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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS	Period ended 30 June		Change
	2019	2018	
	<i>HK\$ million</i>	<i>HK\$ million</i>	
Revenue	3,420.8	5,538.4	-38.2%
Gross profit	160.4	717.1	-77.6%
(Loss)/profit for the period attributable to owners of the Company	(79.2)	340.0	-123.3%
Gross profit%	4.7%	12.9%	-63.6%
Net (loss)/profit%	-2.3%	6.1%	-137.7%

The board of directors (the “Board”) of PC Partner Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Notes	30 June 2019 HK\$'000 (Unaudited)	30 June 2018 HK\$'000 (Unaudited)
Revenue	4, 5	3,420,751	5,538,381
Cost of sales		<u>(3,260,338)</u>	<u>(4,821,242)</u>
Gross profit		160,413	717,139
Other revenue and other gains and losses	6	(5,836)	1,798
Selling and distribution expenses		(47,327)	(71,611)
Administrative expenses		(179,444)	(234,740)
Impairment loss on financial assets		(2,114)	(699)
Finance costs	7	(28,043)	(21,314)
Share of profit of a joint venture		<u>6,247</u>	<u>—</u>
(Loss)/profit before income tax	8	(96,104)	390,573
Income tax	9	<u>16,284</u>	<u>(50,788)</u>
(Loss)/profit for the period		<u>(79,820)</u>	<u>339,785</u>
Other comprehensive income, after tax			
Item that will not be reclassified to profit or loss:			
Changes in fair value of equity instruments at fair value through other comprehensive income		(507)	—
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(1,250)	(2,196)
Share of other comprehensive income of a joint venture		<u>(2,978)</u>	<u>—</u>
Total comprehensive income for the period		<u>(84,555)</u>	<u>337,589</u>

	30 June 2019	30 June 2018
	<i>Notes</i> HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss)/profit for the period attributable to:		
— Owners of the Company	(79,197)	340,038
— Non-controlling interests	<u>(623)</u>	<u>(253)</u>
	<u>(79,820)</u>	<u>339,785</u>
Total comprehensive income for the period attributable to:		
— Owners of the Company	(83,932)	337,842
— Non-controlling interests	<u>(623)</u>	<u>(253)</u>
	<u>(84,555)</u>	<u>337,589</u>
	HK\$	HK\$
(Loss)/earnings per share	11	
— Basic	(0.213)	0.762
— Diluted	<u>(0.213)</u>	<u>0.761</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*As at 30 June 2019*

		30 June	31 December
		2019	2018
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment		160,057	84,313
Right-of-use assets	2(i)	156,499	—
Intangible assets		6,355	6,355
Investment in a joint venture		134,829	—
Other financial assets		10,386	10,893
Deferred tax assets		25,173	6,655
		<hr/>	<hr/>
Total non-current assets		493,299	108,216
		<hr/>	<hr/>
Current assets			
Inventories		1,536,169	2,497,524
Trade and other receivables	12	908,659	912,314
Right to return assets		31,160	25,955
Derivative financial assets		464	464
Cash and bank balances		543,153	813,499
		<hr/>	<hr/>
Total current assets		3,019,605	4,249,756
		<hr/>	<hr/>
Total assets		3,512,904	4,357,972
		<hr/>	<hr/>
Current liabilities			
Trade and other payables	13	1,076,656	1,648,464
Refund liabilities		42,069	39,557
Contract liabilities		35,284	41,823
Amount due to a related party		446	2,090
Borrowings		1,385,806	1,709,646
Provisions		19,204	28,243
Lease liabilities	2(i)	23,776	18
Current tax liabilities		3,243	10,758
		<hr/>	<hr/>
Total current liabilities		2,586,484	3,480,599
		<hr/>	<hr/>
Net current assets		433,121	769,157
		<hr/>	<hr/>
Total assets less current liabilities		926,420	877,373
		<hr/>	<hr/>

		30 June	31 December
		2019	2018
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
Total non-current liabilities			
Lease liabilities	2(i)	<u>133,651</u>	<u>49</u>
NET ASSETS		<u>792,769</u>	<u>877,324</u>
Capital and reserves			
Share capital		37,209	37,209
Reserves		<u>755,861</u>	<u>840,078</u>
Equity attributable to owners of the Company		793,070	877,287
Non-controlling interests		<u>(301)</u>	<u>37</u>
TOTAL EQUITY		<u>792,769</u>	<u>877,324</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2019 (the “Interim Financial Statements”) have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

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

The accounting policies adopted for the preparation of the Interim Financial Statements are consistent with those applied in the preparation of the annual financial statements of the Group for the year ended 31 December 2018 (the “Annual Financial Statements”), except for the adoption of the new and revised Hong Kong Financial Reporting Standards (the “HKFRSs”) (which collective term includes all applicable HKFRSs, Hong Kong Accounting Standards and Interpretations) issued by the HKICPA.

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

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

2. CHANGES IN HKFRSs

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
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
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 12, Income Taxes
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 23, Borrowing Costs

The impact of the adoption of HKFRS 16 Leases has been summarised below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any material impact on the Group’s accounting policies.

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases (“HKAS 17”), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee’s perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor’s perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group’s accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to sections (ii) to (iv) of this note.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised the right-of-use asset at the amount equal to the lease liability, adjusted by the amount of any prepayments or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following table summarised the impact of transition to HKFRS 16 on consolidated statement of financial position as at 31 December 2018 to that as at 1 January 2019 (increase/ (decrease)):

	<i>HK\$’000</i>
<i>Consolidated statement of financial position as at 1 January 2019</i>	
Right-of-use assets	168,529
Decrease in property, plant and equipment	<u>(36)</u>
Increase in total assets	<u><u>168,493</u></u>
Lease liabilities (non-current) (<i>note</i>)	144,680
Lease liabilities (current) (<i>note</i>)	<u>23,813</u>
Increase in total liabilities	<u><u>168,493</u></u>

Note: The amounts exclude current portion and non-current portion of obligations under finance lease amounted to HK\$18,000 and HK\$49,000 respectively.

The following reconciliation explains how the operating lease commitments disclosed under HKAS 17 as at 31 December 2018 could be reconciled to the lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019:

Reconciliation of operating lease commitment to lease liabilities

	<i>HK\$'000</i>
Operating lease commitment as at 31 December 2018	43,278
Less: short term leases for which lease terms end within 31 December 2019	(2,915)
Add: leases included in extension option which the Group considers reasonably certain to exercise	154,927
Less: total future interest expenses	(26,797)
Add: finance lease liabilities as at 31 December 2018	67
	<hr/>
Total lease liabilities as at 1 January 2019	168,560
	<hr/> <hr/>

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is 3.7%.

The analysis of the net book value of the Group's right-of-use assets by class of underlying assets at the end of the reporting period and at the date of adoption of HKFRS 16 is as follows:

Analysis of the net book value of right-of-use assets

	30 June 2019	1 January 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Properties leased for own use, carried at depreciated cost	156,034	167,871
Plant and equipment carried at depreciated cost	465	658
	<hr/>	<hr/>
	156,499	168,529
	<hr/> <hr/>	<hr/> <hr/>

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of adoption of HKFRS 16 are as follows:

	30 June 2019		1 January 2019	
	Present value of the minimum lease payments <i>HK\$'000</i>	Total minimum lease payments <i>HK\$'000</i>	Present value of the minimum lease payments <i>HK\$'000</i>	Total minimum lease payments <i>HK\$'000</i>
Within 1 year	<u>23,776</u>	<u>29,222</u>	<u>23,831</u>	<u>29,131</u>
After 1 year but within 2 years	18,808	23,450	21,175	26,225
After 2 years but within 5 years	67,403	60,914	66,979	61,756
After 5 years	<u>47,440</u>	<u>68,139</u>	<u>56,575</u>	<u>78,245</u>
	<u>133,651</u>	<u>152,503</u>	<u>144,729</u>	<u>166,226</u>
	<u>157,427</u>	<u>181,725</u>	<u>168,560</u>	195,357
Less: total future interest expenses		<u>(24,298)</u>		<u>(26,797)</u>
Present value of lease liabilities		<u>157,427</u>		<u>168,560</u>

Impact on the financial results and cash flows of the Group

After the initial recognition of the right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liabilities, and the depreciation of the right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on loss before income tax in the Group's consolidated statement of comprehensive income, as compared to the results if HKAS 17 had been applied during the period.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows and operating cash outflows respectively, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the lease for the operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated statement of cash flows.

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial results and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under HKFRS 16 in these Interim Financial Statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019			2018	
		Deduct:			
		Estimated			
		amounts			
		related to			
	Add back:	operating	Hypothetical	Compared to	
Amounts	HKFRS 16	leases as if	amounts for	amounts	
reported	depreciation	under	2019 as if	reported for	
under	and interest	HKAS 17	under	2018 under	
HKFRS 16	expense	(note 1)	HKAS 17	HKAS 17	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Financial results for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:					
Finance costs	(28,043)	2,531	—	(25,512)	(21,314)
(Loss)/profit before income tax	(96,104)	15,583	(14,673)	(95,194)	390,573
(Loss)/profit for the period	(79,820)	15,583	(14,673)	(78,910)	339,785

	2019			2018
		Estimated		
		amounts related		
		to operating	Hypothetical	Compared to
Amounts	reported under	leases as if	amounts for	amounts
HKFRS 16	HKFRS 16	under HKAS 17	2019 as if under	reported for
HK\$'000	HK\$'000	(notes 1 & 2)	HKAS 17	2018 under
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HKAS 17
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Line items in the condensed consolidated statement of cash flows for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:				
Cash used in operations	(183,074)	(14,673)	(197,747)	(132,108)
Interest element of lease rentals paid	(2,531)	2,531	—	—
Net cash used in operating activities	(220,883)	(12,142)	(233,025)	(157,933)
Capital element of lease rentals paid	(12,151)	12,142	(9)	(9)
Net cash (used in)/generated from financing activities	(22,194)	12,142	(10,052)	158

Notes:

1. The “estimated amounts related to operating leases” is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.
2. In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for each lease component and any associated non-lease components as a single lease component for all leases.

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of whether they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets (the Group has leased small office spaces and photocopying machines) and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the date of adoption of HKFRS 16, i.e. 1 January 2019.

Right-of-use asset

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

Lease liability

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

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

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised the right-of-use assets at the amount equal to the lease liabilities, adjusted by the amount of any prepayments or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified as operating leases under HKAS 17 as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as at that date.

The Group has also applied the following practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months from the date of initial application (1 January 2019) and accounted for those leases as short-term leases; (iii) excluded the initial direct costs from the measurement of the right-of-use assets at 1 January 2019 and (iv) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int 4.

The Group has also leased its office equipment which previously was classified as finance lease under HKAS 17. As the Group has elected to adopt the cumulative effect approach over the adoption of HKFRS 16, for the finance lease under HKAS 17, the right-of-use asset and the corresponding lease liability at 1 January 2019 was the carrying amount of the lease asset and lease liability under HKAS 17 immediately before that date. For the lease, the Group has accounted for the right-of-use asset and the lease liability applying HKFRS 16 from 1 January 2019.

3. USE OF JUDGEMENTS AND ESTIMATES

In preparing this Interim Financial Statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Annual Financial Statements, except for new significant judgements related to the application of HKFRS 16 as described in note 2.

4. SEGMENT REPORTING

(a) Reportable segment

The Group determines its operating segment 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.

Disaggregation of revenue from contracts with customers

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

Primary geographical markets

	Design, manufacturing and trading of electronics and PC parts and accessories	
	30 June 2019	30 June 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Asia Pacific	1,391,629	2,187,988
North and Latin America	632,748	707,700
People's Republic of China	784,919	1,246,828
Europe, Middle East, Africa and India	611,455	1,395,865
	<u>3,420,751</u>	<u>5,538,381</u>

Major products and services

	30 June 2019	30 June 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Video graphics cards ("VGA cards")	2,707,135	4,517,261
Electronics manufacturing services ("EMS")	319,377	368,175
Other PC related products and components	394,239	652,945
	<u>3,420,751</u>	<u>5,538,381</u>

Brand and non-brand businesses

	30 June 2019	30 June 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Brand businesses	1,863,968	3,185,082
Non-brand businesses	1,556,783	2,353,299
	<u>3,420,751</u>	<u>5,538,381</u>

Timing of revenue recognition

	30 June 2019	30 June 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
At a point in time	<u>3,420,751</u>	<u>5,538,381</u>

(b) Information about major customer

No revenue from the customers in 2019 and 2018 contributed 10% or more of the Group's revenue.

5. REVENUE

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

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

	30 June 2019 <i>HK\$'000</i> (Unaudited)	1 January 2019 <i>HK\$'000</i> (Audited)
Contract liabilities	<u>35,284</u>	<u>41,823</u>

The contract liabilities mainly relate to the advance consideration received from customers and volume rebates to customers. HK\$11,373,000 of the contract liabilities as at 1 January 2019 has been recognised as revenue for the period ended 30 June 2019 from performance obligations satisfied when the goods were sold.

6. OTHER REVENUE AND OTHER GAINS AND LOSSES

	30 June 2019 <i>HK\$'000</i> (Unaudited)	30 June 2018 <i>HK\$'000</i> (Unaudited)
Interest income	883	2,034
Net exchange losses	(9,247)	(6,898)
Net fair value gains on derivative financial instruments	381	239
Gain/(loss) on disposal of property, plant and equipment	213	(1)
Sundry income	1,336	6,208
Government grants	598	216
	<u>(5,836)</u>	<u>1,798</u>

7. FINANCE COSTS

	30 June 2019 <i>HK\$'000</i> (Unaudited)	30 June 2018 <i>HK\$'000</i> (Unaudited)
Interest on bank advances and other borrowings	25,512	21,314
Interest on lease liabilities	2,531	—
	<u>28,043</u>	<u>21,314</u>

8. (LOSS)/PROFIT BEFORE INCOME TAX

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

	30 June 2019 <i>HK\$'000</i> (Unaudited)	30 June 2018 <i>HK\$'000</i> (Unaudited)
Inventories recognised as expense	3,236,215	4,783,201
Provision for obsolete inventories	24,123	38,041
	<hr/>	<hr/>
Cost of sales	3,260,338	4,821,242
	<hr/>	<hr/>
Staff costs	181,146	262,332
Depreciation of property, plant and equipment	14,511	9,149
Depreciation of right-of-use assets	13,052	—
Bad debt written off	194	168
Impairment losses on financial assets	2,114	699
Interest on lease liabilities	2,531	—
Short-term lease expenses	3,301	—
Low-value assets lease expenses	18	—
Operating lease payments on plant and machinery	—	121
Operating lease payments on premises	—	16,038
Property, plant and equipment written off	19	—
(Reversal of provision)/provision for product warranties and returns, net	(5,441)	8,538
Research and development expenditure (<i>Note</i>)	25,640	30,804
	<hr/> <hr/>	<hr/> <hr/>

Note:

The research and development expenditure for the period includes HK\$25,640,000 (2018: HK\$30,804,000) 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

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

	30 June 2019 <i>HK\$'000</i> (Unaudited)	30 June 2018 <i>HK\$'000</i> (Unaudited)
Current tax — Hong Kong		
— provision for the period	692	47,073
Current tax — PRC		
— provision for the period	1,021	955
— under provision in respect of prior year	399	163
Current tax — others		
— provision for the period	56	—
— under/(over) provision in respect of prior year	66	(33)
	2,234	48,158
Deferred tax		
— origination and reversal of temporary differences	(18,518)	2,630
Income tax (credit)/expense	(16,284)	50,788

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%. 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 six months ended 30 June 2019 is 15% (2018: 15%). Other PRC subsidiaries of the Company are subject to PRC enterprise income tax at a statutory rate of 25% (2018: 25%) on the assessable profits as determined in accordance with the relevant income tax rules and regulations of the PRC for the six months ended 30 June 2019.

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

10. DIVIDEND

	30 June 2019 <i>HK\$'000</i> (Unaudited)	30 June 2018 <i>HK\$'000</i> (Unaudited)
2018 final dividend — HK\$Nil (2018: 2017 final dividend paid — HK\$0.28) per share	—	124,934
Dividend for the period	—	124,934

The directors of the Company do not propose an interim dividend for the six months ended 30 June 2019 (2018: HK\$0.275 per share, totaling HK\$102,326,000).

11. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share for the six months ended 30 June 2019 and 2018 is based on the following data:

(Loss)/profit

	30 June 2019 <i>HK\$'000</i> (Unaudited)	30 June 2018 <i>HK\$'000</i> (Unaudited)
(Loss)/profit for the period attributable to owners of the Company for the purpose of basic and diluted (loss)/earnings per share	<u>(79,197)</u>	<u>340,038</u>

Number of shares

	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	372,093,668	446,013,834
Effect of dilutive potential ordinary shares: — share options	—	<u>633,822</u>
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	<u>372,093,668</u>	<u>446,647,656</u>

Diluted loss per share for the six months ended 30 June 2019 was the same as the basic loss per share as there were no dilutive potential ordinary shares outstanding during 2019.

12. TRADE AND OTHER RECEIVABLES

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Trade receivables at amortised cost	855,811	839,973
Less: Accumulated impairment losses	(8,123)	(6,238)
	<u>847,688</u>	<u>833,735</u>
Trade receivables at amortised cost, net		
	<u>20,273</u>	<u>41,373</u>
Trade receivables at fair value through profit or loss		
Other receivables	<u>21,923</u>	<u>15,600</u>
Deposits and prepayments	19,802	22,633
Less: Accumulated impairment losses	(1,027)	(1,027)
	<u>18,775</u>	<u>21,606</u>
	<u>908,659</u>	<u>912,314</u>

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

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Within 1 month	507,714	435,571
Over 1 month but within 3 months	281,241	362,748
Over 3 months but within 1 year	57,548	33,117
Over 1 year	1,185	2,299
	<u>847,688</u>	<u>833,735</u>

The credit period on sales of goods is 30 to 90 days (2018: 30 to 90 days) from the invoice date.

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

	30 June 2019 <i>HK\$'000</i> (Unaudited)	31 December 2018 <i>HK\$'000</i> (Audited)
Within 1 month	14,143	32,264
Over 1 month but within 3 months	6,078	9,109
Over 3 months but within 1 year	52	—
	<u>20,273</u>	<u>41,373</u>

13. TRADE AND OTHER PAYABLES

	30 June 2019 <i>HK\$'000</i> (Unaudited)	31 December 2018 <i>HK\$'000</i> (Audited)
Trade payables	866,834	1,403,836
Other payables and accruals	209,822	244,628
	<u>1,076,656</u>	<u>1,648,464</u>

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

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

	30 June 2019 <i>HK\$'000</i> (Unaudited)	31 December 2018 <i>HK\$'000</i> (Audited)
Within 1 month	360,835	221,915
Over 1 month but within 3 months	284,159	948,799
Over 3 months but within 1 year	218,263	229,326
Over 1 year	3,577	3,796
	<u>866,834</u>	<u>1,403,836</u>

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2019 (2018: HK\$0.275 per share, totaling HK\$102,326,000).

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 markets 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 period under review.

The Group provides EMS to globally recognized brands, including major providers of Automatic Teller Machines (“ATM”) and Point-Of-Sales (“POS”) systems, storage devices, consumer electronic products, etc. Aside from VGA Cards and the EMS businesses, 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

In the first half of 2019, the total revenue has recorded a decline of 38.2% and decreased by HK\$2,117.6 million, from HK\$5,538.4 million in the first half of 2018 to HK\$3,420.8 million in the first half of 2019. The decrease was mainly resulted from a significant decrease on sales of VGA Cards business by 40.1% as compared to the same period of last year. Besides the decline on sales of VGA Cards, both the EMS and the other PC related products and components have also recorded a decline by 13.3% and 39.6% respectively as compared to same period of last year.

VGA Cards business has recorded a decline of HK\$1,810.1 million, or 40.1%, from HK\$4,517.3 million in the first half of 2018 to HK\$2,707.2 million in the first half of 2019. Both the ODM/OEM basis orders and the sales of own brands VGA Cards have recorded a decline as compared to the first half of 2018. Orders on ODM/OEM basis VGA Cards decreased by HK\$665.4 million or 41.5%, from HK\$1,604.7 million in the first half of 2018 to HK\$939.3 million in the first half of 2019. It was mainly due to excessive inventory in the channel market caused a slow down on demand. Furthermore, AMD announced a new generation of GPU to be launched in the second half of 2019

caused a demand hold up of ODM/OEM basis orders during the period under review. In addition, the ODM/OEM orders on blockchain applications and platforms have decreased substantially as compared to the same period in last year. Own brand VGA Cards business decreased by HK\$1,144.7 million, or 39.3%, from HK\$2,912.6 million in the first half of 2018 to HK\$1,767.9 million in the first half of 2019. The decline was mainly resulted from excessive inventory in the channel market and the new generation of VGA Cards from NVIDIA were not selling as well as expected due to many negative comments on the price and performance ratios.

EMS business recorded a decline of HK\$48.8 million, or 13.3%, from HK\$368.2 million in the first half of 2018 to HK\$319.4 million in the first half of 2019. It was mainly due to less orders on ATM and POS systems in the first half of 2019 as compared to the same period of last year. Other PC related products and components business has dropped by HK\$258.7 million, or 39.6%, from HK\$652.9 million in the first half of 2018 to HK\$394.2 million in the first half of 2019. It was partly resulted from a lower sales volume on PCs due to supply issue from INTEL on central processing unit (“CPU”) together with less ODM/OEM orders on blockchain systems during the period under review.

Both the brand businesses and the ODM/OEM basis businesses have experienced a decline as compared to the same period of last year. The decline on brand businesses was mainly due to excessive VGA Cards inventory in the channel market caused a slow down on demand. Sales from brand businesses dropped by HK\$1,321.1 million, or 41.5%, from HK\$3,185.1 million in the first half of 2018 to HK\$1,864.0 million in the first half of 2019. The non-brand businesses have also recorded a decline of HK\$796.5 million, or 33.8%, from HK\$2,353.3 million in the first half of 2018 to HK\$1,556.8 million in the first half of 2019. The decline on ODM/OEM orders was also due to certain market demand being hold up since AMD announced new GPU launch in the second half of 2019 together with a decline of orders on blockchain applications and platforms besides the issue of excessive inventory of VGA Cards in the channel market.

All geographical regions experienced a drop in revenue in the first half of 2019 as compared to the same period in last year. The Europe, Middle East, Africa and India (“EMEA”) region has recorded a decline by 56.2%. The People’s Republic of China (“PRC”) and the Asia Pacific (“APAC”) have recorded a decline of 37.0% and 36.4% respectively. The North and Latin America (“NALA”) region has recorded a decline of 10.6%.

APAC Region

In the APAC region, the revenue decreased by HK\$796.4 million, or 36.4%, from HK\$2,188.0 million in the first half of 2018 to HK\$1,391.6 million in the first half of 2019. It was mainly resulted from a decrease of orders on VGA Cards in the ODM/OEM segment due to excessive inventory of VGA Cards in the channel market caused a slow down on demand. In addition, new AMD GPU to be launched in the second half of 2019 has also hold up certain demand that resulted in a drop in ODM/OEM revenue in the first half of 2019.

EMEI Region

In the EMEAI region, the revenue amounted to HK\$611.5 million in the first half of 2019, representing a decrease of HK\$784.4 million, or 56.2%, as compared to HK\$1,395.9 million in the first half of 2018. It was mainly due to the excessive inventory issue of VGA Cards in the channel market caused a slow down on sales of brand VGA Cards together with a decline of orders from the customer on the ATM and the POS systems. In addition, a decline on demand of ODM/OEM orders on blockchain applications and platforms also resulted in a drop in revenue during the period under review.

NALA Region

In the NALA region, the revenue amounted to HK\$632.8 million in the first half of 2019, representing a decrease of HK\$74.9 million, or 10.6%, as compared to HK\$707.7 million in the first half of 2018. The decrease was mainly resulted from a slowdown of demand on brand VGA Cards due to excessive inventory in the channel market together with supply shortage issue on INTEL's CPU caused a slow down on the sales of personal computer products.

PRC Region

In the PRC region, the revenue recorded a decline to HK\$784.9 million in the first half of 2019, representing a decrease of HK\$461.9 million, or 37.0%, as compared to HK\$1,246.8 million in the first half of 2018. It was mainly due to a significant decrease in ODM/OEM basis orders on blockchain applications and platforms. Furthermore, the demand of VGA Cards on brand businesses was weak due to the excessive inventory issue in the channel market and a relatively weak economy in the region.

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 Electronic Industry Citizenship Coalition ("EICC").

Principal Risks and Uncertainties

The Group has operated in a fast moving and highly competitive environment and the product life cycle tends to be shortened over the years. New products introduction requires significant resources involvement from development, production as well as sales and marketing. The Group will be at risk and may lag behind the competition if it cannot respond promptly to the changing business environment. Technological change may impose 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 Group on long term survival. 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 business partnership with AMD and NVIDIA for over 20 years and over 10 years respectively. The Group rides on the technologies from 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. 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 on important event that has occurred which would trigger a risk and uncertainty since the period ended 30 June 2019.

Outlook

As the China-United States trade dispute continues with United States impose 25% tariff on some products imported from China together with United Kingdom potentially leaves the European Union without a deal, all of these issues will likely be around for quite some time that will affect both the business and the consumer confidence.

Although the global economy is very challenging, the industry has ultimately shown a better sign as the excessive VGA Cards inventory situation has improved since the channel market has digested significant amount of the past generation and refurbished VGA Cards in the past few months. There are new series on mid to high end VGA Cards launched recently which received much better comments and consumer feedback, it looks like these new products can bring in a better contribution on revenue to the second half of 2019. ZOTAC, a major brand of the Group, is putting more resources and efforts

to drive the gaming PC sales revenue, such as MEK Ultra and MEK Mini series, as a continuous strategy to capture more business opportunities on eSports and on-line gaming platforms.

Partner Cloud, a 50% owned joint venture business in China, is being setup since June 2019 and is expecting a better contribution on profit in the second half of 2019. Cloud data centers are one of the fastest growing areas in the information and technology sector with significant investment going into the sector across the globe. The Group will put more focus and resources onto the sector and look into more business and cooperation opportunities in the sector as one of the key strategies.

Although this is a very challenging year due to global economic situation and unstable political environment, the Group is confident to face the challenge and to improve the performance in the long run.

Financial Review

Revenue

The Group's total revenue decreased by HK\$2,117.6 million, or 38.2%, from HK\$5,538.4 million in the first half of 2018 to HK\$3,420.8 million in the first half of 2019. All business segments have experienced a decline in revenue as compared to the same period in last year and majority of the decline came from VGA Cards product segment by HK\$1,810.1 million which represented 85.5% of the revenue decline in the first half of 2019.

Revenue from the VGA Cards business has decreased by HK\$1,810.1 million, or 40.1%, from HK\$4,517.3 million in the first half of 2018 to HK\$2,707.2 million in the first half of 2019. It was mainly due to a weak demand on VGA Cards on both the brand business and the ODM/OEM orders since the channel market was flooded with new and past generation of VGA Cards as well as refurbished VGA Cards that caused a slow down on demand. Revenue on own brands VGA Cards has decreased by HK\$1,144.7 million, or 39.3%, from HK\$2,912.6 million in the first half of 2018 to HK\$1,767.9 million in the first half of 2019. Orders demand on ODM/OEM basis VGA Cards decreased by HK\$665.4 million, or 41.5%, from HK\$1,604.7 million in the first half of 2018 to HK\$939.3 million in the first half of 2019. Besides the excessive inventory in the channel market that caused a slow down in demand of both brand and ODM/OEM orders, a decline of ODM/OEM basis orders on blockchain applications and platforms was part of the reason which caused the decline of the ODM/OEM basis orders.

Revenue derived from the EMS business amounted to HK\$319.4 million in the first half of 2019, representing a decrease of HK\$48.8 million, or 13.3%, as compared to HK\$368.2 million in the first half of 2018. The decline was mainly due to less orders from a major customer on ATM and POS systems during the period under review. Revenue from other PC related products and components business decreased by

HK\$258.7 million, or 39.6%, from HK\$652.9 million in the first half of 2018 to HK\$394.2 million in the first half of 2019. The decline was mainly resulted from a drop on sales of personal computers and blockchain systems in the first half of 2019.

Gross Profit and Margin

The Group's gross profit in the first half of 2019 was HK\$160.4 million, representing a decrease of HK\$556.7 million, or 77.6%, as compared with HK\$717.1 million in the first half of 2018. Gross profit margin decreased by 8.2% to 4.7% in the first half of 2019 as compared with 12.9% in the first half of 2018. It was mainly due to continued price reduction to clear the on-hand slow moving VGA Cards from the last generation. In addition, the sales volume declined substantially which also put pressure on the Group's gross profit margin.

The Group has spent less on direct labour and conversion costs for a total of HK\$71.8 million, or 36.7% from HK\$195.7 million in the first half of 2018 to HK\$123.9 million in the first half of 2019. Although sales declined by 38.2%, production overheads only reduced by 13.4% which resulted in the production overheads to sales ratio increased by 0.5% in the first half of 2019 as compared to the same period in last year. However, it has been offset by less outsource subcontracting services and better control of labour resources in order to maintain direct labour and conversion costs to sales ratio of 3.6% in the first half of 2018 and 2019.

Profit and Loss for the Period

The Group recorded a loss attributable to owners of the Company of HK\$79.2 million in the first half of 2019 as compared with the profit attributable to owners of the Company of HK\$340.0 million in the first half of 2018.

It was mainly due to a significant decrease in gross profit contribution in the first half of 2019. The operating expenses, including selling and distribution expenses, administrative expenses, impairment loss on financial assets and finance costs, decreased by HK\$71.4 million, or 21.7%, from HK\$328.3 million in the first half of 2018 to HK\$256.9 million in the first half of 2019. Selling and distribution expenses and administrative expenses reduced by 33.9% and 22.9% respectively as compared to the same period in last year. The Group incurred additional impairment loss on financial assets of HK\$1.4 million as compared to the same period in last year. Finance costs increased by HK\$6.7 million, or 31.5%, from HK\$21.3 million in the first half of 2018 to HK\$28.0 million in the first half of 2019.

Other revenue and other gains and losses turned from a gain of HK\$1.8 million in the first half of 2018 to a loss of HK\$5.8 million in the first half of 2019. The change was mainly due to increase in exchange loss of Renminbi in the first half of 2019 as compared to the same period in 2018.

Selling and distribution expenses decreased by HK\$24.3 million, or 33.9%, from HK\$71.6 million in the first half of 2018 to HK\$47.3 million in the first half of 2019. It was mainly due to less spending on freight and transportation costs, sales agency and commission costs, marketing activities and the reversal of the provision for product warranties and returns.

Administrative expenses decreased by HK\$53.8 million, or 22.9%, from HK\$235.4 million in the first half of 2018 to HK\$181.6 million in the first half of 2019. Staff costs represented 71.4% of total administrative expenses in the first half of 2019 has reduced by HK\$48.6 million, or 27.3%, from HK\$178.2 million in the first half of 2018 to HK\$129.6 million in the first half of 2019. Other administrative expenses reduced by HK\$5.2 million, or 9.1%, from HK\$57.2 million in the first half of 2018 to HK\$52.0 million in the first half of 2019.

Finance costs increased by HK\$6.7 million, or 31.5%, from HK\$21.3 million in the first half of 2018 to HK\$28.0 million in the first half of 2019. Finance costs as a percentage of revenue has increased from 0.4% in the first half of 2018 to 0.8% in the first half of 2019. Higher finance costs were incurred due to an increase in interest rates together with a higher utilization of bank borrowings during the period under review.

The Group's 50% joint venture company has contributed HK\$6.2 million in profit in the first half of 2019.

Income tax credit of HK\$16.3 million resulted in the first half of 2019. It is mainly due to operating loss incurred in the first half of 2019 together with deferred tax assets being recognized for the period under review.

The Group holds a minority interest in preferred shares of an investment of a virtual reality company in the United States, the loss in fair value of the equity investment of HK\$0.5 million for the period under review was recognised in other comprehensive income.

Profit and Loss Attributable to Owners of the Company and Dividends

The loss attributable to owners of the Company in the first half of 2019 was HK\$79.2 million which resulted in basic and diluted loss per share of HK21.0 cents. Since the Group operated in a loss situation in the first half of 2019, the directors of the Company (the "Directors") do not propose any interim dividend for the period ended 30 June 2019.

Liquidity and Financial Resources

Shareholders' Funds

Total shareholders' funds have decreased by HK\$84.2 million, or 9.6%, from HK\$877.3 million as at 31 December 2018 to HK\$793.1 million as at 30 June 2019.

Financial Position

The Group has total current assets of HK\$3,019.6 million as at 30 June 2019 and HK\$4,249.8 million as at 31 December 2018. The Group's total current liabilities amounted to HK\$2,586.5 million as at 30 June 2019 and HK\$3,480.6 million as at 31 December 2018. The Group's current ratio, defined as total current assets over total current liabilities, remains at 1.2 as at 31 December 2018 and 30 June 2019.

The Group's cash and bank balances decreased from HK\$813.5 million as at 31 December 2018 to HK\$543.2 million as at 30 June 2019. Based on the borrowings of HK\$1,543.2 million as at 30 June 2019 and HK\$1,709.7 million as at 31 December 2018, and total equity of HK\$877.3 million as at 31 December 2018 and HK\$792.8 million as at 30 June 2019, the Group's net debts to equity ratio (being debts minus cash and cash equivalents divided by total equity) increased from 102.2% as at 31 December 2018 to 126.2% as at 30 June 2019. A higher net debts to equity ratio was due to a lower level of equity resulted from loss incurred and inclusive of lease liabilities in the formula of net debts to equity ratio due to the Group has adopted HKFRS 16 during the period under review.

Trade and other receivables consisted of both trade receivables of HK\$868.0 million, other receivables of HK\$21.9 million and deposit and prepayments of HK\$18.8 million as at 30 June 2019. Trade receivables reduced by HK\$7.1 million, or 0.8%, from HK\$875.1 million as at 31 December 2018 to HK\$868.0 million as at 30 June 2019. Trade receivables under factoring arrangement without recourse reduced from HK\$41.4 million as at 31 December 2018 to HK\$20.3 million as at 30 June 2019. Other receivables increased from HK\$15.6 million as at 31 December 2018 to HK\$21.9 million as at 30 June 2019. Deposits and prepayments reduced from HK\$21.6 million as at 31 December 2018 to HK\$18.8 million as at 30 June 2019, which was mainly resulted from utilization of deposit and prepayment on procurement of machinery, office decoration and insurance during the period under review.

Trade and other payables consisted of trade payables of HK\$866.8 million and other payables of HK\$209.8 million as at 30 June 2019. Trade payables decreased by HK\$537.0 million, or 38.3%, from HK\$1,403.8 million as at 31 December 2018 to HK\$866.8 million as at 30 June 2019. The reduction was mainly due to lower sales volume which resulted in lower purchase from vendors during the period under review. Other payables and accruals decreased from HK\$244.6 million as at 31 December 2018 to HK\$209.8 million as at 30 June 2019.

The Group's warranty resulted in sales return that was reported under refund liabilities in the current liabilities section and the relevant costs of return is reported under the right to return assets in the current assets section. The Group reported an increase of refund liabilities by HK\$2.4 million from HK\$39.6 million as at 31 December 2018 to HK\$42.1 million as at 30 June 2019. The relevant right to return assets aligned with the increase in refund liabilities with an increase of HK\$5.2 million from HK\$26.0 million as at 31 December 2018 to HK\$31.2 million as at 30 June 2019.

Contract liabilities consisted of both advance payment from customers of HK\$26.0 million and volume rebates of HK\$9.3 million as at 30 June 2019. The contract liabilities was HK\$41.8 million as at 31 December 2018, the change is mainly associated with sales decline with a lower level of customer advance payment being received.

Provision for product warranties and returns reduced from HK\$28.2 million as at 31 December 2018 to HK\$19.2 million as at 30 June 2019. It was mainly due to reversal of the provision during the period under review.

Current tax liabilities reduced from HK\$10.8 million as at 31 December 2018 to HK\$3.2 million as at 30 June 2019. It was mainly due to various entities incurred a loss and not necessary to record the tax liabilities during the period under review.

Exposure to Fluctuation in Exchange Rates

As at 30 June 2019, 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 exchange forward contracts in 2018 and the first half of 2019.

Working Capital

Inventories of the Group as at 30 June 2019 were HK\$1,536.2 million which decreased by HK\$961.3 million, or 38.5%, as compared with HK\$2,497.5 million as at 31 December 2018. Inventory turnover days increased from 86 days as at 31 December 2018 to 112 days as at 30 June 2019, it was mainly due to sales decline. Decrease in inventory was resulted from tightened control on inventory intakes and clearance of past generation of VGA Cards inventory during the period under review.

Trade receivables as at 30 June 2019 were HK\$868.0 million, decreased by HK\$7.1 million, or 0.8%, as compared with HK\$875.1 million as at 31 December 2018. Trade receivable turnover days increased from 41 days as at 31 December 2018 to 46 days as at 30 June 2019. The longer turnover days was resulted from some slowdown on collection of trade receivables during the period under review.

Trade payables as at 30 June 2019 was HK\$866.8 million, decreased by HK\$537.0 million, or 38.3%, as compared with HK\$1,403.8 million as at 31 December 2018. Trade payable turnover days increased from 55 days as at 31 December 2018 to 63 days as at 30 June 2019 since some of the vendors offered longer payment terms to the Group during the period under review.

Charge on Assets

As at 30 June 2019, 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\$90.4 million on capital expenditure in the first half of 2019. All of these capital expenditures were financed by internal resources.

Capital Commitments and Contingent Liabilities

As at 30 June 2019, total capital commitments amounted to HK\$0.6 million, and there was no material contingent liability or off balance sheet obligation.

Significant Acquisitions and Disposals of Investments

Save for those disclosed in the consolidated statement of financial position, there was no other significant acquisitions or disposals of subsidiary. The Group announced the formation of a sino-foreign equity joint venture enterprise in the PRC on 25 March 2019 and invested US\$16.8 million to hold 50% interest of the joint venture enterprise. Also there was acquisition of additional interests in a subsidiary during the period.

Future Plans for Material Investments or Capital Assets

The Group has no other plan for material investments or acquisitions of capital assets as at 30 June 2019, but will actively pursue opportunities for investments to enhance its profitability in the ordinary course of business.

The Group intended to dispose all equity interest of a subsidiary which was established in Singapore.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2019, the Group had 3,105 employees (2018: 3,513 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 recognize the contributions of and as retention incentive to the executive directors, certain management staff and selected long service employees of the Group. Subsequently, the Company has also adopted 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 six months ended 30 June 2019.

CORPORATE GOVERNANCE

Throughout the six months ended 30 June 2019, the Company has complied with the code provisions of the Corporate Governance Code (the “Code”) as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except for the deviation from code provision A.2.1 of the Code as described below.

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 six months ended 30 June 2019, the roles of chairman and chief executive officer of the Company were performed by Mr. WONG Shik Ho Tony. With Mr. WONG’s extensive experience in the electronics industry, in addition to his role as chairman responsible for the overall strategic management and corporate development of the Group, he is also heavily involved and instrumental to the Group in running its daily business. The Board 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 five Executive Directors, one Non-executive Director and three 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 throughout the period under review.

AUDIT COMMITTEE

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

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2019.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM 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 2019 Interim 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 of
PC Partner Group Limited
WONG Shik Ho Tony
Chairman

Hong Kong, 30 August 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 an 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*