



2014 Interim Report

栢能集團有限公司*
PC Partner Group Limited
Incorporated in the Cayman Islands with limited liability



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COMPANY PROFILE

PC Partner is a leading manufacturer of computer electronics products. Our key products are video graphics cards, motherboards and mini-PCs. We are also offering one-stop electronic manufacturing services to reputable brands all over the world.

As one of the leaders in the industry, we leverage our extraordinary research and development capabilities and state-of-the-art production facilities to constantly bring new product ideas and leading-edge innovations to the market. We endeavour to stay ahead of the industry to ensure success and competitiveness in serving the needs of our customers.

We are a technology company with a global vision.

BOARD OF DIRECTORS

Executive Directors

Mr. WONG Shik Ho Tony
(Chairman and Chief Executive Officer)
Mr. WONG Fong Pak *(Executive Vice President)*
Mr. LEUNG Wah Kan *(Chief Operation Officer)*
Mr. HO Nai Nap
Mr. MAN Wai Hung

Non-executive Director

Mrs. HO WONG Mary Mee-Tak
Mr. CHIU Wing Yui
(Alternate Director to Mrs. HO WONG Mary Mee-Tak)

Independent Non-executive Directors

Mr. IP Shing Hing
Mr. LAI Kin Jerome
Mr. CHEUNG Ying Sheung

AUDIT COMMITTEE

Mr. LAI Kin Jerome *(Chairman)*
Mr. IP Shing Hing
Mr. CHEUNG Ying Sheung

REMUNERATION COMMITTEE

Mr. IP Shing Hing *(Chairman)*
Mr. LAI Kin Jerome
Mr. CHEUNG Ying Sheung
Mr. WONG Shik Ho Tony

NOMINATION COMMITTEE

Mr. IP Shing Hing *(Chairman)*
Mr. LAI Kin Jerome
Mr. CHEUNG Ying Sheung
Mr. WONG Shik Ho Tony

COMPANY SECRETARY

Ms. LEUNG Sau Fong

AUTHORISED REPRESENTATIVES

Mr. WONG Shik Ho Tony
Ms. LEUNG Sau Fong

AUDITOR

BDO Limited
25/F., Wing On Centre
111 Connaught Road Central
Hong Kong

LEGAL ADVISER

Woo Kwan Lee & Lo
26/F., Jardine House
1 Connaught Place
Central
Hong Kong

Troutman Sanders
34/F., Two Exchange Square
8 Connaught Place
Central
Hong Kong

REGISTERED OFFICE

Clifton House, 75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

19/F., Shatin Galleria
18-24 Shan Mei Street
Fo Tan
Shatin
New Territories

**PRINCIPAL SHARE REGISTRAR AND
TRANSFER OFFICE**

Appleby Trust (Cayman) Ltd.
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman
KY1-1108 Cayman Islands

**HONG KONG BRANCH SHARE
REGISTRAR AND TRANSFER OFFICE**

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F.
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
Australia and New Zealand Banking Group Limited

WEBSITE

www.pcpartner.com

BUSINESS REVIEW

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

The Group manufactures video graphics cards for Original Design Manufacturer/Original Equipment Manufacturing (“ODM/OEM”) customers and also manufactures and markets video graphics cards and other PC products under its own ZOTAC, Inno3D and Manli brands. The 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. Video graphics cards remained as the core business of the Group for the period under review.

The Group provides EMS to globally recognised brands. Among these, the Group manufactures products for providers of Point-Of-Sales (“POS”) and Automatic Teller Machines (“ATM”) systems, healthcare products, Light Emitting Diode (“LED”) modules and a number of other customers. Besides the video graphics cards and the EMS businesses, the Group manufactures and sells other PC related products, such as mini-PCs and motherboards under its own brands and on ODM/OEM basis, and derives revenue from trading in components.

Business Performance

In the first half of 2014, the total revenue of the Group has achieved a steady growth, reaching HK\$2,403.7 million, representing an increase of HK\$124.8 million, or 5.5%, as compared to HK\$2,278.9 million for the same period in last year. It was mainly due to a growth of total HK\$198.8 million in the Asia Pacific (“APAC”) region and the People’s Republic of China (“PRC”) region, which successfully offset the decline of HK\$79.6 million in the Europe, Middle East, Africa and India (“EMEA”) region. North and Latin America (“NALA”) region has also achieved a growth of HK\$5.6 million as compared to the same period in last year.

APAC Region

In the APAC region, the revenue significantly increased to HK\$1,145.7 million, representing a growth of HK\$133.2 million, or 13.2%, as compared to HK\$1,012.5 million in the first half of 2013. It was mainly driven by an overall increase on all business segments including video graphics cards, EMS, and other PC related products and components.

EMEA Region

In the EMEA region, the revenue amounted to HK\$346.4 million, representing a decrease of HK\$79.6 million, or 18.7%, as compared to HK\$426.0 million for the same period in last year. It was mainly due to a notable decline in orders from the LED modules customer to HK\$14.6 million, representing a decrease of HK\$40.2 million, or 73.3%, as compared to HK\$54.8 million for the same period in last year. Orders from another EMS customer for the Internet Media Tablet also dropped to HK\$0.9 million, representing a decrease of HK\$35.2 million, or 97.5%, as compared to HK\$36.1 million for the same period in last year. It was mainly because of the discontinued product manufacturing for the customer within the period under review.

NALA Region

In the NALA region, the revenue maintained a mild growth to HK\$361.9 million, representing an increase of HK\$5.6 million, or 1.6%, as compared to HK\$356.3 million for the same period in last year. The growth in both the video graphics cards segment and other PC related products and components segment was partially offset by a decline on EMS business. It was mainly due to a drop in orders from one of the EMS customer to HK\$79.7 million, representing a decrease of HK\$45.3 million, or 36.2%, as compared to HK\$125.0 million for the same period in last year.

PRC Region

In the PRC region, the revenue recorded a growth to HK\$549.7 million, representing an increase of HK\$65.6 million, or 13.6%, as compared to HK\$484.1 million for the same period in last year. It was mainly attributable to the sales increment on video graphics cards in the region in the first half of 2014.

Outlook

The operating environment will continue to be challenging with market uncertainties, particularly on video graphics cards segment, as we anticipate price pressure from competitors for clearing excessive inventory in the third quarter of 2014. However, we remain cautiously optimistic for business in the second half of 2014 because we are expecting more orders from EMS customers and a strong demand in the other PC related products and components segment. In addition, new series of graphic processors will be launched in the fourth quarter of 2014, which is likely to lead to a higher demand on video graphics cards. The Group will continue to leverage its core strength for further expansion of business networks through developing and promoting new products and the brand, at the same time allocate more resources in supporting research and development, improving manufacturing capabilities and building up strong brand image.

FINANCIAL REVIEW

Revenue

During the period under review, the Group's total revenue increased by HK\$124.8 million, or 5.5%, to HK\$2,403.7 million, as compared to HK\$2,278.9 million for the same period in last year. It was mainly due to an increase in revenue from video graphics cards and other PC related products and components. However, this growth was partially offset by a decline in revenue from EMS.

Revenue from the video graphics cards has been increased by HK\$110.2 million, or 7.0%, from HK\$1,571.0 million in the first half of 2013 to HK\$1,681.2 million in the first half of 2014. It was mainly attributable to the stronger demand on higher value products on both ODM/OEM contract manufacturing businesses and own brand businesses. Although the sales volume of video graphics cards dropped during the period under review, its influence on revenue was neutralized by the shifting of market demand to those with higher value products.

Revenue derived from the EMS business amounted to HK\$415.7 million, representing a decrease of HK\$89.8 million, or 17.8%, as compared to HK\$505.5 million for the same period in last year. The decline was mainly due to a decrease in sales of Internet Media Tablets, LED modules, and healthcare products.

Revenue from other PC related products and components increased by HK\$104.5 million, or 51.6%, from HK\$202.3 million in the first half of 2013 to HK\$306.8 million in the first half of 2014. The growth was mainly due to an increase in sales of all business segments during the period under review.

Gross Profit and Margin

The Group's gross profit was HK\$214.2 million, representing a decrease of HK\$11.2 million, or 5.0%, compared with HK\$225.4 million in the first half of 2013. Gross profit margin decreased by 1.0% to 8.9% compared with 9.9% in the first half of 2013. It was mainly due to a decline on gross profit margin (sales minus material costs) of video graphics cards by 2.4% as compared to the same period in last year. The gross profit margin (sales minus material costs) for own brands video graphics cards decreased in second quarter of 2014 by approximately 3.3% as compared to first quarter of 2014. Since the Group experienced a dramatic decline in the demand of video graphics cards after the Bitcoin bubble burst in the second quarter of 2014, the Group traded off the profit margin with a price cut on video graphics cards, in order to reduce the risk of holding excessive inventory. In addition, the decline in orders from EMS business was partially compensated by the higher gross profit on other PC related products and components business segment, resulting in a smaller influence on the total gross profit.

Profit for The Period

The profit for period under review was HK\$5.6 million, representing a decrease of HK\$23.4 million, or 80.8%, as compared to same period in last year. The decrease in gross profit together with an increase of operating expenses resulted in a lower profit for the period.

Selling and distribution expenses increased by HK\$4.3 million, or 9.6%, from HK\$45.1 million for the six months ended 30 June 2013 to HK\$49.4 million for the six months ended 30 June 2014. It was mainly due to increase in freight and transportation expenses and marketing development expenses on own brands products during the period under review.

Administrative expenses increased by HK\$2.3 million, or 1.6%, from HK\$140.5 million for the six months ended 30 June 2013 to HK\$142.8 million for the six months ended 30 June 2014. The increase was mainly due to a net impact of increase on salary and compensation, which was offset by expenditure savings on other items under administrative expenses. The Group experienced an exchange loss which was mainly due to depreciation of Renminbi to United States dollar for the period under review.

Finance costs increased by HK\$0.5 million or 9.3%, from HK\$5.6 million for the six months ended 30 June 2013 to HK\$6.1 million for the six months ended 30 June 2014. It was mainly resulted from a higher utilisation of the bank borrowings during the period under review.

Income tax expenses was decreased by HK\$4.2 million or 45.5%, from HK\$9.3 million for the six months ended 30 June 2013 to HK\$5.1 million for the six months ended 30 June 2014. It was mainly resulted by a lower operating profit being generated for the Group during the period under review.

Profit Attributable to Shareholders and Dividends

The profit attributable to shareholders of the Group was HK\$5.6 million, representing a decline of HK\$23.4 million as compared to HK\$29.0 million for same period in last year. Net profit margin decreased from 1.3% for the six month ended 30 June 2013 to 0.2% for the six months ended 30 June 2014.

Basic earnings per share decreased by HK6 cents to HK1 cent for the first half of 2014 as compared to HK7 cents for the same period in last year. The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014.

LIQUIDITY AND FINANCIAL RESOURCES

Shareholders' Funds

Total shareholders' funds decreased by HK\$10.4 million, from HK\$781.6 million as at 31 December 2013 to HK\$771.2 million as at 30 June 2014.

Financial Position

The Group has total current assets of HK\$2,158.2 million as at 30 June 2014 and HK\$2,398.4 million as at 31 December 2013. The Group's total current liabilities amounted to HK\$1,470.4 million as at 30 June 2014 and HK\$1,710.6 million as at 31 December 2013. The Group's current ratio, defined as total current assets over total current liabilities, improved from 1.4 as at 31 December 2013 to 1.5 as at 30 June 2014.

The Group's cash and cash equivalents decreased from HK\$689.0 million as at 31 December 2013 to HK\$617.7 million as at 30 June 2014. Based on the borrowings of HK\$808.0 million as at 30 June 2014 and HK\$823.2 million as at 31 December 2013, and the total equity of HK\$771.2 million as at 30 June 2014 and HK\$781.6 million as at 31 December 2013, the Group's gearing ratio (being net debts divided by total equity) increased from 17.2% as at 31 December 2013 to 24.7% as at 30 June 2014. The increase in gearing ratio was mainly resulted from lower cash and cash equivalents as at 30 June 2014.

Exposure to Fluctuation in Exchange Rates

As at 30 June 2014, the Group exposed to currency risk primarily through sales and purchase that have denominated in currencies other than the functional currency of the operations to which they relate. The currencies giving rise to the risk are primarily United States dollar, Renminbi and Korea Won. The Group withstood a portion of its exchange rate risk by entering into performance swap contracts and non-deliverable foreign exchange forward contract.

Working Capital

Inventories of the Group as at 30 June 2014 was HK\$920.0 million, increased by HK\$65.7 million or 7.7% as compared with HK\$854.3 million as at 31 December 2013. Inventory turnover days increased from 66 days for the year ended 31 December 2013 to 73 days for the six months ended 30 June 2014.

Trade receivables as at 30 June 2014 were HK\$562.1 million, decreased by HK\$253.6 million or 31.1% as compared with HK\$815.7 million as at 31 December 2013. Trade receivable turnover days decreased from 63 days for the year ended 31 December 2013 to 52 days for the six months ended 30 June 2014.

Trade payables as at 30 June 2014 was HK\$486.7 million, decreased by HK\$206.7 million, or 29.8%, as compared with HK\$693.4 million as at 31 December 2013. Trade payable turnover days decreased from 53 days for the year ended 31 December 2013 to 49 days for the six months ended 30 June 2014.

Charge on Assets

As at 30 June 2014, bank deposit of HK\$0.3 million was pledged to bank to secure general banking facilities granted to the Group.

Capital Expenditure

For the six months ended 30 June 2014, the Group invested HK\$6.9 million in the purchase of property, plant and equipment. All of these capital expenditures were financed by internal resources and the proceeds from the initial public offering.

Capital Commitments and Contingent Liabilities

As at 30 June 2014, total capital commitments amounted to HK\$0.9 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 condensed consolidated statement of financial position, there was no other significant investments held. During the period under review, there was no acquisition of additional interests in subsidiaries or disposal of subsidiaries.

Future Plans for Material Investments or Capital assets

The Group had no plan for material investments or acquisitions of capital assets as at 30 June 2014, but will actively pursue opportunities for investments to enhance its profitability in the ordinary course of business.

USE OF PROCEEDS

The aggregated net proceeds from the Offering (as defined in the Company's prospectus dated 29 December 2011), based on an offer price of HK\$1.6 per share was HK\$109.0 million. The Group intended to apply such net proceeds as set forth in the prospectus dated 29 December 2011, namely HK\$46.0 million for expansion production capacity, HK\$24.0 million for promotion and development of new products and brand name, HK\$24.0 million for research and development, HK\$5.0 million for upgrading the existing Enterprise Resources Planning ("ERP") system and IT resources, and HK\$10.0 million for the Group's working capital and general corporate purposes. As at 30 June 2014, the Group has applied HK\$16.3 million on expansion of production facilities, HK\$22.3 million on promotion and development of new products and brand name, HK\$12.6 million on research and development, and HK\$5.0 million on ERP system upgrade project.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2014, the Group had 4,151 employees (2013: 4,858 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 the employees. The Company has also adopted a Pre-IPO Share Option Scheme to recognise the contributions of and as retention incentive to the executive directors, certain management staff and selected long service employees of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at the date of this report, the interests and short positions of each Director and chief executive of the Company in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong) ("SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long Positions in Shares

Name of Director	Type of interest	Number of Shares held	Percentage of shareholding
Mrs. HO WONG Mary Mee-Tak	Beneficial owner	400,000	0.09%
	Interest in controlled corporations (Note)	132,350,000	31.70%
Mr. WONG Shik Ho Tony	Beneficial owner	51,560,750	12.35%
Mr. WONG Fong Pak	Beneficial owner	26,915,750	6.45%
Mr. LEUNG Wah Kan	Beneficial owner	21,250,500	5.09%
Mr. HO Nai Nap	Beneficial owner	19,984,538	4.79%
Mr. MAN Wai Hung	Beneficial owner	3,677,065	0.88%

Note: These 132,350,000 Shares are owned as to 54,850,000 Shares by Classic Venture International Inc. and 77,500,000 Shares by Perfect Choice Limited. As the entire issued share capital of both Classic Venture International Inc. and Perfect Choice Limited are owned by Mrs. HO WONG Mary Mee-Tak, Mrs. HO WONG Mary Mee-Tak is deemed to be interested in these 132,350,000 Shares under the SFO.

Long Positions in Share Options of the Company

Name of Director	Date of grant	Number of underlying shares	Percentage of shareholding
Mr. WONG Shik Ho Tony	14 December 2011	4,290,000	1.03%
Mr. WONG Fong Pak	14 December 2011	3,300,000	0.79%
Mr. LEUNG Wah Kan	14 December 2011	3,300,000	0.79%
Mr. HO Nai Nap	14 December 2011	1,200,000	0.29%
Mr. MAN Wai Hung	14 December 2011	1,200,000	0.29%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at the date of this report, the following parties with interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Interest in the Company

Name	Long/Short position	Type of interest	Number of Shares held	Percentage of shareholding
Perfect Choice Limited	Long position	Beneficial owner (Note 1)	77,500,000	18.56%
Classic Venture International Inc.	Long position	Beneficial owner (Note 1)	54,850,000	13.14%
Mr. WONG Shik Ho Tony	Long position	Beneficial owner	51,560,750	12.35%
Mr. WONG Fong Pak	Long position	Beneficial owner	26,915,750	6.45%
S.A.S. Investment Company Limited ("SAS Investment")	Long position	Beneficial owner (Note 2)	25,304,000	6.06%
S.A.S. Dragon Holdings Limited ("SAS Holdings")	Long position	Through controlled corporation (Note 2)	25,304,000	6.06%
Mr. Daniel KEARNEY	Long position	Beneficial owner	22,001,000	5.26%
Mr. LEUNG Wah Kan	Long position	Beneficial owner	21,250,500	5.09%

Note 1: As the entire issued share capital of both Classic Venture International Inc. and Perfect Choice Limited are owned by Mrs. HO WONG Mary Mee-Tak, Mrs. HO WONG Mary Mee-Tak is deemed to be interested in the 132,350,000 Shares in aggregate held by Classic Venture International Inc. and Perfect Choice Limited under the SFO.

Note 2: SAS Investment is wholly-owned by SAS Holdings which is a company listed on the Stock Exchange. Hence, SAS Holdings is also deemed to be interested in 25,304,000 Shares held by SAS Investment under the SFO.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the shareholders of the Company passed on 14 December 2011 (the "Resolutions"), the Company has adopted a Pre-IPO Share Option Scheme (the "Pre-IPO Share Option Scheme") under which, share options were granted to directors (including non-executive directors), employees and consultants of the Group (the "Grantees"). The Pre-IPO Share Option Scheme was terminated on 24 December 2011. Upon termination of the Pre-IPO Share Option Scheme, no further share option was granted but in all other respects the provisions of the Pre-IPO Share Option Scheme remain in full force and effect to the extent necessary to give effect to the exercise of any share options granted prior thereto or otherwise as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme, and share options which were granted prior to such termination are continued to be valid and exercisable in accordance with the provisions of the Pre-IPO Share Option Scheme and their terms of issue.

OTHER INFORMATION

As at 14 December 2011, options to subscribe for an aggregate of 31,990,000 shares of the Company, representing 7.66% of the issued share capital of the Company immediately following the completion of the offering (as defined in the Prospectus), at an exercise price of HK\$1.46 per share of the Company, have been granted pursuant to the Pre-IPO Share Option Scheme. Each of the Grantees has paid HK\$1 to the Company on acceptance of the offer for the grant of option.

Pursuant to the Resolutions, Grantees may exercise 50% of such options granted for three years commencing from the first anniversary of 12 January 2012 (the "Listing Date") of the Company and the remaining 50% for the period of three years commencing from the second anniversary of the Listing Date. The share-based payment in respect of such options is amortised over the vesting periods from 14 December 2011 to 11 January 2013 and 14 December 2011 to 11 January 2014 in accordance with the Group's accounting policy.

A summary of the movements of the outstanding share options during the six months ended 30 June 2014 were as follows:

Grantee	Options held as at 1 January 2014	Options exercised during the period	Options lapsed during the period	Options cancelled during the period	Options held as at 30 June 2014
Directors					
Mr. WONG Shik Ho Tony	4,290,000	—	—	—	4,290,000
Mr. WONG Fong Pak	3,300,000	—	—	—	3,300,000
Mr. LEUNG Wah Kan	3,300,000	—	—	—	3,300,000
Mr. HO Nai Nap	1,200,000	—	—	—	1,200,000
Mr. MAN Wai Hung	1,200,000	—	—	—	1,200,000
Others					
Employees and consultants	16,250,000	—	—	—	16,250,000
Total	29,540,000	—	—	—	29,540,000

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: HK\$0.025 per share, totalling HK\$10,438,000).

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 2014.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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.

CORPORATE GOVERNANCE

Throughout the six months ended 30 June 2014, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "CG Code"), except for the deviation from code provision A.2.1 of the CG Code as described below.

Under code provision A.2.1 of the CG 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 2014, 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 strong and balance 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.

AUDIT COMMITTEE

The Company established an Audit Committee on 21 December 2011 with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise our financial reporting process and internal control system of the Company and to provide advice and comments to the Board. The Audit Committee consists of three members who are all independent non-executive Directors, namely, Mr. LAI Kin Jerome, Mr. IP Shing Hing and Mr. CHEUNG Ying Sheung. Mr. LAI Kin Jerome is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2014.

By order of the Board

WONG Shik Ho Tony

Chairman

Hong Kong, 29 August 2014

CONDENSED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Notes	30 June 2014 HK\$'000 (Unaudited)	30 June 2013 HK\$'000 (Unaudited)
Turnover	3, 4	2,403,692	2,278,858
Cost of sales		(2,189,488)	(2,053,424)
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Gross profit		214,204	225,434
Other revenue and other gains and losses	5	(5,270)	4,043
Selling and distribution expenses		(49,422)	(45,093)
Administrative expenses		(142,785)	(140,492)
Finance costs	6	(6,076)	(5,558)
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Profit before income tax	7	10,651	38,334
Income tax expense	8	(5,087)	(9,338)
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Profit for the period		5,564	28,996
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Other comprehensive income, after tax, that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		607	—
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Total comprehensive income for the period		6,171	28,996
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Earnings per share		HK\$	HK\$
— Basic and diluted	10	0.01	0.07

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Notes	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000
Non-current assets			
Property, plant and equipment	11	53,615	63,845
Intangible assets		7,128	7,272
Other financial assets		20,992	20,992
Deferred tax assets		1,790	1,790
Total non-current assets		83,525	93,899
Current assets			
Inventories		919,982	854,314
Trade and other receivables	12	619,834	854,043
Current tax recoverable		459	805
Pledged time deposits		310	310
Cash and cash equivalents		617,663	688,972
Total current assets		2,158,248	2,398,444
Total assets		2,241,773	2,492,343
Current liabilities			
Trade and other payables	13	648,943	869,597
Borrowings	14	807,937	823,111
Provisions	15	4,490	7,032
Obligations under finance leases		16	15
Derivative financial liabilities		—	2,391
Current tax liabilities		9,056	8,447
Total current liabilities		1,470,442	1,710,593
Net current assets		687,806	687,851
Total assets less current liabilities		771,331	781,750

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Notes	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000
Non-current liabilities			
Obligations under finance leases		19	27
Deferred tax liabilities		80	80
Total non-current liabilities		99	107
NET ASSETS		771,232	781,643
Capital and reserves			
Share capital	16	41,752	41,752
Reserves		729,480	739,891
TOTAL EQUITY		771,232	781,643

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Share capital HK\$'000	Share premium HK\$'000	Translation reserve HK\$'000	Merger reserve HK\$'000	Other reserve HK\$'000	Legal reserve HK\$'000	Share- based payment reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2013	41,752	119,331	482	6,702	21,771	1,128	12,478	524,362	728,006
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	28,996	28,996
Dividends paid (Note 9)	—	—	—	—	—	—	—	(12,526)	(12,526)
Equity settled share-based transactions	—	—	—	—	—	—	1,890	—	1,890
At 30 June 2013 (Unaudited)	41,752	119,331	482	6,702	21,771	1,128	14,368	540,832	746,366
At 1 January 2014	41,752	119,331	588	6,702	21,771	1,964	15,828	573,707	781,643
Profit for the period	—	—	—	—	—	—	—	5,564	5,564
Other comprehensive income									
— exchange difference on translating foreign operations	—	—	607	—	—	—	—	—	607
Dividends paid (Note 9)	—	—	—	—	—	—	—	(16,701)	(16,701)
Equity settled share-based transactions	—	—	—	—	—	—	119	—	119
At 30 June 2014 (Unaudited)	41,752	119,331	1,195	6,702	21,771	1,964	15,947	562,570	771,232

CONDENSED

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	30 June 2014 HK\$'000 (Unaudited)	30 June 2013 HK\$'000 (Unaudited)
Net cash (used in)/generated from operating activities	(38,436)	8,573
Net cash used in investing activities	(3,352)	(5,305)
Net cash used in financing activities	(30,098)	(30,170)
Net decrease in cash and cash equivalents	(71,886)	(26,902)
Cash and cash equivalents at beginning of period	688,972	602,591
Effect of exchange rate changes on cash and cash equivalents	577	—
Cash and cash equivalents at end of period	617,663	575,689

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

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 2014 (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 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 2013 (the “Annual Financial Statements”), except for the adoption of the new and revised Hong Kong Financial Reporting Standards (the “HKFRSs”) (which in 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. ADOPTION OF NEW AND REVISED STANDARDS

In the current period, the Group has adopted all the new and revised standards, amendments and interpretations (“new HKFRSs”) issued by HKICPA that are relevant to its operation and effective for its accounting period beginning on 1 January 2014. The adoption of the new HKFRSs had no material changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current period and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group is in the process of making an assessment of the potential impact of these new and revised HKFRSs upon initial application. However, it is not yet in a position to state whether they would have a material impact on the Group’s results of operations and financial position.

3. TURNOVER

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

4. SEGMENT REPORTING

(a) Reportable segments

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

(b) Geographical information

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

	30 June 2014 HK\$'000 (Unaudited)	30 June 2013 HK\$'000 (Unaudited)
Asia Pacific ("APAC")	1,145,662	1,012,480
North and Latin America ("NALA")	361,910	356,281
People's Republic of China ("PRC")	549,747	484,059
Europe, Middle East, Africa and India ("EMEA")	346,373	426,038
	2,403,692	2,278,858

(c) Revenue from major products and services

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

	30 June 2014 HK\$'000 (Unaudited)	30 June 2013 HK\$'000 (Unaudited)
Video graphics cards	1,681,168	1,570,995
Electronics manufacturing services	415,723	505,522
Other PC related products and components	306,801	202,341
	2,403,692	2,278,858

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

4. SEGMENT REPORTING (CONTINUED)

(d) Information about major customers

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

	30 June 2014 HK\$'000 (Unaudited)	30 June 2013 HK\$'000 (Unaudited)
Customer A (Note)	276,191	N/A

Note:

Revenue from this customer was derived from rendering of electronics manufacturing services in the APAC region. Its revenue for the six months ended 30 June 2013 does not contribute 10% or more of the Group's revenue.

5. OTHER REVENUE AND OTHER GAINS AND LOSSES

	30 June 2014 HK\$'000 (Unaudited)	30 June 2013 HK\$'000 (Unaudited)
Interest income	1,363	879
Net exchange (losses)/gains	(10,793)	165
Net gain on settlement of derivative financial instruments	1,946	541
Gain on disposal of property, plant and equipment	220	—
Sundry income	1,994	2,458
	(5,270)	4,043

6. FINANCE COSTS

	30 June 2014 HK\$'000 (Unaudited)	30 June 2013 HK\$'000 (Unaudited)
Interest on bank advances and other borrowings wholly repayable within five years	6,076	5,558

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

7. PROFIT BEFORE INCOME TAX

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

	30 June 2014 HK\$'000 (Unaudited)	30 June 2013 HK\$'000 (Unaudited)
Inventories recognised as expense	2,174,525	2,038,750
Provision for obsolete inventories	14,963	14,674
Cost of sales	2,189,488	2,053,424
Staff costs (Note)	181,632	176,954
Auditor's remuneration	493	295
Depreciation of property, plant and equipment	17,124	18,251
Amortisation of intangible assets	144	575
(Reversal of provision)/provision for impairment losses on trade and other receivables	(538)	492
Operating lease payments on plant and machinery	119	27
Operating lease payments on premises	16,902	15,997
Property, plant and equipment written off	1	5
(Reversal of provision)/provision for product warranties and returns (Note 15)	(2,293)	103

Note: Staff costs consist of share-based payment of HK\$119,000 for the six months ended 30 June 2014 (2013: HK\$1,890,000).

8. INCOME TAX EXPENSE

(a) The amounts of income tax expense in the condensed consolidated statement of comprehensive income represent:

	30 June 2014 HK\$'000 (Unaudited)	30 June 2013 HK\$'000 (Unaudited)
Current tax — Hong Kong — provision for the period	3,510	9,061
Current tax — PRC — provision for the period — under provision in respect of prior year	1,508 18	242 —
Current tax — Korea, Germany and United States — provision for the period — under provision in respect of prior year	16 35	15 20
Income tax expense	5,087	9,338

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

8. INCOME TAX EXPENSE (CONTINUED)

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

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

Hong Kong profits tax is calculated at 16.5% (2013: 16.5%) on the estimated assessable profits for the six months ended 30 June 2014. A significant subsidiary of the Group, PC Partner Limited, is exempted under Departmental Interpretation and Practice Notes No.21 issued by the Inland Revenue Department of Hong Kong in respect of claiming 50% of all of its manufacturing profits as offshore in nature and non-taxable.

The Group's wholly owned subsidiary located in the PRC, 東莞栢能電子科技有限公司 successfully obtained the "High Technology Enterprise" status during last year and the applicable PRC enterprise income tax rate for the six months ended 30 June 2014 is 15% (2013: 15%). Other PRC subsidiaries of the Group are subject to PRC enterprise income tax at a statutory rate of 25% (2013: 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 2014.

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

9. DIVIDEND

	30 June 2014 HK\$'000 (Unaudited)	30 June 2013 HK\$'000 (Unaudited)
2013 Final dividend paid — HK\$0.04 (2013: 2012 Final dividend — HK\$0.03) per share	16,701	12,526

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: HK\$0.025 per share, totalling HK\$10,438,000).

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2014 and 2013 is based on the profit for the periods and assuming the shares were in issue during the current and prior periods, calculated as follows:

Earnings

	30 June 2014 HK\$'000 (Unaudited)	30 June 2013 HK\$'000 (Unaudited)
Earnings for the purpose of basic and diluted earnings per share	5,564	28,996

Number of shares

	30 June 2014 (Unaudited)	30 June 2013 (Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	417,518,668	417,518,668
Effect of dilutive potential ordinary shares: — share options	—	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	417,518,668	417,518,668

The computation of diluted earnings per share for the six months ended 30 June 2014 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares.

11. PROPERTY, PLANT AND EQUIPMENT

No impairment losses were recognised in respect of property, plant and equipment for both periods. During the period, additions to property, plant and equipment amounted to HK\$6,881,000 (2013: HK\$6,725,000) and write off of property, plant and equipment with net book value amounted to HK\$1,000 (2013: HK\$5,000).

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

12. TRADE AND OTHER RECEIVABLES

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000
Trade receivables	571,071	825,562
Less: Accumulated impairment losses	(8,975)	(9,912)
	562,096	815,650
Other receivables	18,085	7,116
Deposits and prepayments	39,653	31,277
	619,834	854,043

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

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000
Within 1 month	313,689	465,715
Over 1 month but within 3 months	222,374	296,439
Over 3 months but within 1 year	25,224	52,981
Over 1 year	809	515
	562,096	815,650

The credit period on sales of goods is 25 to 60 days (2013: 25 to 60 days) from the invoice date.

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

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000
Within 1 month	104,186	123,619
Over 1 month but within 3 months	17,217	21,697
Over 3 months but within 1 year	14,153	35,807
Over 1 year	98	350
	135,654	181,473

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

12. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

Receivables that were past due but not impaired related to a number of independent customers that have a good track record. Based on past experience, the directors consider that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

13. TRADE AND OTHER PAYABLES

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000
Trade payables	486,739	693,421
Other payables and accruals	162,204	176,176
	648,943	869,597

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

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

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000
Within 1 month	253,272	345,942
Over 1 month but within 3 months	215,182	313,843
Over 3 months but within 1 year	15,084	29,182
Over 1 year	3,201	4,454
	486,739	693,421

14. BORROWINGS

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000
Import loans — secured	786,051	787,835
Bank loans — secured	14,873	24,165
Discounted bills	7,013	11,111
	807,937	823,111

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

14. BORROWINGS (CONTINUED)

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

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000
On demand or within one year	804,312	815,861
Due after one year		
More than one year, but not exceeding two years	3,625	7,250
More than two years, but not exceeding five years	—	—
	3,625	7,250
	807,937	823,111

- (i) At 30 June 2014, the above borrowings bear interest at effective interest rates ranging from 1.00% per annum plus 3 months HIBOR (2013: 1.15% per annum plus SIBOR) to 2.75% per annum plus 1 month HIBOR (2013: 2.75% per annum plus 1 month HIBOR).
- (ii) The Group's banking facilities are secured by bank deposits of HK\$310,000 (2013: HK\$310,000).
- (iii) The discounted bills are secured by the Group's trade receivables in the same amount.
- (iv) The banks have overriding right of repayment on demand for all bank loans irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations. Therefore, the bank loans were entirely classified as current liabilities in the condensed consolidated statement of financial position.

15. PROVISIONS

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000
Provision for product warranties and returns		
At beginning of period/year	7,032	6,228
Additional net (reversal)/provision made	(2,293)	1,517
Utilised	(249)	(713)
Net movement for the period/year	(2,542)	804
At end of period/year	4,490	7,032

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

15. PROVISIONS (CONTINUED)

Under the terms of the Group's certain sales agreements, the Group will rectify any product defects arising within three years from the date of sale ("Track Record Period"). The Group also has a policy allowing the customers to return any defective products within two years after the delivery of products.

Provision is therefore made for the best estimate of the expected settlement of warranty under sales agreements and sales returns in respect of sales made during the Track Record Period. The amount of provision takes into account the Group's recent claim experience and is only made where a warranty claim is probable whilst the amount of provision for sales returns is estimated by management with reference to the past experience and other relevant factors.

16. SHARE CAPITAL

	30 June 2014 Number HK\$'000 (Unaudited)		31 December 2013 Number HK\$'000	
Authorised:				
Ordinary shares of HK\$0.1 each	1,000,000,000	100,000	1,000,000,000	100,000
Issued and fully paid:				
Ordinary shares of HK\$0.1 each				
At beginning of the period/year	417,518,668	41,752	417,518,668	41,752
At end of the period/year	417,518,668	41,752	417,518,668	41,752

17. OPERATING LEASE ARRANGEMENTS (AS LESSEE)

The Group leases the majority of its properties. The terms of property leases vary from country to country, although they all tend to be tenant repairing with rent reviews every 1 to 8 years and many have break clauses.

The total future minimum lease payments under non-cancellable operating leases are due as follows:

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000
Within one year	30,902	30,987
After one year but within five years	57,903	69,497
	88,805	100,484

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

18. CAPITAL COMMITMENTS

As at 30 June 2014 and 31 December 2013, the Group had the following capital commitments in respect of:

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000
Contracted for acquisition of property, plant and equipment but not provided	912	572

19. RELATED PARTY DISCLOSURES

During the period, the Group entered into the following significant transactions with its related parties:

	30 June 2014 HK\$'000 (Unaudited)	30 June 2013 HK\$'000 (Unaudited)
Related companies owned by the directors of the Company		
– rent	365	360
Non-controlling shareholders of a subsidiary		
– rent	82	63
Director of the Company		
– rent	82	63

Rental expenses were charged according to the agreements.

The directors are of the opinion that these transactions were conducted in normal business terms and in the ordinary course of business.

20. SUBSEQUENT EVENTS

On 14 July 2014, a writ of summons was issued by Archos SA against PC Partner Limited, a wholly owned subsidiary of the Company, alleging that PC Partner Limited is responsible for carrying out repairs works of certain computer tablets and liable for the costs thereof, and claiming costs in the aggregate amounts of approximately HK\$36,400,000, together with damages and interest on the amounts claimed. PC Partner Limited is seeking legal advice as to the appropriate course of action. In addition, the board of directors of the Company is of the view that in spite of the amount claimed, the proceedings will not have a material adverse impact on the business, operation and financial position of the Group.