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PC PARTNER GROUP LIMITED

栢能集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1263)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

	Year ended 31 December		Change
	2016	2015	
	<i>HK\$ million</i>	<i>HK\$ million</i>	
Turnover	5,838.0	4,754.1	+22.8%
Gross Profit	590.7	415.2	+42.3%
Profit/(Loss) for the year attributable to owners of the Company	150.2	(18.5)	+917.3%
Gross Profit %	10.1%	8.7%	+16.1%
Net Profit/(Loss) %	2.6%	(0.4)%	+750.0%

The board of directors (the “Board”) of PC Partner Group Limited (the “Company”) is pleased to announce the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2016 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Turnover	4,5	5,837,964	4,754,149
Cost of sales		(5,247,217)	(4,338,900)
Gross profit		590,747	415,249
Other revenue and other gains and losses	6	(16,156)	(29,840)
Selling and distribution expenses		(81,868)	(83,583)
Administrative expenses		(320,881)	(307,277)
Finance costs	7	(14,170)	(10,728)
Profit/(loss) before income tax	8	157,672	(16,179)
Income tax expense	9	(7,610)	(2,327)
Profit/(loss) for the year		150,062	(18,506)
Other comprehensive income, after tax, that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(199)	(1,220)
Total comprehensive income for the year		149,863	(19,726)
Profit/(loss) for the year attributable to:			
— Owners of the Company		150,189	(18,460)
— Non-controlling interests		(127)	(46)
		150,062	(18,506)
Total comprehensive income for the year attributable to:			
— Owners of the Company		149,990	(19,680)
— Non-controlling interests		(127)	(46)
		149,863	(19,726)
		<i>HK\$</i>	<i>HK\$</i>
Earnings/(loss) per share			
— Basic		0.36	(0.04)
— Diluted		0.36	(0.04)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		55,315	49,185
Intangible assets		6,130	6,417
Other financial assets		20,992	20,992
Deferred tax assets		2,414	1,452
		<hr/>	<hr/>
Total non-current assets		84,851	78,046
Current assets			
Inventories	<i>13</i>	1,281,467	802,205
Trade and other receivables	<i>12</i>	748,177	634,027
Current tax recoverable		22	1,348
Pledged time deposits		450	426
Cash and cash equivalents		789,839	789,783
		<hr/>	<hr/>
Total current assets		2,819,955	2,227,789
		<hr/>	<hr/>
Total assets		2,904,806	2,305,835
Current liabilities			
Trade and other payables	<i>14</i>	961,437	712,842
Borrowings	<i>15</i>	987,555	800,407
Provisions		12,883	3,965
Obligations under finance leases		16	16
Derivative financial liabilities		—	8,245
Current tax liabilities		9,646	2,703
		<hr/>	<hr/>
Total current liabilities		1,971,537	1,528,178
		<hr/>	<hr/>
Net current assets		848,418	699,611
		<hr/>	<hr/>
Total assets less current liabilities		933,269	777,657
		<hr/>	<hr/>
Non-current liabilities			
Obligations under finance leases		35	51
Deferred tax liabilities		40	63
		<hr/>	<hr/>
Total non-current liabilities		75	114
		<hr/>	<hr/>
NET ASSETS		933,194	777,543
		<hr/>	<hr/>
Capital and reserves			
Share capital	<i>16</i>	42,939	41,752
Reserves		890,431	735,840
		<hr/>	<hr/>
Equity attributable to owners of the Company		933,370	777,592
		<hr/>	<hr/>
Non-controlling interests		(176)	(49)
		<hr/>	<hr/>
TOTAL EQUITY		933,194	777,543
		<hr/>	<hr/>

Notes:

1. GENERAL INFORMATION

PC Partner Group Limited (the “Company”) was incorporated in the Cayman Islands on 1 April 2010 with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. Its principal place of business is situated in 19/F., Shatin Galleria, 18–24 Shan Mei Street, Fo Tan, New Territories, Hong Kong.

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

(a) Adoption of new/revised HKFRSs — effective 1 January 2016

The Group has adopted the following new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant to its operations and effective for annual periods beginning on or after 1 January 2016.

HKFRSs (Amendments)	Annual Improvements 2012–2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts

The adoption of these amendments has no material impact on the Group’s financial statements.

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

The following new/revised HKFRSs, potentially relevant to the Group’s financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date they become effective.

Amendments to HKAS 7	Disclosure Initiative ¹
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ¹
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions ²
HKFRS 9	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15) ²
HKFRS 16	Leases ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

- ⁴ The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

The Group is in the process of making an assessment of the potential impact of these pronouncements. The directors so far concluded that the application of these new pronouncements will have no material impact on the Group's financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values.

4. SEGMENT REPORTING

(a) Reportable segments

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

(b) Geographical information

(i) Turnover

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Asia Pacific ("APAC")	2,367,555	2,029,566
North and Latin America ("NALA")	900,902	634,249
People's Republic of China ("PRC")	1,621,705	1,333,631
Europe, Middle East, Africa and India ("EMEAI")	947,802	756,703
	<u>5,837,964</u>	<u>4,754,149</u>

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

(ii) *Specified non-current assets*

An analysis of Group's non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets ("specified non-current assets") is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
APAC	8,771	9,081
NALA	25,388	25,614
PRC	27,236	20,882
EMEAI	50	25
	<u>61,445</u>	<u>55,602</u>

(c) **Revenue from major products and services**

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Video graphics cards	4,502,049	3,578,724
Electronics manufacturing services	680,924	760,701
Other PC related products and components	654,991	414,724
	<u>5,837,964</u>	<u>4,754,149</u>

(d) **Revenue from brand and non-brand businesses**

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Brand businesses	3,427,652	2,724,127
Non-brand businesses	2,410,312	2,030,022
	<u>5,837,964</u>	<u>4,754,149</u>

(e) **Information about the major customer**

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Customer A (<i>Note</i>)	<u>1,062,393</u>	<u>896,343</u>

Note:

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

5. TURNOVER

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

6. OTHER REVENUE AND OTHER GAINS AND LOSSES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest income	3,194	3,033
Net exchange losses	(20,429)	(32,015)
Net fair value gains/(losses) on derivative financial instruments	1,172	(6,583)
(Loss)/gain on disposal of property, plant and equipment	(226)	55
Sundry income	5,168	5,670
Provision for demand of repayment	(3,678)	—
Others	(1,357)	—
	<u>(16,156)</u>	<u>(29,840)</u>

7. FINANCE COSTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest on bank advances and other borrowings	<u>14,170</u>	<u>10,728</u>

8. PROFIT/(LOSS) BEFORE INCOME TAX

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Inventories recognised as expense	5,239,102	4,323,772
Provision for obsolete inventories	8,115	15,128
Cost of sales	<u>5,247,217</u>	<u>4,338,900</u>
Staff costs	351,535	324,284
Auditor's remuneration	1,701	1,858
Depreciation of property, plant and equipment	16,077	24,588
Amortisation of intangible assets (<i>Note a</i>)	287	287
Provision for impairment losses on trade and other receivables	746	837
Operating lease payments on plant and machinery	193	231
Operating lease payments on premises	34,272	37,003
Property, plant and equipment written off	—	103
Provision for product warranties and returns, net	<u>16,922</u>	<u>1,727</u>
Research and development expenditure (<i>Note b</i>)	<u>45,270</u>	<u>41,999</u>

Notes:

- (a) Amortisation of intangible assets of HK\$287,000 (2015: HK\$287,000) is included in "Administrative expenses" in the consolidated statement of comprehensive income.
- (b) The research and development expenditure for the year includes HK\$45,270,000 (2015: HK\$41,999,000) relating to depreciation of plant and machinery and office equipment and employee benefits expense for research and development activities, which are also included in the total amounts disclosed above for each of these types of expenses.

9. INCOME TAX EXPENSE

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current tax — Hong Kong		
— provision for the year	6,034	256
— (over)/under provision in respect of prior year	(1,632)	1,267
Current tax — PRC		
— provision for the year	4,674	454
— over provision in respect of prior year	(2,238)	(510)
Current tax — others		
— provision for the year	1,774	586
— over provision in respect of prior year	(18)	(63)
	<u>8,594</u>	<u>1,990</u>
Deferred tax		
— origination and reversal of temporary differences	(984)	337
Income tax expense	<u><u>7,610</u></u>	<u><u>2,327</u></u>

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

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

Hong Kong profits tax is calculated at 16.5% (2015: 16.5%) on the estimated assessable profits for the year ended 31 December 2016. A significant subsidiary of the Group, PC Partner Limited, is exempted under Departmental Interpretation and Practice Notes No.21 issued by the Inland Revenue Department of Hong Kong in respect of claiming 50% of all of its manufacturing profits as offshore in nature and non-taxable.

The Group's wholly owned subsidiary located in the PRC, 東莞栢能電子科技有限公司 successfully obtained the "High Technology Enterprise" status during 2012 and the applicable PRC enterprise income tax rate for the year is 15% (2015: 15%). Other PRC subsidiaries of the Group are subject to PRC enterprise income tax at a statutory rate of 25% (2015: 25%) on the assessable profits as determined in accordance with the relevant income tax rules and regulations of the PRC for the year ended 31 December 2016.

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

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Profit/(loss) before income tax	<u>157,672</u>	<u>(16,179)</u>
Tax on profit/(loss) before income tax, calculated at Hong Kong profits tax rate	26,016	(2,669)
Effect of different tax rates of subsidiaries operating in other jurisdictions	5,618	(1,262)
Effect of tax exemption granted to a subsidiary	(7,158)	(1,306)
Tax effect of (non-taxable)/non-deductible net (income)/expenses relating to offshore operation	(4,687)	419
Tax effect of expenses not deductible for tax purposes	22,521	11,031
Tax effect of revenue not taxable for tax purposes	(23,850)	(10,219)
Tax effect of tax losses and deductible temporary differences not recognised	454	4,989
Utilisation of tax losses and deductible temporary differences previously not recognised	(7,632)	(31)
(Over)/under provision in prior year	(3,888)	694
Tax rebate	(71)	(52)
Others	287	733
Income tax expense	<u>7,610</u>	<u>2,327</u>

10. DIVIDENDS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
2015 Final dividend paid — HK\$Nil (2015: 2014 Final dividend paid — HK\$0.045) per share	—	18,788
2016 Interim dividend paid — HK\$0.035 per share	<u>14,613</u>	—
Dividends paid for the year	<u>14,613</u>	<u>18,788</u>

The directors of the Company proposed a final dividend of HK\$0.108 (2015: HK\$Nil) per share and a special dividend of HK\$0.036 (2015: HK\$Nil) per share, totalling HK\$61,833,000 (2015: HK\$Nil) after the end of the reporting period. The final dividend and special dividend have not been recognised as liabilities at the end of the reporting period.

11. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share for the years ended 31 December 2016 and 2015 is based on the profit/(loss) for the year and assuming the shares were in issue during the current and prior years, calculated as follows:

Profit/(loss)

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Profit/(loss) for the purpose of basic and diluted earnings/(loss) per share	<u>150,189</u>	<u>(18,460)</u>

Number of shares

	2016	2015
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share	<u>419,421,359</u>	<u>417,518,668</u>

The computation of diluted earnings/(loss) per share for the year ended 31 December 2016 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares.

12. TRADE AND OTHER RECEIVABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade receivables	731,923	623,171
Less: Accumulated impairment losses	<u>(7,333)</u>	<u>(6,594)</u>
	724,590	616,577
Other receivables	8,483	4,300
Deposits and prepayments	<u>15,104</u>	<u>13,150</u>
	<u>748,177</u>	<u>634,027</u>

The ageing analysis of trade receivables (net of impairment losses) as of the end of the year is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 1 month	404,718	411,767
Over 1 month but within 3 months	287,502	153,345
Over 3 months but within 1 year	29,385	31,439
Over 1 year	<u>2,985</u>	<u>20,026</u>
	<u>724,590</u>	<u>616,577</u>

The credit period on sale of goods is 30 to 60 days (2015: 25 to 60 days) from the invoice date.

The ageing analysis of trade receivables which are past due but not impaired is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 1 month	125,046	101,193
Over 1 month but within 3 months	78,833	26,419
Over 3 months but within 1 year	16,027	19,776
Over 1 year	2,970	19,785
	<u>222,876</u>	<u>167,173</u>

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

Receivables that were past due but not impaired related to a number of independent customers that have a good track record. Based on past experience, the directors consider that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. As at 31 December 2016, the Group has held certain pledge of properties for these balances totalling approximately HK\$29,345,000 (2015: HK\$19,424,000) while the fair value of properties is amounted to HK\$29,520,000 (2015: HK\$26,881,000).

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
At beginning of year	6,594	7,130
Provision of impairment loss recognised	746	837
Uncollectible amounts written off	(9)	(1,371)
Exchange difference	2	(2)
	<u>7,333</u>	<u>6,594</u>

13. INVENTORIES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Raw materials	616,656	415,226
Work-in-progress	34,832	22,134
Finished goods	664,356	402,204
	<u>1,315,844</u>	<u>839,564</u>
Less: Provision for obsolete inventories	(34,377)	(37,359)
	<u>1,281,467</u>	<u>802,205</u>

14. TRADE AND OTHER PAYABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade payables	828,143	589,244
Other payables and accruals	133,294	123,598
	<u>961,437</u>	<u>712,842</u>

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

The ageing analysis of trade payables as of the end of reporting period is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 1 month	563,934	395,437
Over 1 month but within 3 months	242,260	180,743
Over 3 months but within 1 year	18,689	9,499
Over 1 year	3,260	3,565
	<u>828,143</u>	<u>589,244</u>

15. BORROWINGS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Import loans — secured	968,897	786,136
Discounted bills	18,658	14,271
	<u>987,555</u>	<u>800,407</u>

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
On demand or within 1 year	<u>987,555</u>	<u>800,407</u>

16. SHARE CAPITAL

	2016		2015	
	<i>Number of shares</i>	<i>HK\$'000</i>	<i>Number of shares</i>	<i>HK\$'000</i>
Authorised:				
Ordinary shares of HK\$0.1 each	<u>1,000,000,000</u>	<u>100,000</u>	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:				
Ordinary shares of HK\$0.1 each				
At beginning of year	417,518,668	41,752	417,518,668	41,752
Share options exercised	11,875,000	1,187	—	—
At end of year	<u>429,393,668</u>	<u>42,939</u>	<u>417,518,668</u>	<u>41,752</u>

FINAL DIVIDEND AND SPECIAL DIVIDEND

The Board recommends the payment of a final dividend of HK10.8 cents per share and a special dividend of HK3.6 cents per share for the year ended 31 December 2016 be paid on or before 19 June 2017 to the shareholders of the Company whose names appear on the Company's register of members at the close of business on 5 June 2017. The proposed final dividend and special dividend are subject to the approval by the shareholders of the Company at the forthcoming Annual General Meeting ("AGM") to be held on 25 May 2017 (Thursday).

ANNUAL GENERAL MEETING

The Annual General Meeting (the "AGM") of the Company will be held on 25 May 2017 (Thursday). The Notice of the AGM, which constitutes part of the circular to shareholders, will be sent together with the 2016 Annual Report in due course.

CLOSURE OF REGISTER OF MEMBERS AND RECORD DATE

- (a) For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from 22 May 2017 (Monday) to 25 May 2017 (Thursday) (both days inclusive), during which time no transfer of shares will be registered. To ensure that shareholders are entitled to attend and vote at the AGM, shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's share registrar, Computershare Hong Kong Investor Services Limited, located at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 19 May 2017 (Friday) for registration of the relevant transfer.
- (b) The proposed final dividend and special dividend are subject to the approval of the shareholders at the Annual General Meeting. The record date for the proposed final dividend and special dividend is fixed on 5 June 2017 (Monday). For determining the entitlement to the proposed final dividend and special dividend, the register of members of the Company will be closed from 1 June 2017 (Thursday) to 5 June 2017 (Monday) (both days inclusive), during which time no transfer of shares will be effected. In order to qualify for the proposed final dividend and special dividend, shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 31 May 2017 (Wednesday) for registration of the relevant transfer.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

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

The Group provides EMS to globally recognized brands, including major providers of Point-Of-Sales (“POS”) and Automatic Teller Machines (“ATM”) systems, fitness wearable devices and Light Emitting Diode (“LED”) modules. Aside from video graphics cards the EMS businesses, the Group manufactures and sells other PC related products such as mini-PCs, motherboards, and further derives revenue from trading products and components.

Business Performance

The operating results has achieved a significant rebound in 2016 with the total revenue of the Group has increased by HK\$1,083.9 million, or 22.8%, from HK\$4,754.1 million in 2015 to HK\$5,838.0 million in 2016. It was mainly contributed by a strong sales of new products under the own brands video graphics cards segment since the business has recorded a growth of HK\$721.2 million, or 29.5%, from HK\$2,447.2 million in 2015 to HK\$3,168.4 million in 2016. Due to the new graphic processing units (GPU) introduced to the market that triggered a strong demand of new video graphics cards in the second half year, the sales of the own brands video graphics cards segment of the second half year in 2016 was 38.3% higher than the first half of the year. The business in the second half of the year has also achieved a 37.0% growth rate in compare to the same period in 2015.

Orders on OEM/ODM basis video graphics cards business increased by HK\$202.2 million or 17.9% from HK\$1,131.5 million in 2015 to HK\$1,333.7 million in 2016. The new technologies of the new series of GPUs with significantly higher performance have driven the demand on OEM orders beside brand businesses on video graphics cards.

EMS business recorded a decline of HK\$79.8 million, or 10.5%, from HK\$760.7 million in 2015 to HK\$680.9 million in 2016. The change was mainly resulted from less orders obtained by customers due to a continuously weak economy in the European Union and fierce price competition.

Other PC related products and components has achieved a growth of HK\$240.3 million, or 57.9%, from HK\$414.7 million in 2015 to HK\$655.0 million in 2016. The growth was mainly contributed by the increase of sales from mini-PC, trading components and other new businesses.

Brand businesses has grown faster than non-brand businesses over the past few years. The brand businesses achieved a growth of HK\$703.5 million, or 25.8%, from HK\$2,724.1 million in 2015 to HK\$3,427.7 million in 2016. The brand businesses represented 58.7% of the overall group revenue in 2016; in which, ZOTAC, the core brand of PC Partner Group, contributed HK\$2,835.9 million which represented 82.7% of the sales of overall brand businesses and it represented 48.6% of the total group revenue in the year of 2016. ZOTAC is expected to grow continuously since the group will continue to delegate more resources to the ZOTAC brand and enrich the brand with more product lines as well as more activities of advertising and promotion in the future.

All geographical regions reported a double digit growth rate in 2016 with a comparison to last year. North and Latin America (“NALA”) region has achieved a growth rate of 42.0% which was mainly contributed from own brand video graphics cards business. The Europe, Middle East, Africa and India (“EMEAI”) region, the People’s Republic of China (“PRC”) region, and the Asia Pacific (“APAC”) region, have also recorded growth rate of 25.3%, 21.6% and 16.7% respectively.

APAC Region

In the APAC region, the revenue significantly increased by HK\$338.0 million, or 16.7%, from HK\$2,029.6 million in 2015 to HK\$2,367.6 million in 2016. It was mainly due to a significant increase on orders of video graphic cards from both the OEM basis customers and own brands products. Approximately HK\$152.5 million of the increment was generated from ZOTAC brand on video graphics cards business.

EMEI Region

In the EMEAI region, the revenue amounted to HK\$947.8 million in 2016, representing an increase of HK\$191.1 million, or 25.3%, as compared to HK\$756.7 million in 2015. It was mainly due to the increase of sales of brand businesses of video graphics cards and increase on orders from the customer on POS and ATM systems under the EMS business segment.

NALA Region

In the NALA region, the revenue significantly increased from HK\$634.2 million in 2015, representing an increase of HK\$266.7 million, or 42.0%, to HK\$900.9 million in 2016. The increase was mainly resulted from increasing sales from own brand customers on video graphics cards especially in the second half year of 2016 for the new products launched.

PRC Region

In the PRC region, the revenue recorded a growth to HK\$1,621.7 million in 2016, representing an increase of HK\$288.1 million, or 21.6%, as compared to HK\$1,333.6 million in 2015. It was mainly attributable to the sales increment on video graphics cards in 2016. The brand business in the PRC region, especially ZOTAC, has been growing on double digits on year to year basis since 2013 which due to a strong brand awareness.

Business Compliance

The Group has achieved an on-going compliance with laws and regulations with its operating entities, and fulfilled different social responsibilities according to ISO9001, ISO14001, OHSAS18001, QC080000 and the code issued by EICC. Please refer to the section of the Environmental, Social and Governance Report in the Annual Report.

Principal Risks and Uncertainties

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

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

The Group is not aware of any particular of important event that have been occurred would trigger a risk and uncertainty since the end of the financial year of 2016.

Outlook

Both Nvidia and AMD will be launching new graphic processing units (GPU) this year that is expected to stimulate the purchase demands on new video graphics cards in this year. We expect the video graphics cards market will continue growing or at least maintain stability in comparison to last year. Virtual reality (VR) was the hottest topic in the industry in last year and it seems the topic has cooled down a bit since the costs of VR hardware products are relatively high and not seen too many games, applications and contents have been made available so far. Once there is a wider adoption of VR applications and contents, the costs of such hardware will become lower so that the demand of video graphics cards and computers that can fulfill the VR performance requirements will be picking up, and this could be a revolution in the computer industry which changes our life and behaviour.

We will be devoting more resources onto ZOTAC and turn this brand into a truly gaming brand. Besides introducing a very first wireless backpack computer, VR GO, for VR gaming to the market in last year, we will be adding more new product lines into the ZOTAC brand and promoting the brand and products by various eSports activities starting from this year. For example, ZOTAC will be the very first company arranging eSports competition at COMPUTEX 2017. We will be exploring opportunities on artificial intelligence (AI) by using video graphics cards solution, and this could be another business line for us in future.

Our OEM divisions will continue looking for new business opportunities either in the computer sector or other electronics sectors. In addition, we will continue to invest into talents in order to introduce more innovative ideas and products. We will also continue to invest into automation in our manufacturing plants in order to drive the operation to be even more cost effective and efficient in long run.

Financial Review

Revenue

The Group's total revenue increased by HK\$1,083.9 million, or 22.8%, from HK\$4,754.1 million in 2015 to HK\$5,838.0 million in 2016. It was mainly due to an increase in revenue of both business segments, video graphics cards and other PC related products and components, that offset the decline of EMS the business.

Revenue from the video graphics cards has increased by HK\$923.3 million, or 25.8%, from HK\$3,578.7 million in 2015 to HK\$4,502.0 million in 2016. It was mainly due to an increase on own brand business that has been increased by HK\$721.2 million, or 29.5%, from HK\$2,447.2 million in 2015 to HK\$3,168.4 million in 2016. The growth on own brand video graphics business was mainly

contributed by new products launched in the second half of the year. Latest video graphics cards technology breakthrough has been achieved with a significant higher on performance with the same level of price point from the previous product generation. Continuous improvement on such technologies would also contribute more orders and demand on our ODM/OEM sector under the video graphics cards segment. Orders demand on ODM/OEM contract manufacturing businesses increased by HK\$202.2 million, or 17.9%, from HK\$1,131.5 million in 2015 to HK\$1,333.7 million in 2016.

Revenue derived from the EMS business amounted to HK\$680.9 million in 2016, representing a decrease of HK\$79.8 million, or 10.5%, as compared to HK\$760.7 million in 2015. The change was mainly resulted from less orders obtained by customers due to a continuous weak economy in the European Union and fierce price competition.

Revenue from other PC related products and components increased by HK\$240.3 million, or 57.9%, from HK\$414.7 million in 2015 to HK\$655.0 million in 2016. The growth was mainly contributed by the increase on sales from mini-PC, trading components and other new businesses.

Gross Profit and Margin

The Group's gross profit in 2016 was HK\$590.7 million, representing an increase of HK\$175.5 million, or 42.3%, compared with HK\$415.2 million in 2015. Gross profit margin increased by 1.4 percentage point to 10.1% compared with 8.7% in 2015. It was mainly contributed by increase on sales and gross profit margin from own brand business of video graphics cards and mini-PCs under the other PC related products and components segment. In addition, savings on productivity improvement has been achieved by spending less on direct labour and conversion costs for a total of HK\$19.0 million, or 9.3% from HK\$204.8 million in 2015 to HK\$185.8 million in 2016, with a 22.8% increase on revenue during the year. The percentage of labour and conversion costs to revenue ratio has been improved from 4.3% in 2015 to 3.2% in 2016.

Profit/(Loss) for the Year

The Group recorded a profit of HK\$150.2 million in 2016 as compared with a loss of HK\$18.5 million in 2015. It was mainly due to a significant increase in gross profit being contributed by sales increase and a better product mix with higher gross profit margin being generated for the year under review. The operating expenses were only slightly increased by HK\$15.3 million, or 3.8%, from HK\$401.6 million in 2015 to HK\$416.9 million in 2016 despite the increase in people costs to support the additional business as well as additional resources on future business development. Operating expenses as a percentage of revenue has been decreased by 1.3 percentage point from 8.4% in 2015 to 7.1% in 2016.

Selling and distribution expenses decreased by HK\$1.7 million, or 2.1%, from HK\$83.6 million in 2015 to HK\$81.9 million in 2016. The spending as a percentage of revenue has decreased by 0.4% from 1.8% in 2015 to 1.4% in 2016. This is contributed by a tight control on selling and marketing spending throughout the year.

Administrative expenses increased by HK\$13.6 million or 4.4% from HK\$307.3 million in 2015 to HK\$320.9 million in 2016; Staff costs represented 83.3% out of the total administrative expenses for the year under review. Staff costs has been increased by HK\$41.9 million, or 18.6%, from HK\$225.4 million in 2015 to HK\$267.3 million in 2016. The increment was mainly due to the additional performance bonus provision as well as the annual salary review adjustment which partially offset the savings on staff headcount reduction during the year under review.

Finance costs increased by HK\$3.5, or 32.1%, from HK\$10.7 million in 2015 to HK\$14.2 million in 2016. It was mainly resulted from a high utilisation of the bank borrowings during the year under review. Finance costs as a percentage of revenue has been maintained at 0.2% in the year of 2015 and 2016.

Income tax expenses was resulted due to increase in profit during the year under review.

Profit/(Loss) Attributable to Shareholders and Dividends

The profit attributable to shareholders of the Group for 2016 was HK\$150.2 million which resulted in an earnings of HK36 cents per share. Since the Group operated in an earnings position in 2016, the Directors proposed a final dividend of HK10.8 cents per share for the year ended 31 December 2016, which is estimated to be HK\$46.4 million in total. The Group would maintain the dividend payout policy at 30% to 40% on earned profit of the year. PC Partner was formed in July 1997 and it has been established for 20 years by July 2017, the Directors proposed a special dividend of HK3.6 cents per share, which is estimated to be HK\$15.5 million in total, to celebrate its 20th anniversary and to reward the support of shareholders.

Liquidity and Financial Resources

Shareholders' Funds

Total shareholders' funds have been increased by HK\$155.9 million, or 20.0%, from HK\$777.5 million in 2015 to HK\$933.4 million in 2016.

Financial Position

The Group has total current assets of HK\$2,820.0 million as at 31 December 2016 and HK\$2,227.8 million as at 31 December 2015. The Group's total current liabilities amounted to HK\$1,971.5 million as at 31 December 2016 and HK\$1,528.2 million as at 31 December 2015. The Group's current ratio, defined as total current assets over total current liabilities, decreased from 1.5 as at 31 December 2015 to 1.4 as at 31 December 2016.

The Group's cash and bank balances remained at HK\$789.8 million as at 31 December 2015 and 31 December 2016, certain cash on hand is going to settle the trade loans to be due in the coming few months. Based on the borrowings of HK\$987.6 million as at 31 December 2016 and HK\$800.5 million as at 31 December 2015, and total equity of HK\$933.2 million as at 31 December 2016 and HK\$777.5 million as at 31 December 2015, the Group's net debts to equity ratio (being debts minus cash and cash equivalents divided by total equity) increased from 1.4% as at 31 December 2015 to 21.2% as at December 2016. The increase was mainly due to a higher ratio on increase on bank borrowings by end of 2016.

Exposure to Fluctuation in Exchange Rates

As at 31 December 2016, the Group was exposed to currency risk primarily through sales and purchases that have denominated in currencies other than the functional currency of the operations to which they relate. The currencies giving rise to the risk are primarily United States dollar, Renminbi and Korean Won. The Group managed certain of its exchange rate risk by entering into non-deliverable foreign exchange forward contract.

Working Capital

Inventories of the Group as at 31 December 2016 were HK\$1,281.5 million, increased by HK\$479.3 million, or 59.7%, as compared with HK\$802.2 million as at 31 December 2015. The inventory turnover days increased from 71 days as at 31 December 2015 to 73 days as at 31 December 2016. Upto end of February 2017, about two-third of finished goods were sold out and half of raw materials were utilised.

Trade receivables as at 31 December 2016 were HK\$724.6 million, increased by HK\$108.1 million, or 17.5%, as compared with HK\$616.5 million as at 31 December 2015. Trade receivable turnover days decreased from 50 days as at 31 December 2015 to 42 days as at 31 December 2016.

Trade payables as at 31 December 2016 was HK\$828.1 million, increased by HK\$238.9 million, or 40.5%, as compared with HK\$589.2 million as at 31 December 2015. Trade payable turnover days decreased from 53 days as at 31 December 2015 to 49 days as at 31 December 2016.

Charge on Assets

As at 31 December 2016, bank deposit of HK\$0.4 million was pledged to banks to secure general banking facilities granted to the Group.

Capital Expenditure

The Group spent HK\$23.9 million on capital expenditure in 2016. All of these capital expenditures were financed by internal resources and the proceeds from the initial public offering.

Capital Commitments

As at 31 December 2016, total capital commitments amounted to HK\$0.4 million.

Contingency

On 2 September and 30 November 2016, Zalman Tech Co., Ltd. (“Zalman”), a Korean company, issued solicitor letters to Zotac Korea Ltd (“Zotac Korea”), the Company’s indirect wholly-owned subsidiary, complaining that there was an infringement of Zalman’s registered patent (“Patent”) by three Zotac Korea’s video graphic cards. The Patent is an invention related to cooling fans. There has been no claim of damages and no legal proceeding was instituted by Zalman upto the date of this announcement.

The management has sought for legal opinion from a local independent lawyer. The lawyer is of the opinion that the Patent infringement complaint is un-substantiated and Zalman will have a low chance of success if it institutes legal proceedings against Zotac Korea. Accordingly, no provision has been made in the Group’s consolidated financial statements.

Significant Acquisitions and Disposals of Investments

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

Future plans for material investments or capital assets

The Group had no plan for material investments or acquisitions of capital assets as at 31 December 2016, but will actively pursue opportunities for investments to enhance its profitability in the ordinary course of business.

USE OF PROCEEDS

The aggregated net proceeds from the Offering (as defined in the Company's prospectus dated 29 December 2011), based on an offer price of HK\$1.6 per offer share was HK\$109.0 million. The Group intended to apply such net proceeds as set forth in the prospectus dated 29 December 2011, namely HK\$46.0 million for expansion production capacity, HK\$24.0 million for promotion and development of new products and brand name, HK\$24.0 million for research and development, HK\$5.0 million for upgrading the existing Enterprise Resources Planning ("ERP") system and IT resources, and HK\$10.0 million for the Group's working capital and general corporate purposes. As at 31 December 2016, the Group has applied HK\$38.8 million on expansion of production facilities, HK\$24.0 million on promotion and development of new products and brand name, HK\$24.0 million on research and development, and HK\$5.0 million on ERP system upgrade project.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group had 2,889 employees (2015: 2,975 employees). Employees are remunerated on basis of their individual performance and prevailing industry practice. Compensation policies and remuneration packages of the employees are reviewed at least once a year. In addition to basic salary, medical benefits, provident fund and performance related bonuses may also be awarded to employees. The Company has adopted a Pre-IPO Share Option Scheme to recognise the contributions of and as retention incentive to the executive directors, certain management staff and selected long service employees of the Group. Subsequently, the Company has also adopted 2016 Share Option Scheme on 17 June 2016.

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 Company's listed securities during the year.

CORPORATE GOVERNANCE

During the year ended 31 December 2016, the Company has complied with the code provisions set out in the Corporate Governance Code (the "Code") as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"), except for the deviation from code provision A.2.1 of the Code as described below.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. For the year ended 31 December 2016, roles of chairman and chief executive officer of the Company were performed by Mr. WONG Shik Ho Tony. With Mr. WONG's extensive experience in the electronics industry, in addition to his role as chairman responsible for the overall strategic management and corporate development of the Group, he is also heavily involved and instrumental to the Group in running its daily business. The Board considers that vesting the roles of chairman and chief executive officer simultaneously in Mr. WONG is beneficial to the business prospects and management of the Group. The roles of the respective executive directors and senior management, who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure

is conducive to a strong and balanced management organisation that enables the Group to operate effectively. The Board currently comprises of 5 Executive Directors, 1 Non-executive Director and 3 Independent Non-executive Directors and therefore has sufficient independent elements in its composition.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The Company established an audit committee on 21 December 2011 with written terms of reference. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system of the Company and to provide advice and comments to the Board. The audit committee consists of three members who are all Independent Non-executive Directors, namely, Mr. LAI Kin Jerome (chairman), Mr. IP Shing Hing and Mr. CHEUNG Ying Sheung.

The audit committee has reviewed the audited financial statements of the Group for the year ended 31 December 2016.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the preliminary announcement of the Group’s results for the year ended 31 December 2016 have been agreed by the Group’s auditor, BDO Limited, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the website of Hong Kong Exchanges and Clearing Limited (“HKEx”) www.hkex.com.hk and on the Company’s website at www.pcpartner.com. The 2016 Annual Report of the Company will be dispatched to the shareholders and will be available on the websites of HKEx and the Company in due course.

By order of the Board
PC Partner Group Limited
WONG Shik Ho Tony
Chairman

Hong Kong, 29 March 2017

As at the date of this announcement, the Executive Directors of the Company are Mr. WONG Shik Ho Tony, Mr. WONG Fong Pak, Mr. LEUNG Wah Kan, Mr. HO Nai Nap, Mr. MAN Wai Hung, the Non-executive Director is Mrs. HO WONG Mary Mee-Tak (Mr. CHIU Wing Yui is Alternate Director to Mrs. HO WONG Mary Mee-Tak); and the Independent Non-executive Directors are Mr. IP Shing Hing, Mr. LAI Kin Jerome and Mr. CHEUNG Ying Sheung.

* *For identification purposes only*