

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



PC PARTNER GROUP LIMITED

栢能集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1263)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS	Period ended 30 June		Change
	2020	2019	
	<i>HK\$ million</i>	<i>HK\$ million</i>	
Revenue	3,290.8	3,420.8	-3.8%
Gross profit	297.5	160.4	+85.5%
Profit/(loss) for the period attributable to owners of the Company	31.7	(79.2)	+140.0%
Gross profit%	9.0%	4.7%	+91.5%
Net profit/(loss)%	1.0%	-2.3%	+143.5%

The board of directors (the “Board”) of PC Partner Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		30 June 2020	30 June 2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	5, 6	3,290,773	3,420,751
Cost of sales		<u>(2,993,248)</u>	<u>(3,260,338)</u>
Gross profit		297,525	160,413
Other revenue and other gains and losses	7	5,366	(5,836)
Selling and distribution expenses		(43,854)	(47,327)
Administrative expenses		(197,841)	(179,444)
Impairment loss on financial assets		(7,430)	(2,114)
Finance costs	8	(19,649)	(28,043)
Share of profit of a joint venture		<u>5,730</u>	<u>6,247</u>
Profit/(loss) before income tax	9	39,847	(96,104)
Income tax	10	<u>(8,361)</u>	<u>16,284</u>
Profit/(loss) for the period		<u>31,486</u>	<u>(79,820)</u>
Other comprehensive income, after tax			
Item that will not be reclassified to profit or loss:			
Changes in fair value of equity instruments at fair value through other comprehensive income		(1,519)	(507)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign subsidiaries		(1,200)	(1,250)
Exchange differences on translating a joint venture		<u>(3,076)</u>	<u>(2,978)</u>
Total comprehensive income for the period		<u>25,691</u>	<u>(84,555)</u>

	30 June	30 June
	2020	2019
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit/(loss) for the period attributable to:		
— Owners of the Company	31,723	(79,197)
— Non-controlling interests	(237)	(623)
	<u>31,486</u>	<u>(79,820)</u>
Total comprehensive income for the period attributable to:		
— Owners of the Company	25,928	(83,932)
— Non-controlling interests	(237)	(623)
	<u>25,691</u>	<u>(84,555)</u>
	<i>HK\$</i>	<i>HK\$</i>
Earnings/(loss) per share	12	
— Basic	0.085	(0.213)
— Diluted	0.085	(0.213)
	<u>0.085</u>	<u>(0.213)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		30 June 2020	31 December 2019
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		178,793	215,480
Right-of-use assets		145,187	156,106
Intangible assets		4,825	6,355
Interest in a joint venture		146,490	143,835
Other financial asset		8,867	10,386
Trade and other receivables	13	3,541	212,897
Deferred tax assets		<u>20,089</u>	<u>25,944</u>
Total non-current assets		<u>507,792</u>	<u>771,003</u>
Current assets			
Inventories		996,555	1,126,023
Trade and other receivables	13	1,438,197	1,190,592
Right of return assets		35,772	37,271
Current tax recoverable		3,658	—
Cash and bank balances		<u>725,672</u>	<u>906,884</u>
Total current assets		<u>3,199,854</u>	<u>3,260,770</u>
Total assets		<u>3,707,646</u>	<u>4,031,773</u>
Current liabilities			
Trade and other payables	14	1,221,397	1,410,321
Refund liabilities		43,832	47,725
Contract liabilities		38,893	31,629
Amount due to a related party		—	2,683
Borrowings		1,336,340	1,475,412
Provision		13,633	18,670
Lease liabilities		25,292	25,904
Current tax liabilities		<u>—</u>	<u>7,329</u>
Total current liabilities		<u>2,679,387</u>	<u>3,019,673</u>

	30 June	31 December
	2020	2019
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Net current assets	<u>520,467</u>	<u>241,097</u>
Total assets less current liabilities	<u>1,028,259</u>	<u>1,012,100</u>
Total non-current liabilities		
Lease liabilities	<u>122,845</u>	<u>132,377</u>
NET ASSETS	<u><u>905,414</u></u>	<u><u>879,723</u></u>
Capital and reserves		
Share capital	37,209	37,209
Reserves	<u>868,513</u>	<u>842,585</u>
Equity attributable to owners of the Company	905,722	879,794
Non-controlling interests	<u>(308)</u>	<u>(71)</u>
TOTAL EQUITY	<u><u>905,414</u></u>	<u><u>879,723</u></u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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 2020 (the “Interim Financial Statements”) have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

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

The accounting policies adopted for the preparation of the Interim Financial Statements are consistent with those applied in the preparation of the annual financial statements of the Group for the year ended 31 December 2019 (the “Annual Financial Statements”), except for the adoption of the revised Hong Kong Financial Reporting Standards (the “HKFRSs”) (which collective term includes all applicable HKFRSs, Hong Kong Accounting Standards and Interpretations) issued by the HKICPA.

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

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

2. CHANGES IN HKFRSs

The HKICPA has issued a number of amended HKFRSs that were adopted by the Group effective from 1 January 2020:

Amendments to HKFRS 3	Definition of a Business ¹
Amendments to HKAS 1 and HKAS 8	Definition of Material ¹
Amendment to HKFRS 16	COVID-19 Related Rent Concessions ²
Conceptual Framework for Financial Reporting (Revised) ¹	

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

² Effective for annual periods beginning on or after 1 June 2020. Earlier application is permitted, including financial statements not yet authorised for issue at 4 June 2020.

Other than amendment to HKFRS 16, the above amended HKFRSs did not have any material impact on the Group’s accounting policies.

3. IMPACTS OF COVID-19 PANDEMIC

The World Health Organisation declared coronavirus and COVID-19 a global health emergency on 30 January 2020. Since then, the Group has experienced some disruption to its production resulting from the temporary closure of its factory and interruption of material supply in January and February 2020.

The significant events and transactions that have occurred since 31 December 2019 relate to the effects of the global pandemic on the Group's Interim Financial Statements and are summarised as follows.

(a) Rent concessions received from lessors

Due to government policy, the Group had to close its factory after Chinese Lunar New Year until the end of February 2020 and the factory was able to reopen afterward.

The Group has received rent concessions from lessors in the form of reduction in rent contractually due under the terms of lease agreements due to being unable to operate for significant periods of time.

The Group has elected to apply the practical expedient introduced by the amendment to HKFRS 16 to all rent concessions that satisfy the criteria. All of the rent concessions entered into during the six-month period ended 30 June 2020 satisfy the criteria to apply the practical expedient.

The application of the practical expedient has resulted in the reduction of total lease liabilities of HK\$1,752,000 as disclosed in note 7.

The effect of this reduction has been recorded in profit or loss in the period in which the event or condition that triggers those payments occurs.

(b) Government grants

The Group applied for various government support programs introduced in response to the global pandemic.

Included in profit or loss is HK\$1,492,000 of government grants obtained relating to supporting the payroll of the Group's employees as disclosed in note 7. The Group has elected to present this government grant separately, rather than reducing the related expense. The Group had to commit to spending the assistance on payroll expenses, and not reduce employee head count below prescribed levels for a specified period of time. The Group does not have any unfulfilled obligations relating to this program.

Included in profit or loss is HK\$5,179,000 of government grants in relation to cost or expense waivers and presented by reducing the related expenses. The waivers were granted by PRC government to the Group in respect of social insurance for stabilising employment during the six-month period ended 30 June 2020 as disclosed in note 9.

The Group has applied for additional government grants, which did not meet the recognition criteria as at 30 June 2020 as disclosed in note 23 in the interim report.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing this Interim Financial Statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Annual Financial Statements.

However, as disclosed in note 3, the effects of COVID-19 have required significant judgements and estimates to be made, including:

- (a) Whether rent concessions satisfy the criteria to be accounted for using the practical expedient introduced by the amendment to HKFRS 16;
- (b) Assessing whether the entity has reasonable assurance as to whether it will comply with the conditions attached to government grants; and
- (c) Determining which information obtained subsequent to period end provides evidence of conditions that existed as at the end of the reporting period ("adjusting events after the reporting period") and which do not ("non-adjusting events after the reporting period"). The disclosure of non-adjusting events after the reporting period is set out in note 23 in the interim report.

Additionally, while the changes in the following estimates and judgements have not had a material impact on the Group, the effects of COVID-19 have required revisions to:

- (a) Estimates of customer returns and the determination of the Group's methodology for estimating the transaction price for sales subject to rights of return;
- (b) Estimates of expected credit losses attributable to accounts receivable arising from sales to customers on credit terms, including the incorporation of forward-looking information to supplement historical credit loss rates; and
- (c) The methodology used to estimate the fair value of equity instruments classified as level 3 in the fair value hierarchy, as their valuation techniques incorporate significant unobservable inputs.

5. 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 markets, major products and services, brand and non-brand businesses and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments.

For the period ended 30 June

	Design, manufacturing and trading of electronics and PC parts and accessories	
	30 June 2020	30 June 2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Primary geographical markets		
Asia Pacific (“APAC”)	1,343,314	1,391,629
North and Latin America (“NALA”)	486,546	632,748
People’s Republic of China (“PRC”)	801,398	784,919
Europe, Middle East, Africa and India (“EMEAI”)	659,515	611,455
	<u>3,290,773</u>	<u>3,420,751</u>
Major products/services		
	30 June 2020	30 June 2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Video graphics cards (“VGA cards”)	2,474,327	2,707,135
Electronics manufacturing services (“EMS”)	298,794	319,377
Other PC related products and components	517,652	394,239
	<u>3,290,773</u>	<u>3,420,751</u>
Brand and non-brand businesses		
	30 June 2020	30 June 2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Brand businesses	1,687,781	1,863,968
Non-brand businesses	1,602,992	1,556,783
	<u>3,290,773</u>	<u>3,420,751</u>

Timing of revenue recognition

	30 June 2020 HK\$'000 (Unaudited)	30 June 2019 HK\$'000 (Unaudited)
At a point in time	<u>3,290,773</u>	<u>3,420,751</u>

(b) Information about the major customer

During the period ended 30 June 2020 and 2019, none of the customers contributed 10% or more of the Group's revenue.

6. REVENUE

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

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

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Contract liabilities	<u>38,893</u>	<u>31,629</u>

The contract liabilities mainly relate to the advance consideration received from customers and volume rebates and sales allowances to customers. HK\$13,354,000 of the contract liabilities as at 1 January 2020 and HK\$11,373,000 of contract liabilities as at 1 January 2019 have been recognised as revenue for the six months ended 30 June 2020 and 2019 respectively from performance obligations satisfied when the goods were sold.

7. OTHER REVENUE AND OTHER GAINS AND LOSSES

	30 June 2020 HK\$'000 (Unaudited)	30 June 2019 HK\$'000 (Unaudited)
Interest income	8,053	883
Net exchange losses	(17,937)	(9,247)
Net fair value gains on derivative financial instruments	366	381
Gain on disposal of property, plant and equipment	—	213
Sundry income	3,335	1,336
Rental income	7,722	—
Rent concessions	1,752	—
Government grants	<u>2,075</u>	<u>598</u>
	<u>5,366</u>	<u>(5,836)</u>

8. FINANCE COSTS

	30 June 2020 HK\$'000 (Unaudited)	30 June 2019 HK\$'000 (Unaudited)
Interest on bank advances and other borrowings	16,696	25,512
Interest on lease liabilities	2,953	2,531
	19,649	28,043

9. PROFIT/(LOSS) BEFORE INCOME TAX

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

	30 June 2020 HK\$'000 (Unaudited)	30 June 2019 HK\$'000 (Unaudited)
Inventories recognised as expense (<i>note (a)</i>)	2,993,248	3,260,338
Staff costs (<i>note (b)</i>)	171,416	181,146
Depreciation of property, plant and equipment	37,312	14,511
Depreciation of right-of-use assets	15,443	13,052
Bad debt written off	—	194
Impairment loss on intangible asset	1,530	—
Impairment losses on financial assets	7,430	2,114
Short-term lease expenses	200	3,301
Low-value assets lease expenses	12	18
Property, plant and equipment written off	15	19
Provision/(reversal of provision) for product warranties and returns, net	2,893	(5,441)
Research and development expenditure (<i>note (c)</i>)	22,607	25,640

Notes:

- (a) Included in the figures disclosed above is write down of inventories to net realisable value of approximately HK\$47,865,000 (2019: HK\$262,494,000) of which approximately HK\$Nil (2019: HK\$112,461,000) is related to the inventories transferred to a joint venture.
- (b) The PRC government's grant in the form of exemption of payment of social insurance of HK\$5,179,000 is reflected by reducing the related expenses for the six-month period ended 30 June 2020.
- (c) The research and development expenditure for the period includes HK\$22,607,000 (2019: HK\$25,640,000) relating to depreciation of plant and machinery and office equipment and right-of-use assets 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.

10. INCOME TAX

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

	30 June 2020 HK\$'000 (Unaudited)	30 June 2019 HK\$'000 (Unaudited)
Current tax — Hong Kong		
— provision for the period	1,391	692
— over provision in respect of prior year	(89)	—
Current tax — PRC		
— provision for the period	821	1,021
— under provision in respect of prior year	40	399
Current tax — others		
— provision for the period	343	56
— under provision in respect of prior year	—	66
	<u>2,506</u>	<u>2,234</u>
Deferred tax		
— origination and reversal of temporary differences	<u>5,855</u>	<u>(18,518)</u>
Income tax expense/(credit)	<u><u>8,361</u></u>	<u><u>(16,284)</u></u>

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

The 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 six months ended 30 June 2020 and 2019, 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 six months ended 30 June 2020 is 15% (2019: 15%). Other PRC subsidiaries of the Company are subject to PRC enterprise income tax at a statutory rate of 25% (2019: 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 2020.

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

11. DIVIDENDS

The directors of the Company do not propose an interim dividend for the six months ended 30 June 2020 and 2019.

12. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share for the six months ended 30 June 2020 and 2019 is based on the following data:

Profit/(loss)

	30 June 2020 HK\$'000 (Unaudited)	30 June 2019 HK\$'000 (Unaudited)
Profit/(loss) for the period attributable to owners of the Company for the purpose of basic and diluted earnings/(loss) per share	<u>31,723</u>	<u>(79,197)</u>

Number of shares

	30 June 2020 (Unaudited)	30 June 2019 (Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	372,093,668	372,093,668
Effect of dilutive potential ordinary shares:		
— share options	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	<u>372,093,668</u>	<u>372,093,668</u>

13. TRADE AND OTHER RECEIVABLES

	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
Trade receivables at amortised cost	1,356,516	1,338,011
Less: Accumulated impairment losses	<u>(17,784)</u>	<u>(10,411)</u>
Trade receivables at amortised cost, net	<u>1,338,732</u>	<u>1,327,600</u>
Trade receivables at fair value through profit or loss	72,846	50,177
Other receivables	13,958	7,134
Deposits and prepayments	18,181	20,557
Less: Accumulated impairment losses	<u>(1,979)</u>	<u>(1,979)</u>
	<u>16,202</u>	<u>18,578</u>
	<u>1,441,738</u>	<u>1,403,489</u>
Less: Trade receivables — non-current portion	—	(212,897)
Rental deposits — non-current portion	<u>(3,541)</u>	<u>—</u>
Trade and other receivables — current portion	<u>1,438,197</u>	<u>1,190,592</u>

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

	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
Within 1 month	503,182	469,729
Over 1 month but within 3 months	307,276	494,129
Over 3 months but within 1 year	497,426	361,968
Over 1 year	30,848	1,774
	<u>1,338,732</u>	<u>1,327,600</u>

The credit period on sales of goods is 30 to 90 days (2019: 30 to 90 days) from the invoice date.

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

	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
Within 1 month	31,070	22,428
Over 1 month but within 3 months	39,406	26,157
Over 3 months but within 1 year	2,370	1,592
	<u>72,846</u>	<u>50,177</u>

14. TRADE AND OTHER PAYABLES

	30 June 2020	31 December 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Trade payables	1,120,645	1,311,199
Other payables and accruals	100,752	99,122
	<u>1,221,397</u>	<u>1,410,321</u>

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

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

	30 June 2020	31 December 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within 1 month	545,631	394,288
Over 1 month but within 3 months	481,338	755,159
Over 3 months but within 1 year	87,259	156,146
Over 1 year	6,417	5,606
	<u>1,120,645</u>	<u>1,311,199</u>

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2020.

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 period under review.

The Group provides EMS to globally recognized brands, including major providers of Automatic Teller Machines (“ATM”) and Point-Of-Sales (“POS”) systems, storage devices, and various types of industrial and consumer electronic products. Aside from VGA Cards and the EMS businesses, 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 the first half of 2020, total revenue has recorded a decline of HK\$130.0 million, or 3.8%, from HK\$3,420.8 million in the first half of 2019 to HK\$3,290.8 million in the first half of 2020. The decrease was mainly resulted from a drop in sales of VGA Cards by HK\$232.9 million as compared to the same period of last year. Besides the decline in sales of VGA Cards, the EMS has also recorded a decline in revenue by HK\$20.6 million as compared to same period of last year. Other PC related products and components have recorded an increase in revenue by HK\$123.5 million as compared to same period of last year. The outbreak of COVID-19 pandemic caused temporary closure of factory in Mainland China and interruption to materials supply resulted in lower revenue in the first half of this year.

VGA Cards business has recorded a decline of HK\$232.9 million, or 8.6%, from HK\$2,707.2 million in the first half of 2019 to HK\$2,474.3 million in the first half of 2020. Both the ODM/OEM orders and the sales of own brands products have recorded a drop as compared to the first half of 2019. Orders on ODM/OEM based VGA Cards decreased by HK\$65.1 million or 6.9%, from HK\$939.3 million in the first half of 2019 to HK\$874.2 million in the first half of 2020. Sales of own brand VGA Cards decreased by HK\$167.8 million, or 9.5%, from HK\$1,767.9 million in the first half of 2019 to HK\$1,600.1 million in the first half of 2020. The decline in sales of VGA Cards under both the ODM/OEM and own brands segments was mainly due to lockdown in Mainland China right after Chinese Lunar New Year caused a lower level of production output in the first half of 2020.

EMS business recorded a decline of HK\$20.6 million, or 6.4%, from HK\$319.4 million in the first half of 2019 to HK\$298.8 million in the first half of 2020. The decline was due to less orders received from customers and some customers requested to put shipment on hold due to lockdown in different countries and cities during the period. Other PC related products and components business increased by HK\$123.5 million, or 31.3%, from HK\$394.2 million in the first half of 2019 to HK\$517.7 million in the first half of 2020. It was mainly due to an increase in sales of component trade which offset a decline in sales of other product lines during the period under review.

Sales of brand business sector dropped by HK\$176.2 million, or 9.5%, from HK\$1,864.0 million in the first half of 2019 to HK\$1,687.8 million in the first half of 2020. The ODM/OEM business sector includes component trade has recorded an increase of HK\$46.2 million, or 3.0%, from HK\$1,556.8 million in the first half of 2019 to HK\$1,603.0 million in the first half of 2020.

Different geographical regions have demonstrated different performance during the period under review. The Asia Pacific (“APAC”) region and the North and Latin America (“NALA”) region have recorded a drop of revenue by 3.5% and 23.1% respectively. The People’s Republic of China (“PRC”) region and the Europe, Middle East, Africa and India (“EMEA”) region have recorded an increase in revenue by 2.1% and 7.8% respectively.

APAC Region

In the APAC region, the revenue decreased by HK\$48.3 million, or 3.5%, from HK\$1,391.6 million in the first half of 2019 to HK\$1,343.3 million in the first half of 2020. The decline was mainly due to less orders from customers on blockchain applications and platforms in the first half of 2020.

EMEI Region

In the EMEI region, the revenue amounted to HK\$659.5 million in the first half of 2020, represented an increase of HK\$48.0 million, or 7.8%, as compared to HK\$611.5 million in the first half of 2019. The increase was mainly due to a strong demand of VGA Cards during the lockdown period in the European region.

NALA Region

In the NALA region, the revenue amounted to HK\$486.6 million in the first half of 2020, represented a decrease of HK\$146.2 million, or 23.1%, as compared to HK\$632.8 million in the first half of 2019. The decrease was associated with a decline in sales revenue of Zotac brand as well as some EMS customers requested to postpone shipments due to the lockdown in the United States.

PRC Region

In the PRC region, the revenue amounted to HK\$801.4 million in the first half of 2020, representing an increase of HK\$16.5 million, or 2.1%, as compared to HK\$784.9 million in the first half of 2019. Increase in revenue of component trade has offset the decline in sales of VGA Cards in the region.

Business Compliance

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

Principal Risks and Uncertainties

The Group has operated in a fast moving and highly competitive environment and the product life cycle tends to be shortened over the years. New products introduction requires significant resources involvement from development, production, 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 of 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 also crucial for business success. The Group has established a long business partnership with both AMD and NVIDIA, and 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 outbreak of COVID-19 pandemic caused production facilities being shutdown and interrupted the supply chain in China earlier this year. In addition, many countries have been subject to lockdown in the past few months and there are still many cities being subject to lockdown recently. This has already caused a significant decline in Gross Domestic Product (“GDP”) and high unemployment rate for many countries in the past two quarters. It would be a risk to the Group if outbreak of COVID-19 pandemic continues for a much longer period of time or getting worse during the upcoming winter that may affect supply chain, productivity, and both consumer and corporate demands.

The growing tensions over trade and technology between the two biggest economies, China and United States, is a threat to the global economy which may affect confidence in terms of consumer spending, corporate capital expenditure, and growth globally. A further trade restriction and tariff imposed on import and/or export technology and products between China and United States would increase the cost of products and pass onto consumer that may discourage consumer demand. Furthermore, there is uncertainty about the ultimate impact to the business of the Group of the revocation of the United States — Hong Kong Policy Act of 1992. Most of the products manufactured by the Group rely on U.S. technologies, it is a risk to the Group if United States will put restriction on export of consumer grade technologies to Hong Kong.

The Group is not aware of any other particular or important event that has occurred which would trigger a risk and uncertainty as at 30 June 2020.

Outlook

The outbreak of COVID-19 pandemic will not come to an end until new vaccine can be developed and widely adopted for medication. Demand of personal computer and gaming hardware is expected to remain strong due to many people will continue to be subject to quarantine at home or to work from home for a certain period of time.

The Group is expecting next generation of video graphics cards and high performance computers with new technologies will be a driving force of revenue in the second half of the year. COVID-19 crisis is changing human behaviour and people’s daily life. It is expected more and more people will rely on technologies for work, communication, and entertainment in future. This may open up new opportunities to the Group and the technology industry in future.

Financial Review

Revenue

The Group's total revenue decreased by HK\$130.0 million, or 3.8%, from HK\$3,420.8 million in the first half of 2019 to HK\$3,290.8 million in the first half of 2020. The outbreak of COVID-19 pandemic caused factory shutdown in Mainland China and interruption to materials supply resulted in lower revenue than expected in the first half of this year.

Revenue on VGA Cards decreased by HK\$232.9 million, or 8.6%, from HK\$2,707.2 million in the first half of 2019 to HK\$2,474.3 million in the first half of 2020. Revenue from ODM/OEM orders decreased by HK\$65.1 million, or 6.9%, from HK\$939.3 million in the first half of 2019 to HK\$874.2 million in the first half of 2020. Revenue from own brand VGA Cards decreased by HK\$167.8 million, or 9.5%, from HK\$1,767.9 million in the first half of 2019 to HK\$1,600.1 million in the first half of 2020. The decline in sales of VGA Cards was mainly due to lockdown in Mainland China right after Chinese Lunar New Year caused a lower level of production output of VGA Cards in the first half of 2020.

Revenue derived from the EMS business amounted to HK\$298.8 million in the first half of 2020, represented a decrease of HK\$20.6 million, or 6.4%, as compared to HK\$319.4 million in the first half of 2019. The decline was due to less orders received from customers and some customers requested to put shipment on hold due to lockdown in different countries and cities in the first half of 2020.

Revenue from other PC related products and components business increased by HK\$123.5 million, or 31.3%, from HK\$394.2 million in the first half of 2019 to HK\$517.7 million in the first half of 2020. It was mainly due to an increase in revenue of component trade which offset a decline of revenue of other product lines during the period under review.

Gross Profit and Margin

The Group's gross profit in the first half of 2020 was HK\$297.5 million, represented an increase of HK\$137.1 million, or 85.5%, as compared with HK\$160.4 million in the first half of 2019. Gross profit margin increased by 4.3% to 9.0% in the first half of 2020 as compared with 4.7% in the first half of 2019. The change was mainly due to loss incurred on clearance of old inventories that resulted in a lower gross profit margin in the first half of 2019 and the gross profit margin was improved to a more reasonable level in the first half of 2020.

The Group has spent less on conversion cost which included direct labour and production overheads for a total of HK\$32.2 million, or 26.0% from HK\$123.9 million in the first half of 2019 to HK\$91.7 million in the first half of 2020. Conversion costs as a percentage to sales improved by 0.8% from 3.6% in the first half of 2019 to 2.8% in the first half of 2020.

Operating Expenses

Operating expenses, included selling and distribution expenses, administrative expenses, impairment loss on financial assets and finance costs, increased by HK\$11.9 million, or 4.6%, from HK\$256.9 million in the first half of 2019 to HK\$268.8 million in the first half of 2020. The increase in the operating expenses was mainly due to an increase in depreciation of property, plant and equipment during the period under review.

Selling and distribution expenses reduced by HK\$3.4 million, or 7.2%, from HK\$47.3 million in the first half of 2019 to HK\$43.9 million in the first half of 2020. The change was mainly due to lower spending on marketing and exhibition since a number of marketing events and exhibitions were cancelled during the outbreak of COVID-19 pandemic in the first half of this year.

Administrative expenses spent HK\$23.7 million more than same period in last year, the spending increased by 13.1% from HK\$181.6 million in the first half of 2019 to HK\$205.3 million in the first half of 2020. Staff cost which represented approximately 63.0% of the total administrative expenses decreased by HK\$0.2 million, or 0.2%, from HK\$129.6 million in the first half of 2019 to HK\$129.4 million in the first half of 2020. Other administrative expenses increased by HK\$23.9 million, or 46.0%, from HK\$52.0 million in the first half of 2019 to HK\$75.9 million in the first half of 2020, it was mainly due to increased depreciation of property, plant and equipment during the period under review.

Finance costs decreased by HK\$8.4 million, or 30.0%, from HK\$28.0 million in the first half of 2019 to HK\$19.6 million in the first half of 2020. It was mainly resulted from a lower level of bank borrowings during the period under review.

Other revenue and other gains and losses increased by HK\$11.2 million, or 193.1%, from a loss of HK\$5.8 million in the first half of 2019 to a gain of HK\$5.4 million in the first half of 2020. It was mainly due to increase in rental income, interest income, sundry income and government grants that have fully offset the higher exchange losses incurred during the period under review.

The impairment losses on financial assets increased by HK\$5.3 million, or 252.4%, from HK\$2.1 million in the first half of 2019 to HK\$7.4 million in the first half of 2020. The increase was mainly associated with a higher level of expected credit loss on trade receivables due to economic downturn during COVID-19 crisis in the first half of this year.

Share of profit of a joint venture decreased by HK\$0.5 million, or 8.1%, from HK\$6.2 million in the first half of 2019 to HK\$5.7 million in the first half of 2020. It was mainly due to many of the systems required software upgrade and enhancement before being leased to customers. Such improvement activities were unable to be performed during the COVID-19 period since the city was subject to complete lockdown resulting in a significant delay of the upgrade schedule.

Profit and Loss for the Period

The Group recorded a profit attributable to owners of the Company of HK\$31.7 million in the first half of 2020 as compared with the loss attributable to owners of the Company of HK\$79.2 million in the first half of 2019.

Income tax expenses of HK\$8.3 million was recorded in the first half of 2020, it was an income tax credit of HK\$16.3 million in the first half of 2019. The change was mainly due to an increase in profitability together with deferred tax assets being utilised under some of the operating entities for the period under review.

Profit and Loss Attributable to Owners of the Company

The profit attributable to owners of the Company in the first half of 2020 was HK\$31.7 million which resulted in an earnings of HK8.5 cents per share. It was a loss attributable to owners of the Company for HK\$79.2 million with basic and diluted loss of HK\$21.3 cents per share in the first half of 2019.

Liquidity and Financial Resources

Shareholders' Funds

Total shareholders' funds have increased by HK\$25.9 million, or 2.9%, from HK\$879.8 million as at 31 December 2019 to HK\$905.7 million as at 30 June 2020.

Financial Position

Total non-current assets decreased by HK\$263.2 million, or 34.1%, from HK\$771.0 million as at 31 December 2019 to HK\$507.8 million as at 30 June 2020. The change was mainly due to the non-current portion of trade receivables amounted to HK\$212.9 million reclassified to current portion of the trade receivables as at 30 June 2020 according to the payment schedule. The Group has minimized the spending on capital expenditure in the first half of 2020, the net book value of property, plant and equipment decreased by HK\$36.7 million, or 17.0%, from HK\$215.5 million as at 31 December 2019 to HK\$178.8 million as at 30 June 2020. Interest in a joint venture increased by HK\$2.7 million, or 1.9%, from HK\$143.8 million as at 31 December 2019 to HK\$146.5 million as at 30 June 2020. The increase was due to profit contribution from the joint venture company under equity accounting treatment. Furthermore, deferred tax assets decreased by HK\$5.8 million from HK\$25.9 million as at 31 December 2019 to HK\$20.1 million as at 30 June 2020 due to recognition to income tax expenses in the first half of 2020.

The Group has total current assets of HK\$3,199.9 million as at 30 June 2020 and HK\$3,260.8 million as at 31 December 2019. The Group's total current liabilities amounted to HK\$2,679.4 million as at 30 June 2020 and HK\$3,019.7 million as at 31 December 2019. The Group's current ratio, defined as total current assets over total current liabilities, increased from 1.1 as at 31 December 2019 to 1.2 as at 30 June 2020.

The Group's cash and bank balances decreased from HK\$906.9 million as at 31 December 2019 to HK\$725.7 million as at 30 June 2020. Borrowings reduced from HK\$1,475.4 million as at 31 December 2019 and HK\$1,336.3 million as at 30 June 2020. Due to the adoption of HKFRS 16, the Group has recognised current lease liabilities amounted to HK\$25.3 million and non-current lease liabilities amounted to HK\$122.8 million as at 30 June 2020. The Group's net debts to equity ratio (being debts minus cash and cash equivalents divided by total equity) increased from 82.7% as at 31 December 2019 to 83.9% as at 30 June 2020. The change was mainly due to decrease in cash and bank balances by HK\$181.2 million in the first half of 2020.

Trade and other receivables consisted of both trade receivables at amortised cost and at fair value, together with other receivables, deposits and prepayment increased by HK\$38.2 million, or 2.7%, from HK\$1,403.5 million as at 31 December 2019 to HK\$1,441.7 million as at 30 June 2020. The Group has experienced a slowdown on collection from some customers during the COVID-19 period in the first half of the year which resulted in a higher trade receivables balance as at 30 June 2020. Trade receivables at amortised cost slightly increased by HK\$11.1 million, or 0.8%, from HK\$1,327.6 million as at 31 December 2019 to HK\$1,338.7 million as at 30 June 2020. Trade receivables under factoring arrangement at fair value increased by HK\$22.7 million, or 45.2%, from HK\$50.2 million as at 31 December 2019 to HK\$72.9 million as at 30 June 2020. Other receivables, deposits and prepayment increased by HK\$4.4 million, or 17.1%,

from HK\$25.7 million as at 31 December 2019 to HK\$30.1 million as at 30 June 2020. The change was mainly due to increase in interest receivables by HK\$3.9 million during the period under review.

Trade and other payables decreased by HK\$188.9 million, or 13.4%, from HK\$1,410.3 million as at 31 December 2019 to HK\$1,221.4 million as at 30 June 2020. Trade payables decreased by HK\$190.6 million, or 14.5%, from HK\$1,311.2 million as at 31 December 2019 to HK\$1,120.6 million as at 30 June 2020. It was mainly resulted from a lower demand on material purchase in the first half of 2020 as compared to a higher demand on material purchase in the second half of 2019. Other payables increased slightly from HK\$99.1 million as at 31 December 2019 to HK\$100.8 million as at 30 June 2020.

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 the right of return assets in the current assets section. Right of return assets decreased by HK\$1.5 million, or 4.0%, from HK\$37.3 million as at 31 December 2019 to HK\$35.8 million as at 30 June 2020. Refund liabilities decreased by HK\$3.9 million, or 8.2%, from HK\$47.7 million as at 31 December 2019 to HK\$43.8 million as at 30 June 2020.

Advance payment from customers and volume rebates together with sales allowance under contract liabilities increased by HK\$7.3 million, or 23.1%, from HK\$31.6 million as at 31 December 2019 to HK\$38.9 million as at 30 June 2020.

Provisions on product warranties and returns reduced from HK\$18.7 million as at 31 December 2019 to HK\$13.6 million as at 30 June 2020. Current tax liabilities reduced from HK\$7.3 million as at 31 December 2019 to tax recoverable HK\$3.7 million under current assets section as at 30 June 2020. Amount due to a related party was HK\$2.7 million as at 31 December 2019 and reduced to HK\$Nil as at 30 June 2020 since the transactions were no longer classified as related party transactions as at 30 June 2020.

Exposure to Fluctuation in Exchange Rates

As at 30 June 2020, the Group was exposed to currency risk primarily through sales and purchases denominated in currencies other than the functional currency of the operations to which they relate. The currencies giving rise to the risk are primarily Renminbi, Euro, Korean Won and Japanese Yen. The Group entered into several forward exchange contracts in 2019 and one forward exchange contract in the first half of 2020.

Working Capital

Inventories of the Group as at 30 June 2020 were HK\$996.6 million which decreased by HK\$129.4 million, or 11.5%, as compared with HK\$1,126.0 million as at 31 December 2019. Inventory turnover days decreased from 94 days as at 31 December 2019 to 65 days as at 30 June 2020. Besides further tightening the control of inventory management, seasonal factor also resulted in a lower level of inventories in the middle of the year as compare to end of the year. Inventories used to be higher by end of December as a norm since the Group would procure additional materials to prepare for production after Chinese Lunar New Year holiday as well as built additional finished goods for sales during Chinese Lunar New Year period.

Trade receivables as at 30 June 2020 were HK\$1,411.6 million, increased by HK\$33.8 million, or 2.5%, as compared with HK\$1,377.8 million as at 31 December 2019. Trade receivable turnover days increased from 54 days as at 31 December 2019 to 77 days as at 30 June 2020. It was mainly due to the Group has offered longer payment terms to some of the customers that resulted in a longer trade receivable turnover days as at 30 June 2020.

Trade payables as at 30 June 2020 was HK\$1,120.6 million, decreased by HK\$190.6 million, or 14.5%, as compared with HK\$1,311.2 million as at 31 December 2019. Trade payable turnover days increased from 70 days as at 31 December 2019 to 74 days as at 30 June 2020. It was mainly due to some vendors have offered a longer payment terms which resulted in a longer trade payable turnover days as at 30 June 2020.

Charges on Assets

As at 30 June 2020, 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's additions to property, plant and equipment in the first half of 2020 amounted to HK\$0.8 million.

Capital Commitments and Contingent Liabilities

As at 30 June 2020, total capital commitments amounted to HK\$0.2 million, and there was no material contingent liability or off balance sheet obligation.

Significant Acquisitions and Disposals of Investments

There was no acquisition or disposal of investments.

Future Plans for Material Investments or Capital Assets

The Group has no plan for material investments or acquisitions of capital assets as at 30 June 2020, but will actively pursue opportunities for investments to enhance its profitability in the ordinary course of business.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2020, the Group had 2,808 employees (2019: 2,997 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, 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 staff and selected long service employees of the Group. Subsequently, the Company has also adopted 2016 Share Option Scheme on 17 June 2016.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2020.

CORPORATE GOVERNANCE

Throughout the six months ended 30 June 2020, the Company has complied with the code provisions set out in the Corporate Governance Code (the "Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviation from code provision A.2.1 of the Code as described below.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. For the six months ended 30 June 2020, the roles of chairman and chief executive officer of the Company were performed by Mr. WONG Shik Ho Tony. With Mr. WONG's extensive experience in the electronics industry, in addition to his role as chairman responsible for the overall strategic management and corporate development of the Group, he is also heavily involved and instrumental to the Group in running its daily business. The Board considers that vesting the roles of chairman and chief executive officer simultaneously in Mr. WONG is beneficial to the business prospects and management of the Group. The roles of the respective executive directors and senior management, who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to a strong and balanced management organisation that enables the Group to operate effectively. The Board currently comprises of five Executive Directors, one Non-executive Director and three Independent Non-executive Directors and therefore has sufficient independent elements in its composition.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

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

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2020.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the website of Hong Kong Exchanges and Clearing Limited (“HKEx”) www.hkex.com.hk and on the Company’s website at www.pcpartner.com. The 2020 Interim Report of the Company will be dispatched to the shareholders and will be available on the websites of HKEx and the Company in due course.

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

Hong Kong, 28 August 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 an Alternate Director to Mrs. HO WONG Mary Mee-Tak); and the Independent Non-executive Directors are Mr. IP Shing Hing, Mr. LAI Kin Jerome and Mr. CHEUNG Ying Sheung.

* *For identification purposes only*