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 2018

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2018	2017	Change
	HK$ million	*HK$ million*	
Revenue	**9,122.3**	8,555.4	+6.6%
Gross Profit	**957.4**	916.0	+4.5%
Profit for the year attributable to owners of the Company	**270.8**	332.3	−18.5%
Gross Profit %	**10.5%**	10.7%	−1.9%
Net Profit %	**3.0%**	3.9%	−23.1%

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 2018 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	4, 5	**9,122,319**	8,555,368
Cost of sales		**(8,164,874)**	(7,639,397)
Gross profit		**957,445**	915,971
Other revenue and other gains and losses	6	**(10,203)**	12,089
Selling and distribution expenses		**(142,611)**	(133,565)
Administrative expenses		**(435,487)**	(403,941)
Impairment losses on financial assets		**(2,034)**	(7,535)
Finance costs	7	**(50,251)**	(24,046)
Profit before income tax	8	**316,859**	358,973
Income tax expense	9	**(46,877)**	(26,900)
Profit for the year		**269,982**	332,073
Other comprehensive income, after tax			
Items that will not be reclassified to profit or loss:			
Changes in fair value of equity instruments at fair value through other comprehensive income		**(4,727)**	—
Gain on disposal of financial assets at fair value through other comprehensive income		**5,259**	—
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(1,794)**	3,605
Total comprehensive income for the year		**268,720**	335,678
Profit for the year attributable to:			
— Owners of the Company		**270,843**	332,293
— Non-controlling interests		**(861)**	(220)
		269,982	332,073
Total comprehensive income for the year attributable to:			
— Owners of the Company		**269,581**	335,898
— Non-controlling interests		**(861)**	(220)
		268,720	335,678
		HK$	*HK$*
Earnings per share	11		
— Basic		**0.66**	0.76
— Diluted		**0.66**	0.75

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**84,313**	58,728
Intangible assets		**6,355**	5,915
Other financial assets		**10,893**	36,612
Deferred tax assets		**6,655**	6,445
Total non-current assets		**108,216**	107,700
Current assets			
Inventories	*13*	**2,497,524**	1,349,456
Trade and other receivables	*12*	**912,314**	1,186,246
Right of return assets		**25,955**	—
Amount due from a related party		—	1,762
Derivative financial assets		**464**	—
Cash and bank balances		**813,499**	1,453,815
Total current assets		**4,249,756**	3,991,279
Total assets		**4,357,972**	4,098,979
Current liabilities			
Trade and other payables	*14*	**1,648,464**	1,487,961
Refund liabilities		**39,557**	—
Contract liabilities		**41,823**	—
Amount due to a related party		**2,090**	—
Borrowings	*15*	**1,709,646**	1,350,956
Provisions		**28,243**	28,576
Obligations under finance leases		**18**	18
Current tax liabilities		**10,758**	23,361
Total current liabilities		**3,480,599**	2,890,872
Net current assets		**769,157**	1,100,407
Total assets less current liabilities		**877,373**	1,208,107
Total non-current liabilities			
Obligations under finance leases		**49**	67
NET ASSETS		**877,324**	1,208,040
Capital and reserves			
Share capital	*16*	**37,209**	44,484
Reserves		**840,078**	1,163,669
Equity attributable to owners of the Company		**877,287**	1,208,153
Non-controlling interests		**37**	(113)
TOTAL EQUITY		**877,324**	1,208,040

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 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 12 January 2012. The address of its registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. Its principal place of business is situated at 19/F., Shatin Galleria, 18–24 Shan Mei Street, Fo Tan, New Territories, Hong Kong.

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

2. **ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS**

(a) Adoption of new/revised HKFRSs — effective 1 January 2018

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 2018.

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

The impact of the adoption of HKFRS 9 Financial Instruments (see note 2A below) and HKFRS 15 Revenue from Contracts with Customers (see note 2B below) have been summarised below. The other new or amended HKFRSs that are effective from 1 January 2018 did not have any material impact on the Group's accounting policies.

A. HKFRS 9 Financial Instruments ("HKFRS 9")

(i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

The directors considered that there is no material impact on transition to HKFRS 9 on the opening balance of retained profits, other reserves and non-controlling interests ("NCI") as at 1 January 2018.

HKFRS 9 basically retains the existing requirements in HKAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables that do not contain a significant financing component in accordance with HKFRS 15, an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised cost"); (ii) financial assets at fair value through other comprehensive income ("FVTOCI"); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVTOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to be achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

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. All other financial assets not classified at amortised cost or FVTOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVTOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised cost	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FVTOCI (equity investments)	Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

(a) As at 1 January 2018, certain unquoted equity investments were reclassified from available-for-sale financial assets at cost to FVTOCI. These unquoted equity investments has no quoted price in an active market. The Group intends to hold these unquoted equity investments for long term strategic purposes. In addition, the Group has designated such unquoted equity investments at the date of initial application as measured at FVTOCI. The directors consider that the fair value of these investments, as at 1 January 2018, approximate to their then carrying amount as at 31 December 2017 and so no opening adjustment is required.

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	**Original classification under HKAS 39**	**New classification under HKFRS 9**	**Carrying amount as at 1 January 2018 under HKAS 39** *HK$'000*	**Carrying amount as at 1 January 2018 under HKFRS 9** *HK$'000*
Other financial assets	Available-for-sale (at cost) (note 2A(i)(a))	FVTOCI	36,612	36,612
Trade and other receivables (excluding non-financial assets of HK$17,627,000)	Loans and receivables (notes 2A(ii)(a) and (b))	Amortised cost	1,168,619	1,168,619
Amount due from a related party	Loans and receivables (note 2A(ii)(b))	Amortised cost	1,762	1,762
Cash and bank balances	Loans and receivables	Amortised cost	1,453,815	1,453,815

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". HKFRS 9 requires the Group to recognise ECLs for trade receivables, other receivables and amount due from a related party. Cash and bank balances are subject to ECLs model but the impairment is immaterial for the current year.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12–month ECLs: these are the ECLs that result from possible default events within the 12–month after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

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

For other debt financial assets, the ECLs are based on the 12-month ECLs. The 12-month ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. 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.

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

The Group considers a financial asset to be in default when the borrower 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).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt investment at FVTOCI, the loss allowance is recognised in other comprehensive income, instead of reducing the carrying amount of the assets.

Impact of the ECLs model

(a) Impairment of trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which adopts a lifetime ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Additional loss allowance as at 1 January 2018 was determined by the directors to be immaterial.

The loss allowances for trade receivables decreased by HK$1,305,000 during the year ended 31 December 2018.

(b) Impairment of other receivables and amount due from a related party

The directors consider that the loss allowance on other receivables and amount due from a related party by applying the ECLs model on 1 January 2018 and for the year ended 31 December 2018 is immaterial.

(iii) Hedge accounting

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(iv) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the consolidated statement of financial position as at 1 January 2018. This means that differences (if any) in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained profits and other reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 which is 1 January 2018:

- The determination of the business model within which a financial asset is held;
- The designation of certain investments in equity investments not held for trading as at FVTOCI.

B. HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect (if any) of initially applying HKFRS 15 as an adjustment to the opening balance of retained profits at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated and there is no adjustment to the opening balance of retained profits as at 1 January 2018.

The following tables summarised the impact of adopting HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of comprehensive income for the year ended 31 December 2018 by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with amounts that would have been reported under HKAS 18 and related interpretations. There was no material impact on the Group's consolidated statement of cash flows for the year ended 31 December 2018:

Impact on the consolidated statement of financial position as at 31 December 2018 (increase/(decrease)):

	HK$'000
Assets	
Current assets	
Right of return assets *(note 2B(a))*	**25,955**
Liabilities	
Current liabilities	
Trade and other payables *(note 2B(a))*	**(41,823)**
Refund liabilities *(note 2B(a))*	**39,557**
Contract liabilities *(note 2B(a))*	**41,823**
Provisions	**(13,602)**
Total current liabilities and total liabilities	**25,955**

The impact on the consolidated statement of comprehensive income for the year ended 31 December 2018 (increase/(decrease)):

	HK$'000
Revenue *(note 2B(a))*	**(25,955)**
Cost of sales *(note 2B(a))*	**25,955**
Profit for the year	**—**
Total comprehensive income for the year	**—**

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below:

Note	Product/service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
(a)	Sale of video graphics cards ("VGA Cards"), electronics manufacturing services ("EMS") and other PC related products and components (collectively "products")	Customers obtain control of the products when the goods are delivered to and have been accepted. Revenue is thus recognised when the customers accepted the products. There is generally only one performance obligation. Invoices are usually payable within 30–90 days. **Right of return** Some of the Group's contracts with customers from the sale of products provide customers a right of return. The right of return allows the returned goods to be refunded in cash if the returned goods cannot be repaired.	**Right of return** Under HKAS 18, revenue for these contracts was recognised when a reasonable estimate of the returns could be made, provide that all other revenue recognition criteria are met. If a reasonable estimate could not be made, such revenue would be deferred until the return period lapsed or a reasonable estimate could be made. Under HKFRS 15, right of return gives rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. In addition, a refund liability and a right to recover returned assets are recognised. **Impact** As at 1 January 2018, the Group reclassified HK$5,479,000 from provisions and recognised refund liabilities of HK$33,553,000 and right of return assets of HK$28,074,000. As at 31 December 2018, refund liabilities of HK$39,557,000 and right of return assets of HK$25,955,000 were recognised. Revenue decreased by HK$25,955,000 and cost of sales increased by HK$25,955,000 for the year ended 31 December 2018. (Under HKAS 18, the Group recognised provision of goods return by recognition of a provision and a corresponding reduction in revenue in the amount which represented the gross profit of the related sales.)
		Volume rebate and sales allowance Some of the Group's contracts with customers from the sale of products provide customers a volume rebate if the customers purchase more than certain volume of products in a calendar year.	**Volume rebate and sales allowance** Under HKAS 18, the Group estimated the expected volume rebates using the most likely outcome approach and recognised as a reduction of revenue as the sales are recognised. A provision of rebate will be recognised in trade and other payables. Under HKFRS 15, volume rebates give rise to variable consideration. The Group apply the most likely outcome method to estimate the variable consideration. A contract liability would be recognised based on the estimate of the amount expected to be paid to customers under volume-based rebate. **Impact** As at 1 January 2018, an increase in contract liabilities of HK$11,814,000 and a decrease in trade and other payables of HK$11,814,000 were recognised. As at 31 December 2018, contract liabilities of HK$13,527,000 was recognised.

Note	Product/service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
		Advance considerations Some customers paid in advance before the goods are delivered.	**Advance considerations** Under HKAS 18, the Group recognised the advance consideration received from customers as trade and other payables. Under HKFRS 15, payments received in advance that are related to the sale of goods not yet delivered to customers are deferred and recognised as contract liabilities. **Impact** As at 1 January 2018, an increase in contract liabilities of HK\$64,580,000 and a decrease in trade and other payables of HK\$64,580,000 were recognised. As at 31 December 2018, contract liabilities of HK\$28,296,000 was recognised.

(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.

HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, Business Combinations[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 11, Joint Arrangements[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]

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

2 Effective for annual periods beginning on or after 1 January 2020

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

3. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

4. SEGMENT REPORTING

(a) Reportable segments

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

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

	2018	2017
	HK$'000	*HK$'000*
Design, manufacturing and trading of electronics and PC parts and accessories	**9,122,319**	8,555,368

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18.

Disaggregation of revenue from contracts with customers

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

For the year ended	**Design, manufacturing and trading of electronics and PC parts and accessories**	
	2018	2017
	HK$'000	*HK$'000*
Primary geographical markets		
Asia Pacific ("APAC")	**3,515,172**	3,619,005
North and Latin America ("NALA")	**1,345,881**	1,023,123
People's Republic of China ("PRC")	**1,960,727**	2,171,183
Europe, Middle East, Africa and India ("EMEAI")	**2,300,539**	1,742,057
	9,122,319	8,555,368
Major products/services		
VGA Cards	**7,273,614**	7,165,095
EMS	**700,738**	524,772
Other PC related products and components	**1,147,967**	865,501
	9,122,319	8,555,368
Brand and non-brand businesses		
Brand businesses	**5,208,042**	4,930,525
Non-brand businesses	**3,914,277**	3,624,843
	9,122,319	8,555,368
Timing of revenue recognition		
At a point in time	**9,122,319**	8,555,368

(b) Geographic information

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

	Revenue from external customers (by customer location)		**Specified non-current assets**	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
APAC	**3,515,172**	3,619,005	**12,986**	10,409
NALA	**1,345,881**	1,023,123	**24,530**	24,910
PRC	**1,960,727**	2,171,183	**53,110**	29,237
EMEAI	**2,300,539**	1,742,057	**42**	87
	9,122,319	8,555,368	**90,668**	64,643

(c) Information about the major customer

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

	2018	2017
	HK$'000	*HK$'000*
Customer A *(note)*	**N/A**	1,095,582

Note:

Revenue from this customer was derived from sale of VGA Cards in the PRC.

During the year ended 31 December 2018, none of the customers (including customer A) contributed 10% or more of the Group's revenue.

5. REVENUE

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

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

	31 December 2018 *HK$'000*	1 January 2018 *HK$'000*
Contract liabilities	**41,823**	76,394

The contract liabilities mainly relate to the advance consideration received from customers and volume rebates to customers. HK64,580,000 of the contract liabilities as at 1 January 2018 has been recognised as revenue for the year ended 31 December 2018 from performance obligations satisfied when the goods were sold.

6. OTHER REVENUE AND OTHER GAINS AND LOSSES

	2018 *HK$'000*	2017 *HK$'000*
Government grants *(note)*	**1,700**	976
Interest income	**3,441**	2,734
Net exchange (losses)/gains	**(23,039)**	4,445
Net fair value gains on derivative financial instruments	**971**	329
Gain on disposal of property, plant and equipment	**149**	362
Gain on waiver of obligations under finance leases	**—**	27
Sundry income	**6,575**	3,505
Provision for demand of repayment, net	**—**	(289)
	(10,203)	12,089

Note: Government grants were received from several local government authorities of which the entitlements were under the discretion of the relevant authorities. There is no unfulfilled conditions and other contingencies attaching to the government grants that has been recognised.

7. FINANCE COSTS

	2018 *HK$'000*	2017 *HK$'000*
Interest on bank advances and other borrowings	**50,251**	24,046

8. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	2018	2017
	HK$'000	*HK$'000*
Inventories recognised as expense	**8,081,219**	7,608,332
Provision for obsolete inventories	**83,655**	31,065
Cost of sales	**8,164,874**	7,639,397
Staff costs	**480,202**	419,253
Auditor's remuneration	**1,923**	1,752
Bad debts written off	**160**	1,052
Depreciation of property, plant and equipment	**21,365**	15,606
Amortisation of intangible assets *(note a)*	**—**	215
Impairment of intangible assets	**1,090**	—
Impairment losses on financial assets	**2,034**	7,535
Operating lease payments on plant and machinery	**242**	210
Operating lease payments on premises	**33,815**	30,755
Property, plant and equipment written off	**—**	39
Provision for product warranties and returns, net	**16,026**	27,675
Provision for demand of repayment, net	**—**	289
Research and development expenditure *(note b)*	**56,802**	52,318

Notes:

(a) Amortisation of intangible assets of HK$Nil (2017: HK$215,000) is included in "Administrative expenses" in the consolidated statement of comprehensive income.

(b) The research and development expenditure for the year includes HK$56,802,000 (2017: HK$52,318,000) relating to depreciation of plant and machinery and office equipment and staff costs for research and development activities, which are also included in the total amounts disclosed above for each of these types of expenses.

9. INCOME TAX EXPENSE

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

	2018	2017
	HK$'000	*HK$'000*
Current tax — Hong Kong		
— provision for the year	**35,743**	26,625
— under provision in respect of prior year	**267**	29
Current tax — PRC		
— provision for the year	**3,164**	1,896
— under/(over) provision in respect of prior year	**163**	(1,630)
Current tax — others		
— provision for the year	**4,703**	3,699
— under provision in respect of prior year	**3,048**	344
	47,088	30,963
Deferred tax		
— origination and reversal of temporary differences	**(211)**	(4,063)
Income tax expense	**46,877**	26,900

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

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

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

Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. For the year ended 31 December 2018, Hong Kong profits tax is calculated in accordance with the two-tiered profits tax rates regime. For the year ended 31 December 2017, the provision for Hong Kong profits tax was calculated at 16.5% of the estimated assessable profits for the year. A significant subsidiary of the Company, PC Partner Limited, is entitled to claim 50% of all of its manufacturing profits as offshore in nature and non-taxable under Departmental Interpretation and Practice Notes No.21 issued by the Inland Revenue Department of Hong Kong.

The Company's wholly owned subsidiary located in the PRC, 東莞栢能電子科技有限公司 successfully obtained the "High Technology Enterprise" status during 2012 and renewed successfully during 2018 and the applicable PRC enterprise income tax rate for the year is 15% (2017: 15%). Other PRC subsidiaries of the Company are subject to PRC enterprise income tax at a statutory rate of 25% (2017: 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 2018.

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

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

	2018	2017
	HK$'000	*HK$'000*
Profit before income tax	**316,859**	358,973
Tax calculated at Hong Kong profits tax rate	**52,282**	59,231
Effect of different tax rates of subsidiaries operating in other jurisdictions	**3,147**	7,752
Effect of tax exemption granted to a subsidiary	**—**	(15,035)
Tax effect of non-taxable net income relating to offshore operation	**(13,578)**	(11,736)
Tax effect of expenses not deductible for tax purposes	**5,765**	2,296
Tax effect of revenue not taxable for tax purposes	**(3,829)**	(1,829)
Tax effect of tax losses and deductible temporary differences not recognised	**3,339**	441
Utilisation of tax losses and deductible temporary differences previously not recognised	**(2,708)**	(13,833)
Under/(over) provision in prior year	**3,478**	(1,257)
Tax rebate and tax concession under two-tier profits tax rate	**(305)**	(150)
Others	**(714)**	1,020
Income tax expense	**46,877**	26,900

10. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
2017 Final dividend paid — HK$0.28 per share (2017: 2016 Final dividend paid — HK$0.108 per share)	**124,934**	47,209
2017 Special dividend paid — HK$Nil per share (2017: 2016 Special dividend paid — HK$0.036 per share)	**—**	15,736
2018 Interim dividend paid — HK$0.275 per share (2017: 2017 Interim dividend paid — HK$0.04 per share)	**102,326**	17,770
Dividends paid for the year	**227,260**	80,715

The directors of the Company do not propose a final dividend for the year ended 31 December 2018 (2017: HK$0.28 per share, totalling HK$124,934,000).

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the years ended 31 December 2018 and 2017 is based on the following data:

Profit	2018	2017
	HK$'000	*HK$'000*
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**270,843**	332,293

Number of shares	**2018**	2017
Weighted average number of ordinary shares for the purpose of basic earnings per share	**409,461,750**	437,248,120
Effect of dilutive potential ordinary shares: — share options	**387,165**	6,259,568
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**409,848,915**	443,507,688

12. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**839,973**	1,165,369
Less: Accumulated impairment losses	**(6,238)**	(7,543)
	833,735	1,157,826
Trade receivables at fair value through profit or loss *(note)*	**41,373**	—
Other receivables	**15,600**	3,706
Deposits and prepayments	**22,633**	25,741
Less: Accumulated impairment losses	**(1,027)**	(1,027)
	21,606	24,714
	912,314	1,186,246

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

	2018	2017
	HK$'000	*HK$'000*
Within 1 month	**435,571**	710,267
Over 1 month but within 3 months	**362,748**	364,466
Over 3 months but within 1 year	**33,117**	24,703
Over 1 year	**2,299**	58,390
	833,735	1,157,826

The credit period on sale of goods is 30 to 90 days (2017: 30 to 90 days) from the invoice date.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2018	2017
	HK$'000	*HK$'000*
At 31 December under HKAS 39	**7,543**	7,333
Impact of initial application of HKFRS 9 *(note 2(a)A)*	**—**	—
Adjusted balance at 1 January	**7,543**	7,333
Impairment losses recognised during the year	**2,034**	6,508
Amounts written off during the year	**(3,343)**	(6,325)
Exchange difference	**4**	27
At 31 December	**6,238**	7,543

Note:

	2018	2017
	HK$'000	*HK$'000*
Trade receivables at fair value through profit or loss	**41,373**	—

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

	2018	2017
	HK$'000	*HK$'000*
Within 1 month	**32,264**	—
Over 1 month but within 3 months	**9,109**	—
	41,373	—

13. INVENTORIES

	2018	2017
	HK$'000	*HK$'000*
Raw materials	**1,400,709**	865,789
Work in progress	**50,627**	65,233
Finished goods	**1,167,587**	478,682
	2,618,923	1,409,704
Less: Provision for obsolete inventories	**(121,399)**	(60,248)
	2,497,524	1,349,456

14. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**1,403,836**	1,057,747
Other payables and accruals	**244,628**	430,214
	1,648,464	1,487,961

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

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

	2018	2017
	HK$'000	*HK$'000*
Within 1 month	**221,915**	633,874
Over 1 month but within 3 months	**948,799**	389,326
Over 3 months but within 1 year	**229,326**	31,232
Over 1 year	**3,796**	3,315
	1,403,836	1,057,747

15. BORROWINGS

	2018 HK$'000	2017 HK$'000
Bank loans — secured	**597,703**	—
Import loans — secured	**1,101,899**	1,333,445
Discounted bills	**10,044**	17,511
	1,709,646	1,350,956

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

	2018 HK$'000	2017 HK$'000
On demand or within 1 year	**1,709,646**	1,350,956

16. SHARE CAPITAL

	2018 Number of shares	2018 Amount HK$'000	2017 Number of shares	2017 Amount HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**1,000,000,000**	**100,000**	1,000,000,000	100,000
Issued and fully paid:				
Ordinary shares of HK$0.10 each				
At 1 January	**444,843,668**	**44,484**	429,393,668	42,939
Share options exercised	**1,950,000**	**195**	15,450,000	1,545
Purchase of own shares for cancellation	**(74,700,000)**	**(7,470)**	—	—
At 31 December	**372,093,668**	**37,209**	444,843,668	44,484

Purchase of own shares for cancellation

During the year ended 31 December 2018, the Company repurchased its own ordinary shares listed on the Stock Exchange as follows:

Month/year	**Number of shares repurchased**	**Price paid per share** *HK$*	**Aggregate price paid** *HK$'000*
July 2018	74,700,000	5	373,500

The repurchased shares were cancelled during the year ended 31 December 2018 and accordingly the issued share capital of the Company was reduced by the nominal value of the ordinary shares repurchased.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: HK$0.28 per share, totalling HK$124,934,000).

ANNUAL GENERAL MEETING

The Annual General Meeting (the "AGM") of the Company will be held on 14 June 2019 (Friday). The Notice of the AGM, which constitutes part of the circular to shareholders, will be sent together with the 2018 Annual Report in due course.

CLOSURE OF REGISTER OF MEMBERS AND RECORD DATE

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from 11 June 2019 (Tuesday) to 14 June 2019 (Friday) (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 10 June 2019 (Monday) for registration of the relevant transfer.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

The Group manufactures VGA Cards for Original Design Manufacturer/Original Equipment Manufacturer ("ODM/OEM") customers and also manufactures and market VGA 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. VGA Cards remain the core business of the Group for the year under review.

The Group provides EMS to globally recognised brands, including major providers of Automatic Teller Machines ("ATM") and Point-Of-Sales ("POS") systems, storage devices, consumer products, etc.. Aside from VGA Cards and the EMS business, the Group manufactures and sells other PC related products such as mini-PCs, gaming computers, motherboards, and further derives revenue from trading products and components.

Business Performance

Revenue for 2018 increased by 6.6% year over year from HK$8,555.4 million in 2017 to HK$9,122.3 million in 2018; of which, revenue from VGA Cards segment increased by 1.5% from HK$7,165.1 million in 2017 to HK$7,273.6 million in 2018. Sales on other PC related products and components segment increased by 32.6% from HK$865.5 million in 2017 to HK$1,148.0 million in 2018; EMS business with a sales increase of 33.5% from HK$524.8 million in 2017 to HK$700.7 million in 2018.

Revenue from own brands VGA Cards segment increased by HK$219.1 million, or 4.7%, from HK$4,666.5 million in 2017 to HK$4,885.6 million in 2018. The growth on revenue has been slowed down in comparison to previous years, it was mainly due to excessive inventory of VGA Cards included both the new cards and the second hand cards in the channel market after digital coins prices crashed early this year. Beside the excessive inventory issue of VGA Cards caused a slow down on sales on own brands VGA Cards, new generation of VGA Cards launched in the second half of the year is another factor caused a slow down on sales of the existing series of the own brands VGA Cards. Orders on ODM/OEM basis VGA Cards business decreased by HK$110.6 million or 4.4%, from HK$2,498.6 million in 2017 to HK$2,388.0 million in 2018. It was mainly caused by a significant decline on orders from customers on blockchain applications and platforms.

Revenue from EMS business recorded a growth of HK$175.9 million, or 33.5%, from HK$524.8 million in 2017 to HK$700.7 million in 2018. The increase was mainly due to more orders from both the existing customers and the orders from new customers during the year. Revenue from other PC related products and components business has achieved a growth of HK$282.5 million, or 32.6%, from HK$865.5 million in 2017 to HK$1,148.0 million in 2018. It was mainly contributed by more orders on project base systems.

Revenue from brand businesses have recorded a 5.6% growth rate from HK$4,930.5 million in 2017 to HK$5,208.0 million in 2018. Other PC related products and components under brand businesses have achieved a higher growth rate at 22.1%, it was much higher than the growth rate of VGA Cards only at 4.7%. Brand businesses represented 57.1% of the Group's revenue in 2018 and it represented 57.6% of the Group's revenue in 2017.

Both the Europe, Middle East, Africa and India ("EMEAI") region and the North and Latin America ("NALA") regions have achieved a strong growth with over 30%. However, Asia Pacific ("APAC") and People's Republic of China ("PRC") regions have recorded a decline by single digit in 2018.

APAC Region

In the APAC region, the revenue decreased by HK$103.8 million, or 2.9%, from HK$3,619.0 million in 2017 to HK$3,515.2 million in 2018. It was mainly due to a decrease of orders from both ODM/OEM basis customers under VGA Cards segment and less orders on blockchain applications and platforms. Sales increase on brand businesses have partially offset the decline for the region.

EMEAI Region

In the EMEAI region, the revenue amounted to HK$2,300.5 million in 2018, representing an increase of HK$558.4 million, or 32.1%, as compared to HK$1,742.1 million in 2017. The growth of the region was mainly attributable to an increase on brand businesses as well as a strong demand on orders from customers on project base systems.

NALA Region

In the NALA region, the revenue significantly increased from HK$1,023.1 million in 2017, representing an increase of HK$322.8 million, or 31.6%, to HK$1,345.9 million in 2018, which was mainly attributable to the increase in sales of own brand products.

PRC Region

In the PRC region, the revenue recorded a decline to HK$1,960.7 million in 2018, representing a decrease of HK$210.5 million, or 9.7%, as compared to HK$2,171.2 million in 2017. It was mainly due to decline in the sales of VGA Cards under own brand businesses since the market was flooded with second hand VGA Cards after digital coins prices crashed in the year.

Business Compliance

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

Principal Risks and Uncertainties

The Group is operating in a fast moving and highly competitive environment and the product life cycle turns to be shortened over the years. New products introduction requires significant resources involvement from development, production as well as sales and marketing. The Group will be at risk and may lag behind the competition if it cannot response promptly to the changing business environment. Technological change may impose a significant negative impact on the business if the Group is unable to acquire new technologies and apply onto the business. Talent is a key factor for companies' success especially technology and engineering talents are critical for the

Group as a technology company. Lack of capable talents on development of new applications and technologies is a risk to the long term survival of the Group. The Group would continue to review the human resources and look for capable talents to join the Group in order to stay ahead of technology and launch new products more efficiently against competition.

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

The Group is not aware of any particular important event which has occurred and would trigger risk and uncertainty as of 31 December 2018.

Outlook

It looks like the challenge of excess channel inventory will still be around, we believe it may take another six months to digest the channel inventory and we will keep pushing to clear our excessive on-hand inventory in order to minimise the inventory risk. Global economy remains unstable in this year. The economy in China is getting weak and especially on the demand of the high end consumer products. The tariff imposed by the United States on goods import from China would increase operating costs and cause selling price increase ultimately in the United States. Strong U.S. dollar also hurts the demands on the rest of the world. All these uncertainties pose a risk on our business but we will do whatever it takes to manage the business risk and to diversify our business to achieve a continuous growth.

Our brand business was growing very fast in the past few years, it is now roughly contributing 57.1% of the revenue for the Group. We will continue to invest on our branding business, especially on ZOTAC, with more new innovative and stylish gaming products and participate in more eSports events in different regions and countries to promote the brand. We may see our OEM business declines in 2019 by approximately 10% to 15% since we only expected very minimal orders on blockchain applications and platforms which was a strong driving forces on OEM business in the past two years. We try to diversify our business through a joint venture partnership on cloud computing service and we are looking into this investment to generate a good and stable income to the Group.

Investment on talents and innovative product ideas will remain to be our continuous strategy to drive business growth. We will also continue to invest into automation in our manufacturing plants in order to ensure the operation to be cost effective and efficient in the long run. In addition, we will continue to delegate resources on environmental, social and corporate responsibilities in the operating locations in order to strive our best to protect the environment and fulfil our social and corporate responsibilities.

Financial Review

Revenue

The Group's total revenue increased by HK$566.9 million, or 6.6%, from HK$8,555.4 million in 2017 to HK$9,122.3 million in 2018. It was mainly resulted from an increase in revenue on all business segments, including VGA Cards, EMS and other PC related products and components. Both EMS and other PC related products and components have demonstrated a strong growth in comparison to prior year with growth rates at 33.5% and 32.6% respectively. VGA Cards has only achieved growth rate at 1.5% since the sales has experienced a dramatic slowdown in the second half of the year due to both the excessive inventory of VGA Cards in the channel market after digital coins prices crashed and a slowdown in sales of the last generation of VGA Cards after NVIDIA announced new GPUs launched in the second half of the year.

Revenue from the VGA Cards business has increased by HK$108.5 million, or 1.5%, from HK$7,165.1 million in 2017 to HK$7,273.6 million in 2018. Sales of own brand VGA Cards recorded an increase of 4.7% but ODM/OEM base orders on VGA Cards declined by 4.4% in comparison to the prior year. Sales of own brand VGA Cards increased by HK$219.1 million, or 4.7%, from HK$4,666.5 million in 2017 to HK$4,885.6 million in 2018. The growth rate has slowed down from previous years due to the excessive inventory of VGA Cards in the channel market after digital coins prices crashed as well as the sales momentum of the last generation of VGA Cards has slowed down after NVIDIA announced new GPUs launched in the second half of the year. In addition, the new generation of VGA Cards did not sell very well as expected because the new generation of VGA Cards were positioned at a much higher price band in comparison to the last generation of VGA Cards. VGA Cards orders on ODM/OEM contract manufacturing businesses decreased by HK$110.6 million, or 4.4%, from HK$2,498.6 million in 2017 to HK$2,388.0 million in 2018. It was mainly due to the decline in orders from customers on blockchain applications and platforms after the digital coins prices crashed in the year.

Revenue derived from the EMS business amounted to HK$700.7 million in 2018, representing an increase of HK$175.9 million, or 33.5%, as compared to HK$524.8 million in 2017. The change was mainly attributable to more orders from existing customers and new businesses. Revenue from other PC related products and components business increased by HK$282.5 million, or 32.6%, from HK$865.5 million in 2017 to HK$1,148.0 million in 2018. The growth was mainly contributed by a strong growth of miniPC as well as project base systems.

Gross Profit and Margin

The Group's gross profit in 2018 was HK$957.4 million, representing an increase of HK$41.4 million, or 4.5%, compared with HK$916.0 million in 2017. Gross profit margin decreased by 0.2 percentage point to 10.5% as compared with 10.7% in 2017. It was mainly due to a significant decline in gross profit margin to 6.7% in the second half of the year. The decline in gross profit margin was mainly due to both the price reduction on selling the last generation of VGA Cards after NVIDIA announced new GPUs launched and additional inventory provision to write down the inventory value at the end of the year.

Material consumption to sales reduced from 86.3% in 2017 to 85.7% in 2018. This contributed 0.6% savings on material consumption which was mainly resulted from higher average selling price on own brand products as well as high margin on ODM/OEM basis orders from customers. The Group has spent more on direct labour and conversion costs of HK$80.2 million, or 30.9% from HK$259.4 million in 2017 to HK$339.6 million in 2018; of which, outsourced subcontracting fees increased by HK$14.3 million to HK$61.3 million in 2018 which was due to additional outsourcing arrangement to speed up the delivery of orders from customers in the first quarter of the year after Chinese New Year. Additional workers needed to support businesses and wages for workers increased both resulted in a higher spending on direct labour cost in 2018. Direct labour plus conversion costs as a percentage on sales increased by 0.8 percentage point to 3.8% in 2018.

Profit for the Year

The Group recorded a profit for the year attributable to owners of the Company of HK$270.8 million in 2018 as compared with a profit of HK$332.3 million in 2017. It was mainly resulted from a decline in gross profit margin and more operating expenses incurred during the year. The profit to revenue ratio decreased from 3.9% in 2017 to 3.0% in 2018.

Other revenue and other gains and losses decreased by HK$22.3 million from HK$12.1 million gain in 2017 to HK$10.2 million loss in 2018. It was mainly due to HK$23.0 million on exchange loss in 2018 but the Group recorded an exchange gain in 2017.

Operating expenses increased by HK$61.3 million, or 10.8%, from HK$569.1 million in 2017 to HK$630.4 million in 2018. Operating expenses as a percentage of revenue has increased by 0.2 percentage point from 6.7% in 2017 to 6.9% in 2018.

Selling and distribution expenses increased by HK$9.0 million, or 6.7%, from HK$133.6 million in 2017 to HK$142.6 million in 2018. The spending as a percentage of revenue recorded the same percentage at 1.6% in both 2017 and 2018. The increment of the selling and distribution expenses was mainly associated with additional spending on advertising and promotion as well as exhibition costs and e-Sports activities being organised under ZOTAC brand.

Administrative expenses increased by HK$26.0 million or 6.3% from HK$411.5 million in 2017 to HK$437.5 million in 2018; staff costs represented 73.9% out of the total administrative expenses for the year under review. Salary and compensation has increased by HK$15.1 million, or 4.9%, from HK$308.3 million in 2017 to HK$323.4 million in 2018. It was mainly due to annual salary adjustment and additional headcount under engineering, sales, marketing, and product management to support business growth for future. Other administrative expenses increased by HK$11.0 million, or 10.7%, from HK$103.2 million in 2017 to HK$114.2 million in 2018. The increment was mainly resulted from additional spending at factories to improve facilities to retain workers, and additional rental arrangement for more warehouse floor spaces in Hong Kong.

Finance costs increased by HK$26.3 million, or 109.6%, from HK$24.0 million in 2017 to HK$50.3 million in 2018. It was mainly resulted from increase in interest rates and a higher bank borrowings during the year. Finance costs as a percentage of revenue has increased from 0.3% in 2017 to 0.6% in 2018.

Income tax expenses increased by HK$20.0 million, or 74.3%, from HK$26.9 million in 2017 to HK$46.9 million in 2018. It was mainly resulted from more profit generated by entities in Hong Kong, the PRC, and the United States during the year under review.

Profit Attributable to Owners of the Company and Dividends

Profit attributable to owners of the Company for 2018 was HK$270.8 million which resulted in basic earnings of HK66 cents per share, it was lower than profit attributable to owners of the Company of HK$332.3 million and the basic earnings of HK76 cents per share in 2017. The directors of the Company (the “Director(s)”) do not propose a final dividend for the year ended 31 December 2018.

Liquidity and Financial Resources

Shareholders’ Funds

Total shareholders’ funds have decreased by HK$330.9 million, or 27.4%, from HK$1,208.2 million as at 31 December 2017 to HK$877.3 million as at 31 December 2018. It was mainly due to the fact that the Company executed a share buyback from a major shareholder for HK$373.5 million during the year.

Financial Position

Total non-current assets increased by HK$0.5 million, or 0.5%, from HK$107.7 million as at 31 December 2017 to HK$108.2 million as at 31 December 2018. The change was mainly due to addition of property, plant and equipment, however, the increase was partially offset by disposal of investments during the year.

The Group has total current assets of HK$4,249.8 million as at 31 December 2018 and HK$3,991.3 million as at 31 December 2017. The Group's total current liabilities amounted to HK$3,480.6 million as at 31 December 2018 and HK$2,890.9 million as at 31 December 2017. The Group's current ratio, defined as total current assets over total current liabilities, reduced from 1.4 as at 31 December 2017 to 1.2 as at 31 December 2018.

The Group's cash and bank balances decreased from HK$1,453.8 million as at 31 December 2017 to HK$813.5 million as at 31 December 2018. Based on the borrowings of HK$1,709.7 million as at 31 December 2018 and HK$1,351.0 million as at 31 December 2017, and total equity of HK$877.3 million as at 31 December 2018 and HK$1,208.0 million as at 31 December 2017, the Group's net debts to equity ratio (being debts minus cash and cash equivalents divided by total equity) changed from a net cash position as at 31 December 2017 to 102.2% as at 31 December 2018. The change was mainly due to an increase in borrowings to finance the procurement of materials and components as at 31 December 2018. Approximately HK$28.3 million of the Group's cash and bank balances came from deposit from customers under contract liabilities in the current liabilities, majority of the remaining cash and bank balances are reserved to settle the procurement of components being purchased to fulfil the backlog orders and to finance the business operations.

Trade and other receivables consisted of both trade receivables of HK$875.1 million, other receivables of HK$15.6 million, and deposits and prepayments of HK$21.6 million for a total of HK$912.3 million as at 31 December 2018. Trade receivables reduced by HK$282.7 million, or 24.4%, from HK$1,157.8 million as at 31 December 2017 to HK$875.1 million as at 31 December 2018 due to a lower sales level in last quarter of the year in comparison to the same period in last year. Other receivables increased from HK$3.7 million as at 31 December 2017 to HK$15.6 million as at 31 December 2018. It was mainly due to market fund to be collected from a major business partner. Deposits and prepayments decreased from HK$24.7 million as at 31 December 2017 to HK$21.6 million as at 31 December 2018.

Trade and other payables consisted of trade payables of HK$1,403.8 million and other payables of HK$244.6 million for a total of HK$1,648.4 million as at 31 December 2018. Trade payables increased by HK$346.1 million, or 32.7%, from HK$1,057.7 million as at 31 December 2017 to HK$1,403.8 million as at 31 December 2018. It was mainly due to longer payment terms being obtained from major suppliers and more components intake by the end of the year to get prepare for new launch on VGA Cards in January

2019. Other payables reduced by HK$185.6 million, or 43.1%, from HK$430.2 million as at 31 December 2017 to HK$244.6 million as at 31 December 2018. It was mainly due to a reduction of deposits received from customers as at 31 December 2018 in comparison to the end of last year.

Due to a new Hong Kong Financial Reporting Standard, HKFRS 15, the Company is required to report the provision of sales return warranty under refund liabilities in the current liabilities section and the relevant costs of return is reported under the right of return assets in the current assets section. The Company has reported a total of HK$39.6 million as refund liabilities and HK$26.0 million as the right of return assets. Advance payment from customers of HK$28.3 million and volume rebate and sales allowance of HK$13.5 million are reported in aggregate as contract liabilities of HK$41.8 million under the current liabilities as at 31 December 2018.

Exposure to Fluctuation in Exchange Rates

As at 31 December 2018, the Group was exposed to currency risk primarily through sales and purchases denominated in currencies other than the functional currency of the operations to which they relate. The currencies giving rise to the risk are primarily Renminbi and Euro. The Group entered into several foreign exchange forward contracts during the year ended 31 December 2018.

Working Capital

Inventories as at 31 December 2018 were HK$2,497.5 million, increased by HK$1,148.0 million, or 85.1%, as compared with HK$1,349.5 million as at 31 December 2017. The inventory turnover days increased from 63 days as at 31 December 2017 to 86 days as at 31 December 2018. The high level of inventories as at 31 December 2018 was mainly resulted from a slowdown in sales of VGA Cards due to the excessive inventory issue in the channel market after digital coins prices crashed as well as additional intakes on components before the end of the year for upcoming new products launch in January 2019.

Trade receivables as at 31 December 2018 were HK$875.1 million, decreased by HK$282.7 million, or 24.4%, as compared with HK$1,157.8 million as at 31 December 2017. Trade receivable turnover days increased from 40 days as at 31 December 2017 to 41 days as at 31 December 2018. The reduction of trade receivables was resulted from a lower sales level in the last quarter of the year in comparison to the sales for the last quarter in last year.

Trade payables as at 31 December 2018 was HK$1,403.8 million, increased by HK$346.1 million, or 32.7%, as compared with HK$1,057.7 million as at 31 December 2017. Trade payable turnover days increased from 45 days as at 31 December 2017 to 55 days as at

31 December 2018. It was mainly due to longer payment terms being obtained from major suppliers and more components intake by the end of the year to get prepare for new launch on VGA Cards in January 2019.

Charge on Assets

As at 31 December 2018, bank deposit of HK$0.5 million was pledged to banks to secure the corporate credit card granted to the Group.

Capital Expenditure

The Group spent HK$46.8 million on capital expenditure in 2018. All of these capital expenditures were financed by internal resources.

Capital Commitments and Contingent Liabilities

As at 31 December 2018, total capital commitments amounted to HK$1.3 million, and there was no material contingent liability or off balance sheet obligation.

Contingency

The Group does not have any material contingency as at 31 December 2018.

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 an intention to invest in a joint venture business in the PRC principally on leasing of servers and projects involving cloud computing, container cloud and deep learning. The Group had no other plan for material investment or acquisition of capital asset as at 31 December 2018, but will continue to pursue opportunities for investments to enhance its profitability in the ordinary course of business.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group had 3,513 employees (2017: 3,539 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 staffs 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

During the year ended 31 December 2018, the Company repurchased 74,700,000 ordinary shares at HK$5 per share from the substantial shareholder of the Company at an aggregate consideration of HK$373,500,000.

All 74,700,000 repurchased shares were cancelled on delivery of the share certificates during the year. The aggregate consideration of HK$373,500,000 was paid out from the Company's retained profits. Apart from the above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year.

CORPORATE GOVERNANCE

During the year ended 31 December 2018, the Company has complied with the code provisions set out in the Corporate Governance Code (the "Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (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. During the year ended 31 December 2018, 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 (the "Audit Committee") on 21 December 2011 with written terms of reference. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control and risk management system of the Group as well as to provide advice and comments to the Board. The Audit Committee comprises three Independent Non-executive Directors, namely, Mr. LAI Kin Jerome (chairman), Mr. IP Shing Hing and Mr. CHEUNG Ying Sheung.

The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2018.

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 2018 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 HKICPA 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 2018 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, 22 March 2019

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 and 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*