based payment expense	4	14
Exchange difference	254	91
Operating profit before working capital changes	2,901	1,225
(Increase)/Decrease in inventories	(1,176)	2,418
Decrease/(Increase) in trade and other receivables, deposits and prepayments	1,117	(133)
Decrease/(Increase) in amount due from a fellow subsidiary	2	(6)
Increase/(Decrease) in amounts due to fellow subsidiaries	106	(93)
Increase in trade and other payables	577	453
Cash generated from operations	3,527	3,864
Income tax paid	(52)	(49)
Net cash from operating activities	3,475	3,815
Cash flows from investing activities		
Interest received	37	5
Purchase of property, plant and equipment	(568)	(329)
Net cash used in investing activities	(531)	(324)
Cash flows from financing activities		
Interest paid for bank borrowings (note 30)	–	(33)
Proceeds from bank borrowings (note 30)	–	1,330
Repayment of bank borrowings (note 30)	–	(1,930)
Payment of principal element of lease liabilities (note 30)	(230)	(345)
Payment of interest element of lease liabilities (note 30)	(8)	(5)
Net cash used in financing activities	(238)	(983)
Net increase in cash and cash equivalents	2,706	2,508
Cash and cash equivalents at beginning of year	6,803	4,305
Effect of foreign exchange rate change	85	(10)
Cash and cash equivalents at end of year	9,594	6,803
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	9,594	6,803

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

PFC Device Inc. (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability. The shares of the Company were listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 7 October 2016.

The address of its registered office is Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands. Its principal place of business is located at 1/F, Shell Industrial Building, 12 Lee Chung Street, Chai Wan, Hong Kong.

The Group, comprising the Company and its subsidiaries, is principally engaged in manufacturing and sales of power discrete semiconductors.

The Company's holding company is Lotus Atlantic Limited, a company incorporated in the British Virgin Islands ("BVI") and the directors of the Company consider its ultimate holding company is Shell Electric Holdings Limited ("Shell Holdings"), a company incorporated in Bermuda.

Particulars of the Company's subsidiaries as at 31 December 2020 are as follows:

Name of subsidiaries	Place of incorporation/ operation	Issued and paid up capital	Effective interest held by the Company		Principal activities
			Directly	Indirectly	
PFC Device Holdings Limited ("PFC Device Holdings")	BVI/Hong Kong	12,656,153 preference shares of United States Dollars ("US\$") 13,222,820 658,255 common shares of US\$658,255	100%	–	Investment and trade-mark holding
PFC Device Corporation (note (i))	BVI/Taiwan	4,956,153 preference shares of US\$5,522,820 105,000 common shares of US\$105,000	–	100%	Research and development and sales of power discrete semiconductors
PFC Device (HK) Limited	Hong Kong	Hong Kong Dollars ("HK\$")1	–	100%	Sales of power discrete semiconductors
Guangdong PFC Device Limited ("PFC Device (GD)") (note (ii))	The People's Republic of China ("PRC")	US\$13,000,000	–	100%	Manufacturing and sales of power discrete semiconductors

Notes:

- (i) PFC Device Corporation has set up a branch in Taiwan which is principally engaged in research and development, sales and marketing of the Group's products.
- (ii) PFC Device (GD) was established in the PRC as a wholly-foreign-owned enterprise and has set up a branch in the PRC for provision of sales support services.

The financial statements for the year ended 31 December 2020 were approved and authorised for issue by the directors of the Company on 18 March 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) which collective term includes individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

The financial statements have been prepared under the historical cost basis.

The financial statements are presented in US\$, which is same as the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise indicated.

It should be noted that accounting estimates and assumptions are used in the preparation of the financial statements. Although these estimates and assumptions are based on management’s best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where estimates and assumptions are significant to the financial statements, are disclosed in note 5.

3. ADOPTION OF NEW OR REVISED HKFRSs

(a) Adoption of new or revised HKFRSs – effective 1 January 2020

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations issued by the HKICPA, which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 January 2020:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Interest Rate Benchmark Reform

The adoption of the above new or amended HKFRSs that are effective from 1 January 2020 did not have any significant impact on the Group’s accounting policies or financial results and financial position.

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

The following new or 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.

Amendments to HKAS 1 HK Interpretation 5 (2020)	Classification of Liabilities as Current or Non-Current ⁴ Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ⁴
Amendments to HKAS 16 Amendments to HKAS 37 Amendments to HKFRS 3	Proceeds before Intended Use ² Onerous Contracts – Cost of Fulfilling a Contract ² Reference to the Conceptual Framework ³
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 Amendments to HKFRS 16 Annual Improvements to HKFRSs 2018-2020	Interest Rate Benchmark Reform – Phase 2 ¹ Covid-19 – Related Rent Concessions ⁵ Amendments to HKFRS 9 Financial Instruments and Amendments to Illustrative Examples accompanying HKFRS 16 Lease ²

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

3. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

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

- 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 Effective for annual periods beginning on or after 1 June 2020

The directors anticipate that all of the relevant pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. The directors are currently assessing the possible impact of these new or revised standards on the Group's results and financial position in the first year of application. The directors consider that these new standards and amendments is unlikely to have a material impact to the Group's financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

4.1 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (see 4.2 below). 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 dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.1 Business combination and basis of consolidation (Continued)

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to the fair value of the contingent 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.

Goodwill arising on business combination is measured according to the policy in note 4.3.

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 gain 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 basis as would be required if the relevant assets or liabilities were disposed of.

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

4.2 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present:

- power over the investee;
- exposure, or rights, to variable returns from the investee; and
- the ability to use its power to affect those variable returns.

Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Goodwill

Goodwill arising from the acquisition of subsidiaries, associates and joint ventures represents the excess of the aggregate of the fair value of consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed including contingent liabilities as at the date of acquisition.

Goodwill arising on acquisition is initially recognised in the consolidated statement of financial position as an asset at cost and subsequently measured at cost less any accumulated impairment losses. In case of associates and joint ventures, goodwill is included in the carrying amount of the interests in associates and joint ventures, respectively, rather than recognised as a separate asset on the consolidated statement of financial position.

Goodwill is reviewed for impairment at the end of each reporting period or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may be impaired (note 4.15). On the subsequent disposal of a subsidiary, associate or joint venture, the carrying amount of goodwill relating to the entity sold is included in determining the amount of gain or loss on disposal.

4.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

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 costs, such as repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

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

Furniture and fixtures	3–10 years
Office equipment	3–5 years
Moulds, tools and machineries	3–10 years
Leasehold improvements	3–8 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount (note 4.15).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5 Intangible assets (Other than goodwill)

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. After initial recognition, intangible assets with finite useful lives are amortised over the economic useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised but reviewed for impairment at least annually (note 4.15) either individually or at cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

(ii) Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss and included in cost of sales.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

4.6 Leases

The Company 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. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.6 Leases (Continued)

Right-of-use asset

Right-of-use asset is initially recognised at cost and would comprise: (i) the amount of the initial measurement of the 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. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-of-use assets at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease liability

Lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. Lease payments are 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 uses its incremental borrowing rate.

The following payments for the use of 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 lease 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 the 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, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g. a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 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, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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

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

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 three measurement categories into which the Group classifies its debt instruments:

(1) Financial assets at amortised cost

Financial 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 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.

(2) Financial assets at fair value through other comprehensive income ("FVOCI")

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Financial instruments (Continued)

(i) Financial assets (Continued)

(3) Financial assets at 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 or at FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. Changes in fair value and interest income are recognised in profit or loss.

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 FVOCI are measured at fair value. Dividend income are 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 other equity instruments are classified as financial assets at FVTPL and subsequently measure at fair value, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

(ii) Impairment loss on financial assets

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

ECL 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 financial assets' original effective interest rate.

The Group measure loss allowances for trade receivables using simplified approach and has calculated ECL based on lifetime ECL. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Financial instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

For other debt financial assets, the Group applies the general approach to measure ECL, that is to recognise a loss allowance based on 12-month ECL. However, when there has been a significant increase in credit risk since initial recognition, the loss allowance will be based on the lifetime ECL.

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 in default when: (i) 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 (ii) the financial asset is more than 90 days past due.

The Group recognises an impairment loss or reversal in profit or loss for financial instruments carried at amortised cost by adjusting their carrying amount through the use of a loss allowance account. The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

For investments in debt instruments that are measured at FVOCI, impairment loss is recognised in other comprehensive income and accumulated in the fair value reserve without reducing the carrying amounts of those debt instruments.

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

(iii) Financial liabilities

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

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, amounts due to related companies, bank borrowings and lease liabilities are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (note 4.16).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Financial instruments (Continued)

(iv) Effective interest method

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

(v) Equity instruments

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

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the loss allowance, being the ECL provision measured in accordance with principles of the accounting policy set out in note 4.7(ii); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15 *Revenue from Contracts with Customers* (HKFRS 15").

(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 Instruments*.

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

4.8 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short-term, highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4.9 Recognition of revenue and other income

Revenue from contracts with customers is recognised when control of goods and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.9 Recognition of revenue and other income (Continued)

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:

- (i) provides all the benefits received and consumed simultaneously by the customer;
- (ii) creates or enhances an asset that the customer controls as the Group performs; or
- (iii) 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 the control of the goods or services transferred 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 of time when the customer obtain control of the goods or service.

When the contract contains a financing component which provides a significant financing benefit 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 with the customer, and interest income is accrued separately under the effective interest method. 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.

Revenue from sales of goods is recognised at a point in time when the goods are delivered to and accepted by customers, taking into account any sales returns, discounts and rebates allowed by the Group. There is generally only one performance obligation. No element of financing is deemed to be as the sales are made with credit terms of 30 to 60 days, which is consistent with the market practice.

Interest income is accrued on a time basis using the effective interest method by applying applicable interest rate on (i) the amortised cost (i.e. gross carrying amount less loss allowance for credit-impaired financial assets; or (ii) the gross carrying amount for non-credit impaired financial assets.

4.10 Income tax

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 the reporting period.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.10 Income tax (Continued)

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

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

4.11 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 is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

4.12 Foreign currencies

Foreign currency transactions are translated into the functional currency of the individual entity or branch using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the rates ruling at the end of the reporting period are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined.

The functional currencies of certain entities of the Group and branches are currencies other than US\$. For the purpose of preparing the consolidated financial statements, assets and liabilities of these entities at the end of the reporting period are translated into US\$ at the exchange rate prevailing at the end of the reporting period. Income and expense items are translated into US\$ at the average exchange rate for the period, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating those ruling when the transactions took place are used. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in translation reserve.

On the 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 arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognised in the translation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.13 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 12 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.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(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) 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.

4.14 Share-based payment transactions

The Group operates equity-settled share-based compensation plans for remuneration of its employees and others providing similar services. All employee services and similar services received in exchange for the grant of financial instruments are measured at their fair values. The cost of equity-settled share-based compensation is measured by reference to the fair value of the equity instrument at the date on which they are granted. In determining the fair value, no account is taken of any non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based compensation is ultimately recognised as an expense in profit or loss unless it qualifies for recognition as asset with a corresponding increase in equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The fair value of the share options granted by the Company is recognised in profit or loss with a corresponding increase in share option reserve. Upon exercise of the share options, the relevant amount in the share option reserve is transferred to the share premium account. In case the vested share options are forfeited, the amount in the share option reserve is released directly to retained profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.15 Impairment of non-financial assets

Property, plant and equipment and right-of-use assets are subject to impairment testing. They are tested for impairment whenever there are indications that the assets' carrying amount may not be recoverable.

Impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss on property, plant and equipment and right-of-use assets is reversed if there has been a favourable change in the estimates used to determine the asset's or cash-generating unit's recoverable amount, but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised. A reversal of such impairment is credited to profit or loss in the period in which it arises.

4.16 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an assets, that necessarily take a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of the assets.

Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are recognised as an expense in the period in which they are incurred.

Borrowing costs consist of interest charges and other costs incurred in connection with the borrowing of funds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.17 Provisions and contingent liabilities

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

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

4.18 Segment reporting

The Group identifies operating segments, and prepares segment information based on the regular internal financial information reported to the executive directors of the Company for their decisions about resources allocation to the Group's business components and for their review of the performance of those components.

4.19 Government grants

Government grants are recognised when there is reasonable assurance that the grants will be received and all the attaching conditions will be complied with. When the grants relate to cost items, they are recognised as income on a systematic basis over the periods that the related costs for which the grants are intended to compensate are recognised as expenses. Government grants related to income are presented under other income.

4.20 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 apply:
 - (i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) both entities are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.20 Related parties (Continued)

- (b) An entity is related to the Group if any of the following conditions apply: (Continued)
 - (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 the 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 Company's parent.

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:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors of the Company are required to make judgment, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumption 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.

5.1 Key sources of estimation uncertainty

The estimates and assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial reporting period are as follows:

(a) Useful lives of property, plant and equipment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

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

5.1 Key sources of estimation uncertainty (Continued)

(b) Impairment of assets other than financial assets

The Group assesses whether there are any indicators of impairment for assets including property, plant and equipment, prepayment for acquisition of property, plant and equipment and right-of-use assets (the “non-financial assets”). Management assessed that as at 31 December 2020, there were indications of impairment in respect of those non-financial assets. Accordingly, management performed impairment testing for those non-financial assets by comparing their carrying amounts with their recoverable amounts following the accounting policy for impairment of non-financial assets (note 4.15). The non-financial assets are tested for impairment at cash-generating unit (“CGU”) level and the Group as a whole is regarded as a CGU for the purposes of the impairment testing. The recoverable amount of the CGU which is composed of the non-financial assets is determined using value-in-use calculations. Based on the value-in-use calculations of the CGU, the recoverable amount of the CGU is higher than the carrying amounts of the non-financial assets. Accordingly, management concluded that impairment provision is not necessary for those non-financial assets.

The value-in-use calculations comprise cash flow projection based on financial budget approved by the management. The cash flow projection incorporates a number of key estimates and assumptions about future events and therefore, are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgments, the directors take into consideration assumptions that are mainly based on market conditions existed at the end of the reporting period. These estimates are regularly compared to actual market data and actual transactions entered into by the Group. The value-in-use calculations also require the management to exercise judgement to determine an appropriate discount rate for the cash flow projection. Future changes in the events and conditions underlying the estimates and judgement would affect the estimation of recoverable amount and may result in adjustment to their carrying amounts.

(c) Allowance for inventories

Management carries out inventory review on a product-by-product basis at the end of each reporting period and provides allowance for obsolete items. A considerable amount of judgment and estimates is required in determining such allowance. If conditions which have an impact on the net realizable value of inventories deteriorate, additional allowances may be required. Management reviews the inventory ageing analysis at the end of the reporting period and identifies slow-moving inventories that are no longer suitable for consumption and saleable. Management estimates the net realisable value for such inventories based primarily on the latest invoice price and current market conditions.

(d) Impairment losses on receivables

The measurement of impairment losses on receivables requires judgement, in particular, the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

At the end of each reporting period, the Group assesses whether there has been a significant increase in credit risk on receivables since initial recognition by comparing the risk of default occurring over the expected life. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

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

5.1 Key sources of estimation uncertainty (Continued)

(e) Estimates of current and deferred tax

The Group is subject to taxation in various jurisdictions. Significant judgment is required in determining the amount of the provision for taxation, the timing of payment of the related taxation and the implementation of these taxes. The Group recognised income tax and other taxes based on management's best estimates according to their understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the tax expense in the period in which the tax calculations are finalised with the local tax authorities.

5.2 Critical judgment in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Accounting for transactions entered into with subcontractors

Certain production processes are outsourced to subcontractors. Terms and arrangements agreed with the subcontractors and the business practice of individual subcontractors are different. The Group has followed the guidance on principal versus agent considerations set out in HKFRS 15 to determine the appropriate accounting treatment for the transactions entered into with different subcontractors which is based on an evaluation of the terms and arrangements agreed with different subcontractors, and the business practice of individual subcontractors so as to assess whether the nature of their promise is a performance obligation to provide the specified goods or services itself (i.e. the subcontractors are principal) or to arrange for those goods or services to be provided by the other party (i.e. the subcontractors are agent). The assessment requires significant judgement by the management.

6. SEGMENT INFORMATION

Operating segment information

Operating segments are reported in a manner consistent with the way in which information is reported internally to the Group's chief operating decision-maker for the purpose of resources allocation and assessment.

In prior year, there were two reportable operating segments, namely sales of power discrete semiconductors and trading of raw materials. The Group has ceased to trade raw materials since the second half of year 2019 and as a result, there is only one reportable operating segment for the year, being the sales of power discrete semiconductors.

Information of the operating segments of the Group reported to the chief operating decision-maker for the purposes of resources allocation and performance assessment does not include assets and liabilities. Accordingly, no information of segment assets and liabilities is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

6. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

	Sales of power discrete semiconductors US\$'000	Total US\$'000
Year ended 31 December 2020		
Reportable segment revenue	21,098	21,098
Reportable segment profit	4,904	4,904
Corporate and unallocated income		162
Corporate and unallocated expenses		
– Employee costs		(2,464)
– Depreciation of right-of-use assets		(147)
– Depreciation of property, plant and equipment		(304)
– Finance costs		(8)
– Others*		(1,474)
Profit before income tax		669

	Sales of power discrete semiconductors US\$'000	Corporate/ Unallocated US\$'000	Consolidated US\$'000
Year ended 31 December 2020			
Depreciation of property, plant and equipment	1,306	304	1,610
Depreciation of right-of-use assets	85	147	232
Write down of inventories to net realisable value	151	–	151
Additions to specified non-current assets [#]	654	234	888

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

6. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

	Sales of power discrete semiconductors US\$'000	Trading of raw materials US\$'000	Total US\$'000
Year ended 31 December 2019			
Reportable segment revenue	17,463	534	17,997
Reportable segment profit	2,419	180	2,599
Corporate and unallocated income			20
Corporate and unallocated expenses			
– Employee costs			(2,472)
– Depreciation of right-of-use assets			(260)
– Depreciation of property plant and equipment			(297)
– Finance costs			(38)
– Others*			(867)
Loss before income tax			(1,315)

	Sales of power discrete semiconductors US\$'000	Trading of raw materials US\$'000	Corporate/ Unallocated US\$'000	Consolidated US\$'000
Year ended 31 December 2019				
Depreciation of property, plant and equipment	1,356	–	297	1,653
Depreciation of right-of-use assets	85	–	260	345
Write down of inventories to net realisable value	406	–	–	406
Additions to specified non-current assets [#]	401	–	67	468

[#] Including additions to property, plant and equipment and right-of-use assets and prepayments for acquisition of property, plant and equipment (that is, “specified non-current assets”)

* Others mainly comprise of legal and professional fees, travelling expenses and other office expenses

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

6. SEGMENT INFORMATION (Continued)

Geographical segment information

The following table provides an analysis of the Group's revenue from external customers, determined based on location of the customers:

	2020 US\$'000	2019 US\$'000
Hong Kong	–	–
Other regions of the PRC	11,017	9,320
Taiwan	8,038	7,150
Asia, other than the PRC	2,043	1,527
	21,098	17,997

An analysis of the Group's specified non-current assets by geographical locations, determined based on the location of the assets or the location of operations, is as follows:

	2020 US\$'000	2019 US\$'000
Hong Kong	–	–
Other regions of the PRC	5,971	6,549
Taiwan	632	557
	6,603	7,106

Information about major customers

Revenue from major customers, sales of whom individually accounted for 10% or more of the Group's revenue, are set out below:

	2020 US\$'000	2019 US\$'000
Customer A	3,503	2,382
Customer B	2,689	N/A
Customer C	2,275	2,298

N/A: not applicable as revenue of the customer for the respective year is less than 10% of the Group's revenue

The revenue derived from the above major customers are reported under the operating segment "Sales of power discrete semiconductors"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

7. REVENUE

The Group is principally engaged in the manufacturing and sales of power discrete semiconductors. Sales from the principal activities represent revenue from contracts with customers within the scope of HKFRS 15, which is recognised at a point in time and comprise:

	2020 US\$'000	2019 US\$'000
Sales of power discrete semiconductors	21,098	17,463
Trading of raw materials	–	534
	21,098	17,997

8. OTHER INCOME

	2020 US\$'000	2019 US\$'000
Bank interest income	39	7
Government grants	35	9
Sundry income	88	4
	162	20

9. OTHER LOSSES

	2020 US\$'000	2019 US\$'000
Exchange loss, net	363	12
Write-off of property, plant and equipment	12	–
	375	12

10. FINANCE COSTS

	2020 US\$'000	2019 US\$'000
Interest charges on bank borrowings	–	33
Interest element on lease liabilities	8	5
	8	38

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

11. PROFIT/(LOSS) BEFORE INCOME TAX

	2020 US\$'000	2019 US\$'000
Profit/(Loss) before income tax is arrived at after charging:		
Auditors' remuneration#		
Current year	93	90
Carrying amount of inventories sold	16,043	14,992
Write down of inventories to net realisable value	151	406
Write-off of property, plant and equipment	12	–
Research and development expenses**^	243	190
Depreciation of property, plant and equipment	1,610	1,653
Depreciation of right-of use assets	232	345
Employee benefit expenses (including directors' emoluments) (note 13)	3,310	3,355
Payments not included in the measurement of lease liabilities relating to lease of low value assets – office equipment	–	3

fees for audit services rendered by the auditor of the Company amounted to US\$83,000 (2019: US\$81,000)

* included in other operating expenses

^ exclude staff costs and depreciation of property, plant and equipment incurred for research and development activities

12. INCOME TAX EXPENSE

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

	2020 US\$'000	2019 US\$'000
Current tax		
– Hong Kong profits tax	27	–
– Other regions of the PRC		
– Enterprise Income Tax (“EIT”)	44	55
	71	55
Under provision in prior year		
– Other region of the PRC		
– EIT	1	1
– Taiwan profits tax	–	19
	1	20
Deferred tax (note 24)	(49)	35
Income tax expense	23	110

Hong Kong Profits Tax is calculated at 16.5% (2019: 16.5%) on the estimated assessable profits derived from Hong Kong for the year. Profits Tax arising from operations in Taiwan is calculated at 20% (2019: 20%) on the estimated assessable profit for the year. EIT arising from other regions of the PRC is calculated at 25% (2019: 25%) on the estimated assessable income for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

12. INCOME TAX EXPENSE (Continued)

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

	2020 US\$'000	2019 US\$'000
Profit/(Loss) before income tax	669	(1,315)
Tax on profit or loss at the rates applicable to profits or loss in the jurisdictions concerned	153	(246)
Tax effect of revenue not taxable for tax purpose	(105)	(3)
Tax effect of expenses not deductible for tax purpose	48	106
Utilisation of tax losses previously not recognised	(91)	(13)
Tax effect of tax losses not recognised	58	218
Tax effect of other temporary differences not recognised	(41)	28
Under provision in prior year	1	20
Income tax expense	23	110

13. EMPLOYEE BENEFIT EXPENSES

Employee costs (including directors) comprise:

	2020 US\$'000	2019 US\$'000
Salaries, wages and other benefits	3,225	3,167
Contribution to defined contribution retirement plans [#]	81	174
Equity-settled share-based payment expense (note 27)	4	14
	3,310	3,355

[#] no contribution is available for reducing the Group's existing level of contribution in the future

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

14. DIRECTORS' EMOLUMENTS, FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Directors' emoluments are disclosed as follows:

	Fees US\$'000	Salaries, allowances and other benefits US\$'000	Discretionary bonus* US\$'000	Share-based payment expense US\$'000 (note)	Pension scheme contribution US\$'000	Total US\$'000
Year ended 31 December 2020						
<i>Executive Directors</i>						
Mr. Hong James Man-fai ("Mr. Hong")	3	165	28	1	2	199
Mr. Chow Kai Chiu, David ("Mr. Chow")	3	-	-	-	-	3
<i>Non-Executive Directors</i>						
Mr. Yung Kwok Kee, Billy ("Mr. Yung")	3	-	-	-	-	3
Mr. Tang Che Yin ("Mr. Tang")	3	-	-	1	-	4
<i>Independence Non-Executive Directors</i>						
Mr. Lam, Peter ("Mr. Lam")	23	-	-	-	-	23
Mr. Leung Man Chiu, Lawrence ("Mr. Leung")	23	-	-	-	-	23
Mr. Fan Yan Hok, Philip ("Mr. Fan")	23	-	-	-	-	23
Total	81	165	28	2	2	278

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

14. DIRECTORS' EMOLUMENTS, FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

	Fees US\$'000	Salaries, allowances and other benefits US\$'000	Discretionary bonus* US\$'000	Share-based payment expense US\$'000 (note)	Pension scheme contribution US\$'000	Total US\$'000
Year ended 31 December 2019						
<i>Executive Directors</i>						
Mr. Hong	3	160	14	3	2	182
Mr. Chow	3	-	-	-	-	3
<i>Non-Executive Directors</i>						
Mr. Yung	3	-	-	-	-	3
Mr. Tang	3	-	-	3	-	6
<i>Independence Non-Executive Directors</i>						
Mr. Lam	23	-	-	-	-	23
Mr. Leung	23	-	-	-	-	23
Mr. Fan	23	-	-	-	-	23
Total	81	160	14	6	2	263

* The discretionary bonus is performance-related with the basis determined by the Remuneration Committee.

Note:

These amounts represent the estimated value of share options granted to the relevant Directors under the PFC Device Option Scheme (note 27). The value of these share options was measured according to the accounting policies for share-based payments as set out in note 4.14. Further details of the options granted are set out in note 27.

No emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office for the year ended 31 December 2020 (2019: nil). In addition, none of the Directors waived or agreed to waive any emoluments for the year ended 31 December 2020 (2019: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

14. DIRECTORS' EMOLUMENTS, FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included one (2019: one) director whose emoluments are included in note 14(a) above. The emoluments payable to the remaining four (2019: four) highest paid individuals are as follows:

	2020 US\$'000	2019 US\$'000
Salaries, allowances and other benefits	327	351
Discretionary bonus	47	40
Share-based payment expense	–	2
Contribution to pension scheme	10	8
	384	401

The emoluments of the above non-director highest paid individuals were within the following bands:

	2020 Number of individuals	2019 Number of individuals
Nil to HK\$1,000,000	4	3
HK\$1,000,001 to HK\$1,500,000	–	1

No emoluments were paid by the Group to any of the non-director highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2019: nil).

(c) Senior management's emoluments

Emoluments paid or payable to members of senior management who are not directors of the Company were within the following bands:

	2020 Number of individuals	2019 Number of individuals
Nil to HK\$1,000,000	1	1

15. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2020, nor has any dividend been proposed since the end of the reporting period (2019: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

16. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the following data:

	2020	2019
	US\$'000	US\$'000
Profit/(Loss)		
Profit/(Loss) for the year attributable to owners of the Company	646	(1,425)

	2020	2019
	Number of	Number of
	shares	shares
	'000	'000
Number of shares		
Weighted average number of ordinary shares in issue during the year	1,618,032	1,618,032

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the Company of US\$646,000 (2019: loss of US\$1,425,000), and the weighted average number of ordinary shares in issue during the year of 1,618,032,000 (2019: 1,618,032,000).

Diluted earnings per share for the year ended 31 December 2020 is the same as the basic earnings per share as the Company did not assume the exercise of the outstanding share options granted by the Company on 22 March 2017 (note 27) since the exercise price of the share options is higher than the average market price of the Company for the year.

Diluted loss per share for the year ended 31 December 2019 is the same as the basic loss per share as the impact of the potential dilutive ordinary shares outstanding which are the share options granted by the Company on 22 March 2017 (note 27) has an anti-dilutive effect on the basic loss per share presented for the year ended 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

17. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures US\$'000	Office equipment US\$'000	Moulds, tools and machineries US\$'000	Leasehold improvements US\$'000	Total US\$'000
COST					
At 1 January 2019	32	350	14,547	1,273	16,202
Translation adjustment	(1)	4	(187)	(18)	(202)
Additions	–	5	492	70	567
Write-off	–	–	(12)	–	(12)
At 31 December 2019 and 1 January 2020					
	31	359	14,840	1,325	16,555
Translation adjustment	3	26	1,051	92	1,172
Additions	–	17	379	–	396
Write-off	–	(8)	(50)	–	(58)
At 31 December 2020					
	34	394	16,220	1,417	18,065
DEPRECIATION AND IMPAIRMENT					
At 1 January 2019	25	184	7,287	570	8,066
Translation adjustment	–	3	(89)	(7)	(93)
Depreciation	3	52	1,430	168	1,653
Write-off	–	–	(12)	–	(12)
At 31 December 2019 and 1 January 2020					
	28	239	8,616	731	9,614
Translation adjustment	2	19	647	56	724
Depreciation	3	56	1,388	163	1,610
Write-off	–	(8)	(38)	–	(46)
At 31 December 2020					
	33	306	10,613	950	11,902
NET CARRYING AMOUNT					
At 31 December 2020	1	88	5,607	467	6,163
At 31 December 2019	3	120	6,224	594	6,941

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

18. LEASES

The Group entered into lease arrangements for leasing of production workshop, warehouse, office premises and staff dormitory located in Taiwan, Hong Kong and PRC. Right-of-use assets and lease liabilities are recognised for these leases according to the accounting policies for leases as set out in note 4.6. The periodic rent is fixed over the lease term, and the leases are negotiated for an initial period of one to three years (2019: one to three years).

Right-Of-Use Assets

The movement of right-of-use assets in respect of these leases are as follows:

	2020 US\$'000	2019 US\$'000
As at 1 January	142	317
Addition	209	173
Effect of lease modification	111	–
Depreciation	(232)	(345)
Translation adjustment	14	(3)
As at 31 December	244	142

Lease Liabilities

The movement of lease liabilities in respect of these leases are as follows:

	2020 US\$'000	2019 US\$'000
As at 1 January	142	317
Addition	208	173
Effect of lease modification	111	–
Finance cost	8	5
Lease payments	(238)	(350)
Translation adjustment	13	(3)
As at 31 December	244	142

Future lease payments are due as follows:

	2020 US\$'000	2019 US\$'000
Minimum lease payment due:		
Not later than one year	248	128
Later than one year and not later than two years	–	17
	248	145
Less: Future finance charges	(4)	(3)
Present value of lease liabilities	244	142

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

18. LEASES (Continued)

Lease Liabilities (Continued)

	2020 US\$'000	2019 US\$'000
Analysis as:		
Current liabilities	244	125
Non-current liabilities	–	17
	244	142

19. INVENTORIES

	2020 US\$'000	2019 US\$'000
Raw materials	2,297	1,878
Work-in-progress	2,435	1,600
Finished goods	520	458
	5,252	3,936

A provision of US\$424,000 made in prior years against the carrying amount of inventories have been reversed during the year. This reversal was mainly driven by supply chain shortages of semiconductor and as a result, some inventories which were previously slow moving or obsolete were being utilised to meet the tight demand for the year.

20. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2020 US\$'000	2019 US\$'000
Trade receivables	4,304	4,161
Less: Provision for impairment	–	–
Trade receivables, net	4,304	4,161
Other receivables	114	1,878
Deposits and prepayments	875	121
	5,293	6,160

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

20. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

The ageing analysis of the trade receivables (net), based on invoice date, as of the end of the reporting period is as follows:

	2020 US\$'000	2019 US\$'000
0 to 30 days	1,760	1,614
31 to 60 days	1,778	1,404
61 to 90 days	723	812
Over 90 days	43	331
	4,304	4,161

The Group normally allows a credit period of 30 to 60 days after the month of delivery to its trade customers. Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 34(c).

21. CASH AND BANK BALANCES

Cash and bank balances include the following:

	2020 US\$'000	2019 US\$'000
Cash at banks and in hand	5,088	4,803
Short-term bank deposit	4,506	2,000
	9,594	6,803

Cash at banks earns interest at floating rates based on daily bank deposits rates. Short-term time deposits are made for period depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates.

The Group's short-term bank deposits amounting to RMB29,395,000 (equivalent to US\$4,506,000) (2019: US\$2,000,000) were placed with banks with an original maturity of three months or less and earn interest income at interest rates ranged from 1.755% – 2% per annum (2019: 1.64% per annum).

As at 31 December 2020, cash balances and deposits of the Group denominated in RMB amounted to approximately US\$6,112,000 (2019: US\$979,000). RMB is not freely convertible into other currencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

22. TRADE AND OTHER PAYABLES

	2020 US\$'000	2019 US\$'000
Trade payables	1,938	1,401
Other payables and accruals	1,392	1,207
	3,330	2,608

The credit period granted by suppliers is normally 30 to 60 days after the month of delivery. The ageing analysis of trade payables, based on invoice date, as of the end of the reporting period is as follows:

	2020 US\$'000	2019 US\$'000
0 to 30 days	808	871
31 to 60 days	1,019	496
61 to 90 days	105	28
Over 90 days	6	6
	1,938	1,401

23. AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES

The amounts due are unsecured, interest-free and repayable on demand.

24. DEFERRED TAX

Details of the Group's deferred tax assets and liabilities recognised in the consolidated statement of financial position and their movements during the year are as follows:

	Accelerated tax depreciation US\$'000	Impairment provision on property, plant and equipment US\$'000	Other temporary differences US\$'000	Total US\$'000
At 1 January 2019	–	103	110	213
Translation adjustment	1	–	4	5
Credited/(Charged) to profit or loss (note 12)	(73)	(19)	57	(35)
At 31 December 2019 and 1 January 2020	(72)	84	171	183
Translation adjustment	(5)	–	14	9
Credited/(Charged) to profit or loss (note 12)	8	(18)	59	49
At 31 December 2020	(69)	66	244	241

The year end balance represents:

	2020 US\$'000	2019 US\$'000
Deferred tax assets	241	183

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

24. DEFERRED TAX (Continued)

As at 31 December 2020, the Group had unused tax losses of approximately US\$1,510,000 (2019: US\$1,671,000) available for offset against future profits, among which the entire amount of US\$1,510,000 (2019: US\$1,122,000) may be carried forward for ten years from the financial year when the corresponding loss was incurred whereas no amount (2019: US\$549,000) may be carried forward indefinitely. No deferred tax assets in respect of these tax losses have been recognised in the financial statements due to the unpredictability of future profits stream.

Deferred tax liabilities of approximately US\$88,000 (2019: US\$77,000) have not been established for the withholding taxation that would be payable on the unremitted earnings of a PRC subsidiary as at 31 December 2020 as, in the opinion of the directors, it is not probable that this subsidiary will distribute such earnings in the foreseeable future. Such unremitted earnings amounted to approximately US\$1,752,000 as at 31 December 2020 (2019: US\$1,544,000).

25. SHARE CAPITAL

The movements in the authorised and issued and fully paid share capital of the Company during the current and prior years are summarised as follows:

	Par value HK\$	Number of ordinary shares	Amount HK\$'000
Authorised:			
At 1 January 2019, 31 December 2019 and 31 December 2020	0.01	3,800,000,000	38,000
Issued and fully paid:			
At 1 January 2019, 31 December 2019 and 31 December 2020	0.01	1,618,032,277	16,180
		2020 US\$'000	2019 US\$'000
Issued and fully paid share capital presented in the financial statements in US\$		2,085	2,085

26. RESERVES

The Group

The following describes the nature and purpose of reserves within owner's equity.

(a) Share premium

Share premium is the excess of the proceeds received over the nominal value of the shares of the Company issued at a premium, less expenses incurred in connection with the issue of the shares.

(b) Share option reserve

Share option reserve comprises the cumulated expenses recognised on granting of share options over the vesting period and is dealt with in accordance with the accounting policy in note 4.14.

(c) Merger reserve

Merger reserve arose from combining the financial statements of the companies now comprising the Group during the reorganisation in connection with the listing of shares of the Company on the GEM of the Stock Exchange in 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

26. RESERVES (Continued)

The Group (Continued)

(d) Capital contribution

Capital contribution as at 31 December 2020 and 2019 amounting to US\$1,247,000 arose from the group reorganisation conducted in 2016 which included capitalisation of tax recharged by a fellow subsidiary amounting to US\$31,000 and capitalisation of other balances due to fellow subsidiaries amounted to US\$1,216,000.

(e) Translation reserve

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations in accordance with the accounting policy in note 4.12.

(f) Accumulated losses

Accumulated losses are the cumulative net gains and losses recognised in profit or loss.

The Company

Details of the movements in the Company's reserves are as follows:

	Share premium US\$'000	Share option reserve US\$'000	Accumulated losses US\$'000	Total US\$'000
At 1 January 2019	21,067	194	(5,895)	15,366
Profit and total comprehensive income for the year	–	–	1,258	1,258
Share-based payment (note 27)	–	14	–	14
Vested share options forfeited (note 27)	–	(2)	2	–
At 31 December 2019 and 1 January 2020	21,067	206	(4,635)	16,638
Profit and total comprehensive income for the year	–	–	1,296	1,296
Share-based payment (note 27)	–	4	–	4
Vested share options forfeited (note 27)	–	(67)	67	–
At 31 December 2020	21,067	143	(3,272)	17,938

27. SHARE-BASED PAYMENT ARRANGEMENTS

Pursuant to the resolution passed by the shareholders of the Company on 19 September 2016, the adoption of the share option scheme of the Company (the "PFC Device Option Scheme") was approved to enable the Company to grant options to eligible persons as incentives or rewards for their contributions or potential contributions to the Group. Eligible participants of PFC Device Option Scheme include the directors, employees, executives or officers of the Group and any suppliers, consultants, agents, advisers and related entities to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

27. SHARE-BASED PAYMENT ARRANGEMENTS (Continued)

The PFC Device Option Scheme shall be valid and effective for a period of ten years commencing from the date on which the PFC Device Option Scheme becomes unconditional. The subscription price shall be such price as the board of directors of the Company in its absolute discretion shall determine, provided that such price will not be less than the highest of: (a) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (b) the average of the official closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the share of the Company. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 22 March 2017, options to subscribe for an aggregate of 41,794,191 shares of the Company, were granted under PFC Device Option Scheme to certain directors, employees and consultants, which shall vest based on the vesting schedules specified in the offer documents of the respective grantees. Share options granted to non-employee participants are for their contribution to the Group in respect of providing services similar to those rendered to its employees.

The fair value of the share options granted on 22 March 2017 was HK\$3,271,000, equivalent to approximately US\$421,000. Such fair value was estimated by independent professional valuer at the date of grant using Binomial Model taking into account the terms and conditions of the options granted. The following table shows the significant inputs used in the model:

Dividend yield	0%
Historical volatility	43.032%
Risk-free interest rate	1.636%
Expected life of option	10 years

The historical volatility of a combination of companies of similar nature were used to estimate the historical volatility of the Company's shares.

During the year ended 31 December 2020, share-based payment expense of US\$4,000 was charged to profit or loss (2019: US\$14,000). The movements of the share options granted under PFC Device Option Scheme during the years ended 31 December 2020 and 2019 are as follows:

Grantee	Date of grant	Exercise price HK\$	Numbers of options			
			As at 1 January 2020	Exercised	Forfeited	As at 31 December 2020
Directors						
Mr. Hong	22 March 2017	0.165	5,408,343	–	–	5,408,343
Mr. Tang	22 March 2017	0.165	2,800,000	–	–	2,800,000
Other employees	22 March 2017	0.165	9,799,821	–	(4,510,446)	5,289,375
Consultants	22 March 2017	0.165	1,960,000	–	(1,800,000)	160,000
			19,968,164	–	(6,310,446)	13,657,718

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

27. SHARE-BASED PAYMENT ARRANGEMENTS (Continued)

Grantee	Date of grant	Exercise price HK\$	Numbers of options			As at 31 December 2019
			As at 1 January 2019	Exercised	Forfeited	
Directors						
Mr. Hong	22 March 2017	0.165	5,408,343	–	–	5,408,343
Mr. Tang	22 March 2017	0.165	2,800,000	–	–	2,800,000
Other employees	22 March 2017	0.165	10,059,821	–	(260,000)	9,799,821
Consultants	22 March 2017	0.165	1,960,000	–	–	1,960,000
			20,228,164	–	(260,000)	19,968,164

The closing price of the Company's shares immediately before the date of grant of share options was HK\$0.172.

The share options granted on 22 March 2017 are valid and effective for a period of 10 years from date of acceptance on 1 April 2017 subject to vesting requirements that the options shall be vested by stages which last for 9 months to 3.25 years.

During the year, options to subscribe for 6,310,446 shares (2019: 260,000 shares) of the Company were forfeited upon the resignation of the employees of the Group.

As at 31 December 2020, all the outstanding 13,657,718 shares options granted under PFC Device Option Scheme were vested and exercisable by the grantees by giving notice in writing to the Company. The weighted average remaining contractual life of these options was 6.25 years (2019: 7.25 years). The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of additional 13,657,718 shares of the Company (2019: 19,968,164 shares) and additional share capital of HK\$137,000 (equivalent to US\$18,000) (2019: HK\$200,000 (equivalent to US\$25,000)).

No share options were granted or exercised during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

28. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	2020 US\$'000	2019 US\$'000
ASSETS AND LIABILITIES			
Non-current asset			
Investment in a subsidiary		13,392	13,392
Current assets			
Other receivables, prepayments and deposits		30	13
Amounts due from subsidiaries		7,652	4,507
Cash and bank balances		120	2,033
		7,802	6,553
Current liabilities			
Other payables and accruals		135	136
Amounts due to subsidiaries		1,036	1,086
		1,171	1,222
Net current assets		6,631	5,331
Net assets		20,023	18,723
CAPITAL AND RESERVES			
Share capital	25	2,085	2,085
Reserves	26	17,938	16,638
Total Equity		20,023	18,723

On behalf of the directors

Chow Kai Chiu, David
Director

Hong James Man-Fai
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

29. CAPITAL COMMITMENTS

	2020 US\$'000	2019 US\$'000
Commitments for acquisition of property, plant and equipment		
– Contracted for but not provided	1,015	53

30. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliations of liabilities arising from financing activities are as follows:

	Lease liabilities US\$'000	Bank borrowings US\$'000
At 1 January 2019	317	600
Changes from cash flows:		
Proceeds from bank borrowings	–	1,330
Repayment of bank borrowings	–	(1,930)
Payment of principal element of lease liabilities	(345)	–
Interest paid	–	(33)
Payment of interest element of lease liabilities	(5)	–
Total changes from financing cash flow	(350)	(633)
Other changes:		
Interest expenses (note 10)	5	33
Recognition of lease liabilities	173	–
Translation adjustment	(3)	–
At 31 December 2019 and 1 January 2020	142	–
Changes from cash flows:		
Payment of principal element of lease liabilities	(230)	–
Payment of interest element of lease liabilities	(8)	–
Total changes from financing cash flow	(238)	–
Other changes:		
Interest expenses (note 10)	8	–
Recognition of lease liabilities	208	–
Effect of lease modification	111	–
Translation adjustment	13	–
At 31 December 2020	244	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

31. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group had the following significant related party transactions during the year:

(a) During the year, the Group entered into the followings significant transactions with related parties:

Name	Related party relationship	Type of transaction	Transaction amount	
			2020 US\$'000	2019 US\$'000
Shell Holdings (note (i))	Ultimate holding company	Rental and building management fee charged by the related party for office premises	33	32
SMC Electric (HK) Limited (note (ii))	Fellow subsidiary	Sales of finished goods to related party	23	23
佛山市順德區蜆華多媒體製品有限公司 (Foshan Shunde SMC Multi-Media Products Company Limited* ("Shunde Multi-Media")) (note (iii))	Fellow subsidiary	Rental and building management fee charged by the related party for production workshop with office facilities and staff dormitory	151	152
Shunde Multi-Media (note (iii))	Fellow subsidiary	Fee charged by the related party for provision of catering services	4	4
迅速資產管理(深圳)有限公司 (Xun Su Asset Management (Shenzhen) Limited*) (note (iii))	Fellow subsidiary	Rental charged by the related party for office premises and staff dormitory	98	91
廣東兆傲電子有限公司 (Guangdong Zhaoao Electronics Co., Ltd*) (note (iii))	Fellow subsidiary	Fee charged by the related party for provision of sub-contracting work service	303	19

* for identification purposes only

Notes:

- (i) Shell Holdings is the ultimate holding company of the Group. Mr. Yung, a non-executive director of the Company, is the ultimate beneficial owner of Shell Holdings.
- (ii) SMC Electric (HK) Limited is a wholly-owned subsidiary of SMC Electric Limited and Shell Holdings holds 75% issued shares of SMC Electric Limited.
- (iii) Shunde Multi-Media, Xun Su Asset Management (Shenzhen) Limited and Guangdong Zhaoao Electronics Co., Ltd are indirect wholly-owned subsidiaries of Shell Holdings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

31. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

The transactions were conducted on mutually agreed terms.

The Group recognised right-of-use assets (note 18) and lease liabilities (note 18) in relation to the above-mentioned lease agreements for production workshop with office facilities following the requirement of HKFRS 16. During the year, the total undiscounted rental payments under lease agreements were approximately US\$118,000 (2019: US\$230,000).

(b) Compensation of key management personnel:

The remuneration of directors and other members of key management were as follows:

	2020 US\$'000	2019 US\$'000
Salaries, allowance and other benefits	364	335
Share-based payment expense	1	7
Contributions to defined contribution retirement plan	6	5
	371	347

32. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital and to support the Group's financial stability and growth.

The Group monitors its capital structure on the basis of gearing ratio i.e. net debt to equity. Net debt includes borrowings and advances from group companies except for those which would subsequently be capitalised, less cash and bank balances. Equity represents total equity of the Group.

The directors of the Company actively and regularly reviews and manages the Group's capital structure, taking into consideration the future capital requirements of the Group, to ensure optimal shareholders' returns. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, issue new shares, return capital to shareholders, raise new debts or sells assets to reduce debt.

As at 31 December 2019 and 2020, the Group had no bank borrowing and advances from group companies and the gearing ratio of the Group, calculated as net debt over total equity, was nil (2019: nil).

The Group targets to maintain a gearing ratio to be in line with expected changes in economic and financial conditions. The Group's overall strategy on capital management remains unchanged throughout the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

33. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

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

	2020 US\$'000	2019 US\$'000
Financial assets at amortised cost		
– Trade and other receivables and deposits	4,375	5,994
– Amount due from a fellow subsidiary	5	7
– Cash and bank balances	9,594	6,803
	13,974	12,804
Financial liabilities at amortised cost		
– Trade and other payables	3,133	2,598
– Amount due to fellow subsidiaries	182	76
– Lease liabilities	244	142
	3,559	2,816

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and other receivables, deposits, cash and bank balances, trade and other payables, lease liabilities and balances with related companies. Due to their short-term nature, the carrying values of these financial instruments approximate their fair values.

(b) Financial instruments measured at fair value

As at 31 December 2019 and 2020, the Group did not have any financial instruments measured at fair value and accordingly, no analysis on fair value hierarchy is presented.

34. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks which comprise market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the key management under the policies approved by the board of directors. The Group does not have written risk management policies. However, the directors of the Company and senior management meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks.

Generally, the Group employs a conservative strategy regarding its financial risk management. As the directors consider that the Group's exposure to financial risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The most significant risks to which the Group is exposed to are described below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

34. FINANCIAL RISK MANAGEMENT (Continued)

(a) Currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in Hong Kong, the PRC and Taiwan. The functional currencies of the Company and its subsidiaries are mainly US\$, RMB and TWD with certain of their business transactions being settled in foreign currencies including US\$, RMB and HK\$. The Group is thus exposed to currency risk arising from fluctuations on foreign currencies, primarily US\$, RMB and HK\$, against the functional currencies of the Company and the relevant group entities. Currently the Group does not have foreign currency hedging policy but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group continues to conduct its sales mainly in US\$ and TWD and make payments either in US\$, HK\$, RMB or TWD. The directors closely monitor the volatility of the exchange rates of US\$ against RMB and TWD, to which the Group has major exposure. All in all, the Group's risk exposure to foreign exchange rate fluctuations remains not material.

The overall exposure in respect of the carrying amounts of the Group's foreign currency denominated financial assets and liabilities in net position as at the end of the reporting period are as follows:

	2020	2019
	US\$'000	US\$'000
Net monetary assets denominated in foreign currency of US\$	3,995	3,163

As HK\$ is pegged to US\$, the Group does not have material currency risk arising from fluctuation of exchange rate between HK\$ and US\$ and thus the relevant balances denominated in HK\$ or US\$ are excluded from the Group's net position in the above table. The following sensitivity analysis, determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year and held constant throughout the year, demonstrates the Group's exposure to a reasonably possible change in US\$ against the functional currencies of RMB and TWD on the Group's net monetary assets or liabilities position denominated in US\$ as at the end of the reporting period (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material):

	Increase in profit/Decrease in loss for the year and decrease in accumulated loss	
	2020	2019
	US\$'000	US\$'000
US\$ appreciated by 5% (2019: 5%)	154	123

The changes in the exchange rates do not affect the Group's other components of equity. The same percentage depreciation in US\$ against the functional currencies of the respective group companies would have the same magnitude on the result of the Group but of opposite effect.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

34. FINANCIAL RISK MANAGEMENT (Continued)

(b) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk mainly arises from bank deposits.

The Group's bank balances expose it to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on the bank balances. The directors of the Company consider the Group's exposure to interest rate risk in respect of bank balances is not significant as interest-bearing bank deposits are within short maturity periods in general.

The Group currently does not have an interest rate hedging policy. However, the management closely monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

(c) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk is primarily attributable to its trade receivables, other receivables and bank balances. The maximum exposure to credit risk of the Group's financial assets at the end of the reporting period is their carrying amount.

In respect of trade receivables, the Group limits its exposure to credit risk by rigorously selecting the counterparties and to deal with creditworthy counterparties. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Credit terms are granted to new customers after creditworthiness assessment. The Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management assesses the collectability of the receivables regularly for the determination of any loss allowance for the receivables by taking into account of the customers' financial condition, current creditworthiness, past settlement history, business relationship with the Group and other factors such as market conditions.

In respect of other debt financial asset, the Group measures loss allowance under general approach. The loss allowance is based on 12-month ECL. However when there has been a significant increase in credit risk since origination, the loss allowance will be based on the lifetime ECL.

The Group assesses whether there has been a significant increase in credit risk for exposure since initial recognition on an ongoing basis throughout the year. To assess whether there has been a significant increase in credit risk, the Group compares the risk of default occurring on receivables over the expected life between the reporting date and the date of initial recognition. For this purpose, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This include both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition.

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change in the debtors' ability to meet its debt obligations;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

34. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit risk (Continued)

- actual or expected significant changes in the operating results of the debtors;
- significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtor in the Group; and
- actual or expected significant adverse change in the regulatory, economic, or technological environment in which the debtor operates that results in a significant change in the debtors' ability to meet its debt obligations.

The Group assesses whether a financial asset is credit-impaired at the end of the reporting period. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter into bankruptcy or other financial reorganisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

The Group measures loss allowance for trade receivables at an amount equal to lifetime ECL, which is calculated using a provision matrix by reference to past default experience of the debtor and current market condition in relation to each debtor's exposure and time value of money where appropriate. The ECL also incorporate forward looking information with reference to general macroeconomic conditions that may affect the liability of the debtors to settle the trade receivables. Trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The Group has assessed that the ECL rate for trade receivables as at 31 December 2019 and 31 December 2020 was not significant. Accordingly, no additional loss allowance for trade receivables was recognised during the respective years. In addition, the Group has assessed that the ECL rate for other debt financial assets as at 31 December 2019 and 31 December 2020 was not significant and thus no loss allowance is made for other debt financial assets.

In respect of the bank balances, the Group's exposure to credit risk is limited because majority of the bank balances and short-term bank deposits are deposited in reputable banks, for which the Group consider to have low credit risk. There was no history of default in relation to these financial institutions.

The credit policies have been consistently applied and are considered to be effective in limiting the Group's exposure to credit risk to a desirable level.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2020

34. FINANCIAL RISK MANAGEMENT (Continued)

(d) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade and other payables, amounts due to fellow subsidiaries and its financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain a prudent liquidity risk management which is to maintain sufficient cash and cash equivalents as well as to make available of fund through adequate amounts of committed credit facilities and the ability to close out market positions. The Group's policy is to regularly monitor its 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 liquidity policies have been followed by the Group since prior years and are considered to have been effective in managing liquidity risk.

The following table below analyses the remaining contractual maturities of the Group's financial liabilities at the end of the reporting period which are based on contractual undiscounted cash flows (interest payments computed using contractual rates or, if floating, based on rate current at the end of reporting period) at the earliest date the Group may be required to pay.

Specifically, for bank loans which contain repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the bank was to invoke its unconditional rights to call the loans with immediate effect. The maturity analysis for other financial liabilities is prepared based on the scheduled repayment dates.

	Within one year or on demand US\$'000	One to Two years US\$'000	Total contractual undiscounted cash flows US\$'000	Carrying amount US\$'000
At 31 December 2020				
Trade and other payables	3,133	–	3,133	3,133
Amounts due to fellow subsidiaries	182	–	182	182
Lease liabilities	248	–	248	244
	3,563	–	3,563	3,559
At 31 December 2019				
Trade and other payables	2,598	–	2,598	2,598
Amounts due to fellow subsidiaries	76	–	76	76
Lease liabilities	128	17	145	142
	2,802	17	2,819	2,816

FINANCIAL SUMMARY

For the year ended 31 December 2020

A summary of results and of assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements in this annual report of the Company, are as follows:

RESULTS

	For the year ended 31 December				
	2020 US\$'000	2019 US\$'000	2018 US\$'000	2017 US\$'000	2016 US\$'000
Revenue	21,098	17,997	23,354	27,617	22,840
Profit/(Loss) before income tax	669	(1,315)	(1,067)	866	390
Income tax expense	(23)	(110)	(23)	(306)	(472)
Profit/(Loss) for the year attributable to owners of the Company	646	(1,425)	(1,090)	560	(82)

ASSETS AND LIABILITIES

	As at 31 December				
	2020 US\$'000	2019 US\$'000	2018 US\$'000	2017 US\$'000	2016 US\$'000
Total assets	26,988	24,195	25,851	29,074	31,514
Total liabilities	(3,797)	(2,846)	(2,929)	(4,394)	(9,294)
Net assets	23,191	21,349	22,922	24,680	22,220