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PC PARTNER GROUP LIMITED

栢能集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1263)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2019	2018	Change
	HK$ million	*HK$ million*	
Revenue	**7,556.5**	9,122.3	−17.2%
Gross Profit	**516.3**	957.4	−46.1%
Profit for the year attributable to owners of the Company	**10.3**	270.8	−96.2%
Gross Profit%	**6.8%**	10.5%	−35.2%
Net Profit%	**0.1%**	3.0%	−96.7%

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 2019 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	**2019** ***HK$'000***	2018 *HK$'000*
Revenue	*4, 5*	**7,556,477**	9,122,319
Cost of sales		**(7,040,163)**	(8,164,874)
Gross profit		**516,314**	957,445
Other revenue and other gains and losses	*6*	**(9,417)**	(10,203)
Selling and distribution expenses		**(98,420)**	(142,611)
Administrative expenses		**(365,464)**	(435,487)
Impairment losses on financial assets		**(5,960)**	(2,034)
Finance costs	*7*	**(53,499)**	(50,251)
Share of profit of a joint venture		**17,429**	—
Profit before income tax	*8*	**983**	316,859
Income tax	*9*	**8,837**	(46,877)
Profit for the year		**9,820**	269,982
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		**(507)**	(4,727)
Gain on disposal of financial assets at fair value through other comprehensive income		**—**	5,259
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign subsidiaries		**(1,824)**	(1,794)
Exchange differences on translating a joint venture		**(5,154)**	—
Reclassification adjustments for a foreign subsidiary disposed of during the year		**16**	—
Total comprehensive income for the year		**2,351**	268,720

	Notes	**2019** **HK$'000**	2018 HK$'000
Profit for the year attributable to:			
— Owners of the Company		**10,266**	270,843
— Non-controlling interests		**(446)**	(861)
		9,820	269,982
Total comprehensive income for the year attributable to:			
— Owners of the Company		**2,792**	269,581
— Non-controlling interests		**(441)**	(861)
		2,351	268,720
		HK$	*HK$*
Earnings per share	*11*		
— Basic		**0.03**	0.66
— Diluted		**0.03**	0.66

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment		**215,480**	84,313
Right-of-use assets	*2(a)(i)*	**156,106**	—
Intangible assets		**6,355**	6,355
Interest in a joint venture		**143,835**	—
Other financial asset		**10,386**	10,893
Trade receivables	*12*	**212,897**	—
Deferred tax assets		**25,944**	6,655
Total non-current assets		**771,003**	108,216
Current assets			
Inventories	*13*	**1,126,023**	2,497,524
Trade and other receivables	*12*	**1,190,592**	912,314
Right of return assets		**37,271**	25,955
Derivative financial assets		**—**	464
Cash and bank balances		**906,884**	813,499
Total current assets		**3,260,770**	4,249,756
Total assets		**4,031,773**	4,357,972
Current liabilities			
Trade and other payables	*14*	**1,410,321**	1,648,464
Refund liabilities		**47,725**	39,557
Contract liabilities		**31,629**	41,823
Amount due to a related party		**2,683**	2,090
Borrowings	*15*	**1,475,412**	1,709,646
Provisions		**18,670**	28,243
Lease liabilities	*2(a)(i)*	**25,904**	—
Obligations under finance leases		**—**	18
Current tax liabilities		**7,329**	10,758
Total current liabilities		**3,019,673**	3,480,599
Net current assets		**241,097**	769,157
Total assets less current liabilities		**1,012,100**	877,373

	Notes	**2019** *HK$'000*	2018 *HK$'000*
Total non-current liabilities			
Lease liabilities	*2(a)(i)*	**132,377**	—
Obligations under finance leases		**—**	49
NET ASSETS		**879,723**	877,324
Capital and reserves			
Share capital	*16*	**37,209**	37,209
Reserves		**842,585**	840,078
Equity attributable to owners of the Company		**879,794**	877,287
Non-controlling interests		**(71)**	37
TOTAL EQUITY		**879,723**	877,324

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 bases 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 2019

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 2019.

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
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.

HKFRS 16 Leases ("HKFRS 16")

(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(IFRIC)-Int 4"), 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 assets as at 1 January 2019 at the amount equal to the lease liabilities as at 1 January 2019, adjusted by the amount of any prepayments or accrued lease payments relating to those leases 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)):

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

Note: The amounts exclude current portion and non-current portion of obligations under finance leases amounted to HK$18,000 and HK$49,000 respectively. Upon adoption of HKFRS 16, obligations under finance leases were reclassified to lease liabilities.

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 commitments to lease liabilities

	HK$'000
Operating lease commitments as at 31 December 2018	**43,278**
Less: short term leases for which lease terms end within 31 December 2019	**(2,915)**
Add: lease payments for the additional periods when the Group considers it reasonably certain that it would exercise the extension options	**154,927**
Less: total future interest expenses	**(26,797)**
Add: finance lease liabilities as at 31 December 2018	**67**
Total lease liabilities as at 1 January 2019	**168,560**

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 year and at the date of adoption of HKFRS 16 is as follows:

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

	31 December 2019 ***HK$'000***	1 January 2019 *HK$'000*
Properties leased for own use, carried at depreciated cost	**155,492**	167,871
Plant and equipment carried at depreciated cost	**614**	658
	156,106	168,529

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

	31 December 2019		1 January 2019	
	Present value of the minimum lease payments *HK$'000*	**Total minimum lease payments** *HK$'000*	Present value of the minimum lease payments *HK$'000*	Total minimum lease payments *HK$'000*
Within 1 year	**25,904**	**31,547**	23,831	29,131
After 1 year but within 2 years	**21,649**	**26,396**	21,175	26,225
After 2 years but within 5 years	**58,681**	**68,200**	50,738	61,756
After 5 years	**52,047**	**54,914**	72,816	78,245
	132,377	**149,510**	144,729	166,226
	158,281	**181,057**	168,560	195,357
Less: Total future interest expenses		**(22,776)**		(26,797)
Present value of lease liabilities		**158,281**		168,560

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 profit 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 year.

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 year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated 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
	Amounts reported under HKFRS 16	**Add back: HKFRS 16 depreciation and interest expense**	**Deduct: Estimated amounts related to operating leases as if under HKAS 17** *(note 1)*	**Hypothetical amounts for 2019 as if under HKAS 17**	Compared to amounts reported for 2018 under HKAS 17
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*
Financial results for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Finance costs	**(53,499)**	**5,527**	**—**	**(47,972)**	(50,251)
Profit before income tax	**983**	**33,397**	**(31,186)**	**3,194**	316,859
Profit for the year	**9,820**	**33,397**	**(31,186)**	**12,031**	269,982

	2019			2018
	Amounts reported under HKFRS 16	**Estimated amounts related to operating leases as if under HKAS 17** *(notes 1 & 2)*	**Hypothetical amounts for 2019 as if under HKAS 17**	Compared to amounts reported for 2018 under HKAS 17
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*
Line items in the consolidated statement of cash flows for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	**4,819,293**	**(31,186)**	**4,788,107**	8,177,163
Interest element of lease rentals paid	**(5,527)**	**5,527**	**—**	—
Net cash generated from operating activities	**4,751,924**	**(25,659)**	**4,726,265**	8,067,354
Capital element of lease rentals paid	**(25,677)**	**25,659**	**(18)**	(18)
Net cash used in financing activities	**(4,626,697)**	**25,659**	**(4,601,038)**	(8,688,056)

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 had 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 and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on a straight-line basis over the lease terms.

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 as at 1 January 2019 at the amount equal to the lease liabilities as at 1 January 2019, adjusted by the amount of any prepayments or accrued lease payments relating to those leases 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 at an amount equal to the lease liabilities, adjusted by the amount of any prepayments or accrued lease payments. 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 and (iii) 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 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.

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

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

Amendments to HKFRS 3	Definition of a Business[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]

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

2 The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

(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.

Disaggregation of revenue from contracts with customers

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

For the year ended 31 December	**Design, manufacturing and trading of electronics and PC parts and accessories**	
	2019	2018
	HK$'000	*HK$'000*
Primary geographical markets		
Asia Pacific ("APAC")	**2,922,853**	3,515,172
North and Latin America ("NALA")	**1,216,637**	1,345,881
People's Republic of China ("PRC")	**2,090,055**	1,960,727
Europe, Middle East, Africa and India ("EMEAI")	**1,326,932**	2,300,539
	7,556,477	9,122,319
Major products/services		
Video graphics cards ("VGA Cards")	**5,924,392**	7,273,614
Electronics manufacturing services ("EMS")	**628,462**	700,738
Other PC related products and components	**1,003,623**	1,147,967
	7,556,477	9,122,319
Brand and non-brand businesses		
Brand businesses	**3,879,437**	5,208,042
Non-brand businesses	**3,677,040**	3,914,277
	7,556,477	9,122,319
Timing of revenue recognition		
At a point in time	**7,556,477**	9,122,319

(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	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
APAC	**2,922,853**	3,515,172	**24,198**	12,986
NALA	**1,216,637**	1,345,881	**24,080**	24,530
PRC	**2,090,055**	1,960,727	**686,065**	53,110
EMEAI	**1,326,932**	2,300,539	**330**	42
	7,556,477	9,122,319	**734,673**	90,668

(c) Information about the major customer

During the years ended 31 December 2019 and 2018, none of the customers 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 2019	31 December 2018
	HK$'000	*HK$'000*
Contract liabilities	**31,629**	41,823

The contract liabilities mainly relate to the advance consideration received from customers and volume rebates and sales allowances to customers. HK20,845,000 of the contract liabilities as at 1 January 2019 and HK$64,580,000 of the contract liabilities as at 1 January 2018 has been recognised as revenue for the year ended 31 December 2019 and 2018 respectively from performance obligations satisfied when the goods were sold.

6. OTHER REVENUE AND OTHER GAINS AND LOSSES

	2019	2018
	HK$'000	*HK$'000*
Government grants *(note)*	**1,014**	1,700
Interest income	**5,438**	3,441
Net exchange losses	**(23,341)**	(23,039)
Net fair value gains on derivative financial instruments	**486**	971
Gain on disposal of property, plant and equipment	**160**	149
Sundry income	**2,971**	6,575
Rental income	**3,834**	—
Gain on disposal of subsidiary	**21**	—
	(9,417)	(10,203)

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

7. FINANCE COSTS

	2019	2018
	HK$'000	*HK$'000*
Interest on bank advances and other borrowings	**47,972**	50,251
Interest on lease liabilities	**5,527**	—
	53,499	50,251

8. PROFIT BEFORE INCOME TAX

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

	2019	2018
	HK$'000	*HK$'000*
Inventories recognised as expense *(note (a))*	**7,040,163**	8,164,874
Staff costs	**368,785**	480,202
Auditor's remuneration	**1,696**	1,923
Bad debts written off	**162**	160
Depreciation of property, plant and equipment	**34,869**	21,365
Depreciation of right-of-use assets	**27,870**	—
Impairment of intangible assets	**—**	1,090
Impairment losses on financial assets	**5,960**	2,034
Short-term lease expenses	**4,772**	—
Low-value assets leases expenses	**96**	—
Operating lease payments on plant and machinery	**—**	242
Operating lease payments on premises	**—**	33,815
Property, plant and equipment written off	**46**	—
(Reversal)/provision for product warranties and returns, net	**(3,598)**	16,026
Research and development expenditure *(note (b))*	**38,465**	56,802

Notes:

(a) Included in the figures disclosed above is write down of inventories to net realisable value of approximately HK$341,277,000 (2018: HK$204,390,000) of which approximately HK$112,461,000 (2018: HK$ Nil) is related to the inventories transferred to a joint venture.

(b) The research and development expenditure for the year includes HK$38,465,000 (2018: HK$56,802,000) 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 consolidated statement of comprehensive income represents:

	2019	2018
	HK$'000	*HK$'000*
Current tax — Hong Kong		
— provision for the year	**2**	35,743
— (over)/under provision in respect of prior year	**(2,136)**	267
Current tax — PRC		
— provision for the year	**9,507**	3,164
— under provision in respect of prior year	**300**	163
Current tax — others		
— provision for the year	**2,725**	4,703
— under provision in respect of prior year	**54**	3,048
	10,452	47,088
Deferred tax		
— origination and reversal of temporary differences	**(19,289)**	(211)
Income tax (credit)/expense	**(8,837)**	46,877

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

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

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

Under the two-tiered profits tax rates regime, if the entity has one or more connected entity, the two-tiered profit tax rates would only apply to the one which is nominated to be chargeable at the two-tiered rates. Hong Kong profits tax of the nominated entity is calculated at 8.25% on assessable profits up to HK$2 million and 16.5% on any part of assessable profits over HK$2 million. For those entities which do not qualify for two-tiered profits tax rates, a profits tax rate of 16.5% on assessable profits shall remain in calculating Hong Kong profits tax. For the years ended 31 December 2019 and 2018, Hong Kong profits tax is calculated in accordance with the two-tiered profits tax rates regime. A significant subsidiary of the Company, PC Partner Limited, is entitled to claim 50% of all of its manufacturing profits as offshore in nature and non-taxable under Departmental Interpretation and Practice Notes No.21 issued by the Inland Revenue Department of Hong Kong.

The Company's wholly owned subsidiary located in the PRC, 東莞栢能電子科技有限公司successfully obtained the "High Technology Enterprise" status during 2012 and renewed successfully for three years from 2018 to 2020 and the applicable PRC enterprise income tax rate for the year is 15% (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 year ended 31 December 2019.

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

10. DIVIDENDS

	2019	2018
	HK$'000	*HK$'000*
2018 Final dividend paid — HK$Nil per share (2018: 2017 Final dividend paid — HK$0.28 per share)	**—**	124,934
2019 Interim dividend paid —HK$Nil per share (2018: 2018 Interim dividend paid — HK$0.275 per share)	**—**	102,326
Dividends paid for the year	**—**	227,260

The directors of the Company do not propose a final dividend for the years ended 31 December 2019 and 2018.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the years ended 31 December 2019 and 2018 is based on the following data:

Profit	**2019**	2018
	HK$'000	*HK$'000*
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**10,266**	270,843

Number of shares	**2019**	2018
Weighted average number of ordinary shares for the purpose of basic earnings per share	**372,093,668**	409,461,750
Effect of dilutive potential ordinary shares: — share options	**—**	387,165
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**372,093,668**	409,848,915

12. TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables at amortised cost	**1,338,011**	839,973
Less: Accumulated impairment losses	**(10,411)**	(6,238)
	1,327,600	833,735
Trade receivables at fair value through profit or loss *(note)*	**50,177**	41,373
Other receivables	**7,134**	15,600
Deposits and prepayments	**20,557**	22,633
Less: Accumulated impairment losses	**(1,979)**	(1,027)
	18,578	21,606
	1,403,489	912,314
Less: Trade receivables — non-current portion	**(212,897)**	—
Trade and other receivables — current portion	**1,190,592**	912,314

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

	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**469,729**	435,571
Over 1 month but within 3 months	**494,129**	362,748
Over 3 months but within 1 year	**361,968**	33,117
Over 1 year	**1,774**	2,299
	1,327,600	833,735

The credit period on sale of goods is 30 to 90 days (2018: 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:

	2019	2018
	HK$'000	*HK$'000*
At 1 January	**6,238**	7,543
Impairment losses recognised during the year	**5,008**	2,034
Amounts written off during the year	**(884)**	(3,343)
Exchange difference	**49**	4
At 31 December	**10,411**	6,238

Note:

	2019	2018
	HK$'000	*HK$'000*
Trade receivables at fair value through profit or loss	**50,177**	41,373

The ageing 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:

	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**22,428**	32,264
Over 1 month but within 3 months	**26,157**	9,109
Over 3 months but within 1 year	**1,592**	—
	50,177	41,373

13. INVENTORIES

	2019	2018
	HK$'000	*HK$'000*
Raw materials	**525,276**	1,400,709
Work in progress	**14,831**	50,627
Finished goods	**705,611**	1,167,587
	1,245,718	2,618,923
Less: Provision for obsolete inventories	**(119,695)**	(121,399)
	1,126,023	2,497,524

14. TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Trade payables	**1,311,199**	1,403,836
Other payables and accruals	**99,122**	244,628
	1,410,321	1,648,464

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:

	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**394,288**	221,915
Over 1 month but within 3 months	**755,159**	948,799
Over 3 months but within 1 year	**156,146**	229,326
Over 1 year	**5,606**	3,796
	1,311,199	1,403,836

15. BORROWINGS

	2019	2018
	HK$'000	*HK$'000*
Bank loans — guaranteed	**248,569**	597,703
Import loans — guaranteed	**1,226,843**	1,101,899
Discounted bills	**—**	10,044
	1,475,412	1,709,646

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

	2019	2018
	HK$'000	*HK$'000*
Within 1 year	**1,475,412**	1,560,294
Over 1 year but within 2 years	**—**	149,352
	1,475,412	1,709,646

16. SHARE CAPITAL

	2019		2018	
	Number of shares	**Amount**	Number of shares	Amount
		HK$'000		*HK$'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	**372,093,668**	**37,209**	444,843,668	44,484
Share options exercised	**—**	**—**	1,950,000	195
Purchase of own shares for cancellation	**—**	**—**	(74,700,000)	(7,470)
At 31 December	**372,093,668**	**37,209**	372,093,668	37,209

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**	**Aggregate price paid**
		HK$	*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 2019.

ANNUAL GENERAL MEETING

The Annual General Meeting (the "AGM") of the Company will be held on 19 June 2020 (Friday). The Notice of the AGM, which constitutes part of the circular to shareholders, will be sent together with the 2019 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 16 June 2020 (Tuesday) to 19 June 2020 (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 15 June 2020 (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 computer, 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 products under its own brands, namely ZOTAC, Inno3D, and Manli. The business relationships with NVIDIA and AMD, the two globally dominant GPU suppliers, enable the Group to develop cost-competitive, high performance products and solutions to serve its customers, VGA Cards remain the core business of the Group for the year under review.

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

Business Performance

In 2019, the total revenue has recorded a decline of 17.2% and decreased by HK$1,565.8 million, from HK$9,122.3 million in 2018 to HK$7,556.5 million in 2019. The decrease was mainly resulted from a decrease on sales of VGA Cards business by 18.5% as compared to 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 on revenue by 10.3% and 12.6% respectively as compared to last year.

VGA Cards business has recorded a decline of HK$1,349.2 million, or 18.5%, from HK$7,273.6 million in 2018 to HK$5,924.4 million in 2019. Both the ODM/OEM orders and the sales of own brand products have recorded a decline as compared to last year. Orders on ODM/OEM based VGA Cards decreased by HK$74.5 million, or 3.1%, from HK$2,388.0 million in 2018 to HK$2,313.5 million in 2019. Own brand VGA Cards business decreased by HK$1,274.7 million, or 26.1%, from HK$4,885.6 million in 2018 to HK$3,610.9 million in 2019. The market was still digesting the excessive channel inventory of VGA Cards after the prices of digital coins crashed in 2018 which has slowed down orders intake from ODM/OEM customers and also hurt the sales performance of own brand VGA Cards.

EMS business recorded a decline of HK$72.2 million, or 10.3%, from HK$700.7 million in 2018 to HK$628.5 million in 2019. It was mainly due to less orders on ATM and POS systems since the orders from the customers dropped by HK$70.3 million or 14.2% as compared to last year. Other PC related products and components business has dropped by HK$144.4 million, or 12.6%, from HK$1,148.0 million in 2018 to HK$1,003.6 million in 2019. The decline was mainly resulted from a decline on demand of blockchain application systems during the year.

Both the brand business and the ODM/OEM business have recorded a decline for the year. Sales of brand business sector dropped by HK$1,328.6 million, or 25.5%, from HK$5,208.0 million in 2018 to HK$3,879.4 million in 2019. The ODM/OEM businesses sector has also recorded a decline of revenue for HK$237.2 million, or 6.1%, from HK$3,914.3 million in 2018 to HK$3,677.1 million in 2019. The excessive inventory of VGA Cards in the market was the major issue that slowed down order intakes from ODM/OEM customers and affected sales performance of brand business. In addition, the U.S. tariff issue and the slowdown of the China economy did have an impact on sales of both the brand business sector and the ODM/OEM sector at different levels across different product segments.

Majority of the geographical regions experienced a drop of revenue for the year as compared to last year. The Europe, Middle East, Africa and India ("EMEAI") region has recorded a drop of revenue by 42.3%. The Asia Pacific ("APAC") region and the North and Latin America ("NALA") region has recorded a drop of revenue by 16.8% and 9.6% respectively. The People's Republic of China ("PRC") region has recorded an increase on revenue by 6.6% for the year.

APAC Region

In the APAC region, the revenue decreased by HK$592.3 million, or 16.8%, from HK$3,515.2 million in 2018 to HK$2,922.9 million in 2019. It was mainly due to a drop on demand of VGA Cards from ODM/OEM customers as the market was still digesting the excessive inventory of VGA Cards during the year. The own brand business was facing the same issue which has also slowed down the sales of own brand business in the region.

EMEAI Region

In the EMEAI region, the revenue amounted to HK$1,326.9 million in 2019, represented a decrease of HK$973.6 million, or 42.3%, as compared to HK$2,300.5 million in 2018. The region was also hurt by the excessive inventory of VGA Cards in the channel market after the prices of digital coins crashed. In addition, the revenue was also affected by a decline on demand of blockchain application systems and less orders from major EMS customer.

NALA Region

In the NALA region, the revenue amounted to HK$1,216.6 million in 2019, represented a decrease of HK$129.3 million, or 9.6%, as compared to HK$1,345.9 million in 2018. The decline was mainly due to decrease in orders from ODM/OEM customers together with sales decline on own brand business during the year.

PRC Region

In the PRC region, the revenue amounted to HK$2,090.1 million in 2019, represented an increase of HK$129.4 million, or 6.6%, as compared to HK$1,960.7 million in 2018. The increase was mainly due to more ODM/OEM basis orders from project customers. However, the PRC region also faced the same excessive inventory challenge that caused a drop of revenue under the own brand business.

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, sales and marketing. The Group will be at risk and may lag behind the competition if it cannot respond promptly to the changing business environment. Technological change may impose an adverse impact on the business if the Group is unable to adopt new technologies and develop the relevant products to catch the market trend on timely basis. Talent is a key to success for technology company so that engineering and product development talents are critical to the Group. Lack of capable talents on design and development of new products is a risk to the Group on competitiveness. The Group would continue to review the human resources and look for capable talents to join the Group in order to stay ahead of technology and develop new products efficiently against competition.

Business relationship with customers and suppliers are crucial for business success. The Group has established a long business partnership with both AMD and NVIDIA. The Group rides on the technologies from these technology leaders to develop own products and gain the know-how of the technologies on business development. Discontinuance of the business partnership would be a threat to the Group. The Group would continue to maintain a strategic business relationship with the technology partners, customers and suppliers, and continue to explore new cooperation opportunities in the industry.

The Group is not aware of any particular or important event that has occurred which would trigger a risk and uncertainty as of 31 December 2019.

Outlook

The COVID-19 related government restrictions on business operations, movement of people and transportation have begun to be lifted in different areas of China after an extension of the Chinese Lunar New Year holiday and the Company is in the progress on resumption of its manufacturing operation. Due to an ongoing quarantine measures enforcement and the speed at which our employees are able to return to work, a full return to normal levels of operations is not expected within a short period of time but we expect a gradual return towards normal production levels. We are also monitoring the impact of our supply chain and will take immediate action to minimize the impact of the material supplies that may disrupt the production.

As COVID-19 continues to spread to different regions and countries within a short period of time, uncertainty and disruption will increase. Movement restrictions may be further imposed in different countries besides China that will slowdown many business activities. However, a major part of our business is associated with high performance personal computers and gaming hardware and COVID-19 seems to have less impact on the demand for entertainment and work as more people are required to quarantine at home or to work at home to reduce potential infection of the virus. We have experienced a relatively stronger demand than expected which may be due to a potential shortage of product supply in the market. We expected a stronger business outlook in the second half of the year once there are more new product launches to drive a higher revenue and it is usually being the traditional peak season of the business.

The Group will continue to explore new business opportunities and have invested in the joint venture on data center and leasing equipment to provide computation power on artificial intelligence and deep learning applications in last year. Although the contribution in the setup year did not meet our expectation, we are still confident on the profit contribution in the long run.

We would not underestimate the challenge in this year since we do not know how bad the impact will be on the global economy by COVID-19, and the U.S. tariff issue has not yet come to the end. The Company's first priority is to ensure the health and safety of our employees, and to do whatever we can to improve the business performance.

Financial Review

Revenue

The Group's total revenue decreased by HK$1,565.8 million, or 17.2%, from HK$9,122.3 million in 2018 to HK$7,556.5 million in 2019. All the product segments have recorded a decline in revenue as compared to last year, revenue of VGA Cards product segment dropped the most out of all major product segments by HK$1,349.2 million which represented 86.2% of the revenue decline for the year.

Revenue on VGA Cards decreased by HK$1,349.2 million, or 18.5%, from HK$7,273.6 million in 2018 to HK$5,924.4 million in 2019. In which, revenue from ODM/OEM orders decreased by HK$74.5 million, or 3.1%, from HK$2,388.0 million in 2018 to HK$2,313.5 million in 2019. Revenue from own brand VGA Cards business decreased by HK$1,274.7 million, or 26.1%, from HK$4,885.6 million in 2018 to HK$3,610.9 million in 2019. The market was still digesting the excessive VGA Cards channel inventory after the prices of digital coins crashed in 2018 which slowed down the orders intake from ODM/OEM customers and also hurt the sales performance of own brand VGA Cards. The demand has contracted in China due to the slowdown of the China economy. In addition, United States imposed tariff on computer hardware made in China during the year also affected the consumer demand in the market.

Revenue derived from EMS business amounted to HK$628.5 million in 2019, represented a decrease of HK$72.2 million, or 10.3%, as compared to HK$700.7 million in 2018. The decline was mainly due to less orders from customers during the year. Orders on ATM and POS systems contributed the most of the decline for HK$70.3 million.

Revenue from other PC related products and components business decreased by HK$144.4 million, or 12.6%, from HK$1,148.0 million in 2018 to HK$1,003.6 million in 2019. The decline was mainly resulted from a drop on demand of blockchain application systems and less revenue being generated on project based business during the year.

Gross Profit and Margin

The Group's gross profit in 2019 was HK$516.3 million, represented a decrease of HK$441.1 million, or 46.1%, as compared with HK$957.4 million in 2018. Gross profit margin declined by 3.7% to 6.8% in 2019 as compared with 10.5% in 2018. Decline of the Group's gross profit margin was mainly due to a change of product mix and inventories written down to net realisable value for a total of HK$341.3 million in 2019 as compared to HK$204.4 million in 2018. The Group has taken proactive actions to clear slow moving inventories since the demand of VGA cards dropped significantly after the prices of digital coins crashed in 2018 and the market was still digesting very much excessive inventory during the year.

To further tighten on cost control, the Group has spent less on conversion cost which included direct labour and production overheads for a total of HK$82.4 million, or 24.3%, from HK$339.6 million in 2018 to HK$257.2 million in 2019. Conversion cost as a percentage to sales improved by 0.4% from 3.8% in 2018 to 3.4% in 2019.

Operating Expenses

Operating expenses, included selling and distribution expenses, administrative expenses, impairment loss on financial assets and finance costs, decreased by HK$107.1 million, or 17.0%, from HK$630.4 million in 2018 to HK$523.3 million in 2019. The decline of the operating expenses was mainly resulted from further tight control on spending throughout the year.

Selling and distribution expenses reduced by HK$44.2 million, or 31.0%, from HK$142.6 million in 2018 to HK$98.4 million in 2019. The savings mainly generated from a lower spending on marketing and exhibition activities, less sales commission paid, and a lower level of export logistic costs which aligned with a lower sales volume during the year.

Administrative expenses spent HK$66.1 million less than last year, the spending declined by 15.1% from HK$437.5 million in 2018 to HK$371.4 million in 2019. Staff cost which represented approximately 69.2% of the total administrative expenses has been reduced by HK$66.3 million, or 20.5%, from HK$323.4 million in 2018 to HK$257.1 million in 2019. It was due to a reduction of workforce and reduction of performance bonus for management and staff as a result of underperformance in 2019. Other administrative expenses increased by HK$0.2 million, or 0.2%, from HK$114.1 million in 2018 to HK$114.3 million in 2019, it was mainly increased by depreciation of property, plant and equipment during the year.

Finance costs increased by HK$3.2 million, or 6.4%, from HK$50.3 million in 2018 to HK$53.5 million in 2019. The higher finance costs was mainly due to both increase in interest rate and a higher utilization of bank loans to finance the business operation during the year.

Other revenue and other gains and losses decreased by HK$0.8 million, or 7.8%, the loss from HK$10.2 million in 2018 to HK$9.4 million in 2019. It was mainly due to more interest income incurred during the year.

The impairment losses on financial assets increased by HK$4.0 million, or 200.0%, from HK$2.0 million in 2018 to HK$6.0 million in 2019. The increase is mainly associated with increase on trade receivables and longer payment terms offered to customers in this year.

Share of profit of a joint venture with 50% interest established in the first half of the year has contributed a total of HK$17.4 million of profit to the Group during the year.

Profit for the Year

The Group recorded a profit attributable to the owners of the Company of HK$10.3 million in 2019 as compared with the profit attributable to owners of the Company of HK$270.8 million in 2018.

Income tax credit of HK$8.8 million recorded in 2019, it was mainly due to deferred tax assets being recognized for the year which offset income tax incurred under some of the operating entities.

Profit Attributable to Owners of the Company and Dividends

The profit attributable to owners of the Company for 2019 was HK$10.3 million which resulted in basic earnings of HK$3 cents per share. Profit attributable to owners of the Company was HK$270.8 million with basic earnings of HK$66 cents per share in the year of 2018. The directors of the Company (the "Directors") do not propose any final dividend for the year ended 31 December 2019.

Liquidity and Financial Resources

Shareholders' Funds

Total Shareholders' funds have slightly increased by HK$2.5 million, from HK$877.3 million as at 31 December 2018 to HK$879.8 million as at 31 December 2019.

Financial Position

Total non-current assets increased by HK$662.8 million, or 612.6%, from HK$108.2 million as at 31 December 2018 to HK$771.0 million as at 31 December 2019. The change was mainly due to addition of property, plant and equipment incurred for leasing services amounted to HK$151.8 million, capitalized operating leases as right-of-use assets amounted to HK$156.1 million, interest in a joint venture in China amounted to HK$143.8 million, and non-current portion of trade receivables amounted to HK$212.9 million. Furthermore, deferred tax assets increased by HK$19.2 million from HK$6.7 million as at 31 December 2018 to HK$25.9 million as at 31 December 2019.

The Group has a total current assets of HK$3,260.8 million as at 31 December 2019 and HK$4,249.8 million as at 31 December 2018. The Group's total current liabilities amounted to HK$3,019.7 million as at 31 December 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, decreased from 1.2 as at 31 December 2018 to 1.1 as at 31 December 2019.

The Group's cash and bank balances increased from HK$813.5 million as at 31 December 2018 to HK$906.9 million as at 31 December 2019. Borrowings reduced from HK$1,709.6 million as at 31 December 2018 to HK$1,475.4 million as at 31 December 2019. Due to the adoption of HKFRS 16, the Group has incurred current lease liabilities amounted to HK$25.9 million and non-current lease liabilities amounted to HK$132.4 million as at 31 December 2019. The Group's net debts to equity ratio (being debts including borrowings and lease liabilities minus cash and cash equivalents divided by total shareholders' funds) reduced from 102.2% as at 31 December 2018 to 82.7% as at 31 December 2019. The change was mainly due to reduction of borrowings which offset the additional lease liabilities as part of the debts in the calculation.

Trade and other receivables consisted of trade receivables at amortised cost and at fair value, together with other receivables, deposits and prepayment increased by HK$491.2 million, or 53.8%, from HK$912.3 million as at 31 December 2018 to HK$1,403.5 million as at 31 December 2019. Trade receivables at amortised cost increased by HK$493.9 million, or 59.2%, from HK$833.7 million as at 31 December 2018 to HK$1,327.6 million as at 31 December 2019. The increase was mainly due to the Group entered into installment payment terms with a customer and extended payment terms to some of the customers during the year. Trade receivables under factoring arrangement at fair value increased by HK$8.8 million, or 21.3%, from HK$41.4 million as at 31 December 2018 to HK$50.2 million as at 31 December 2019. Other receivables, deposits and prepayment reduced by HK$11.5 million, or 30.9%, from HK$37.2 million as at 31 December 2018 to HK$25.7 million as at 31 December 2019. The change was mainly due to less market fund receivables on brand business for HK$8.4 million by end of the year.

Trade and other payables decreased by HK$238.1 million, or 14.4%, from HK$1,648.4 million as at 31 December 2018 to HK$1,410.3 million as at 31 December 2019. In which, trade payables decreased by HK$92.6 million, or 6.6%, from HK$1,403.8 million as at 31 December 2018 to HK$1,311.2 million as at 31 December 2019. The change was resulted from sales decline with a lower demand on material purchase in the year. Other payables decreased by HK$145.5 million, or 59.5%, from HK$244.6 million as at 31 December 2018 to HK$99.1 million as at 31 December 2019. The change was mainly due to much less on temporary receipts from customers of HK$65.4 million and a decrease on performance bonus provision of HK$56.7 million at the end of 2019.

Under HKFRS 15, the Group is required to report provision of sales return warranty under refund liabilities in the current liabilities section and the relevant costs of return is reported under right of return assets in the current assets section. Right of return assets increased by HK$11.3 million, or 43.5%, from HK$26.0 million as at 31 December 2018 to HK$37.3 million as at 31 December 2019. Refund liabilities increased by HK$8.1 million, or 20.5%, from HK$39.6 million as at 31 December 2018 to HK$47.7 million as at 31 December 2019.

Advance payment from customers and volume rebates together with sales allowance under contract liabilities decreased by HK$10.2 million, or 24.4%, from HK$41.8 million as at 31 December 2018 to HK$31.6 million as at 31 December 2019. The change was mainly due to less advance payment from customers by end of the year.

The Group has incurred less provisions on product warranties and returns by end of 2019 since the provisions reduced from HK$28.2 million as at 31 December 2018 to HK$18.7 million as at 31 December 2019. Current tax liabilities reduced from HK$10.8 million as at 31 December 2018 to HK$7.3 million as at 31 December 2019. Amount due to a related party slightly increased from HK$2.1 million as at 31 December 2018 to HK$2.7 million as at 31 December 2019.

Exposure to Fluctuation in Exchange Rates

As at 31 December 2019, the Group was exposed to currency risk primarily though sales and purchases denominated in currencies other than the functional currency of the operations to which they relate. The currencies giving rise to the risk are primarily Renminbi, Euro, Korean Won, and Japanese Yen. The Group entered into several exchange forward contracts in 2018 and 2019.

Working Capital

Inventories of the Group as at 31 December 2019 were HK$1,126.0 million which has decreased by HK$1,371.5 million, or 54.9%, 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 94 days as at 31 December 2019. The Group has made outsourcing production arrangement to a contract manufacturer in Taiwan to avoid the U.S. tariff on goods made in China that has caused a slowdown of the inventory turns since it took more time for material and logistic arrangement.

Trade receivables as at 31 December 2019 were HK$1,377.8 million, increased by HK$502.7 million, or 57.4%, as compared with HK$875.1 million as at 31 December 2018. Trade receivables turnover days increased from 41 days as at 31 December 2018 to 54 days as at 31 December 2019. It was mainly due to the Group entered into installment payment terms with a customer and extended payment terms to some of the customers during the year.

Trade payables as at 31 December 2019 was HK$1,311.2 million, decreased by HK$92.6 million, or 6.6%, 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 70 days as at 31 December 2019 since some of the vendors have offered longer payment terms to the Group during the year.

Charges on Assets

As at 31 December 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$166.5 million on capital expenditure in 2019, such expenditures were financed by internal resources.

Capital Commitments and Contingent Liabilities

As at 31 December 2019, total capital commitments amounted to HK$0.033 million, and there was no material contingent liability or off balance sheet obligation.

Significant Acquisitions and Disposals of Investments

There was no significant acquisition or disposal of subsidiary.

Future Plans for Material Investments or Capital Assets

The Group has no plan for material investments or acquisitions of capital assets as at 31 December 2019, but will actively pursue opportunities for investments to enhance its profitability in the ordinary course of business.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group had 2,997 employees (2018: 3,513 employees). Employees are remunerated on the 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 the basic salary, medical benefits, provident fund, performance related bonuses may also be awarded to employees. The Company had adopted a Pre-IPO Share Option Scheme to recognize the contributions of and as retention incentive to the executive directors, certain management 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

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

CORPORATE GOVERNANCE

During the year ended 31 December 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. During the year ended 31 December 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 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 2019.

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 2019 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 2019 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, 27 March 2020

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*