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PC PARTNER GROUP LIMITED

栢能集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1263)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS

	Period ended 30 June		Change
	2021	2020	
	HK\$ million	HK\$ million	
Revenue	6,849.3	3,290.8	108.1%
Gross profit	1,864.1	297.5	526.6%
Gross profit%	27.2%	9.0%	202.2%
Profit for the period attributable to owners of the Company	932.2	31.7	2,840.7%
Net profit%	13.6%	1.0%	1,260.0%

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 2021 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

		30 June 2021	30 June 2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	4, 5	6,849,280	3,290,773
Cost of sales		<u>(4,985,196)</u>	<u>(2,993,248)</u>
Gross profit		1,864,084	297,525
Other revenue and other gains and losses	6	25,148	5,366
Selling and distribution expenses		(83,543)	(43,854)
Administrative expenses		(365,526)	(197,841)
Impairment loss on financial assets		(315,279)	(7,430)
Finance costs	7	(11,423)	(19,649)
Share of profit of a joint venture		<u>61,133</u>	<u>5,730</u>
Profit before income tax	8	1,174,594	39,847
Income tax	9	<u>(241,333)</u>	<u>(8,361)</u>
Profit for the period		<u>933,261</u>	<u>31,486</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)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign subsidiaries		(3,545)	(1,200)
Exchange differences on translating a joint venture		<u>1,782</u>	<u>(3,076)</u>
Total comprehensive income for the period		<u><u>931,498</u></u>	<u><u>25,691</u></u>

	30 June 2021	30 June 2020
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit for the period attributable to:		
— Owners of the Company	932,156	31,723
— Non-controlling interests	1,105	(237)
	<u>933,261</u>	<u>31,486</u>
Total comprehensive income for the period attributable to:		
— Owners of the Company	930,393	25,928
— Non-controlling interests	1,105	(237)
	<u>931,498</u>	<u>25,691</u>
	<i>HK\$</i>	<i>HK\$</i>
Earnings per share	11	
— Basic	2.469	0.085
— Diluted	2.430	0.085

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

		30 June 2021	31 December 2020
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		114,219	144,174
Right-of-use assets		122,700	136,459
Intangible assets		4,825	4,825
Interest in a joint venture		237,570	174,655
Other financial asset		7,518	7,518
Trade and other receivables	12	3,153	205,137
Deferred tax assets		8,336	10,430
		498,321	683,198
Total non-current assets			
Current assets			
Inventories		1,599,134	908,261
Trade and other receivables	12	1,119,089	1,218,270
Right of return assets		44,897	52,610
Derivative financial assets		452	452
Cash and bank balances		2,218,337	1,124,592
		4,981,909	3,304,185
Total current assets			
Total assets			
		5,480,230	3,987,383
Current liabilities			
Trade and other payables	13	1,695,942	1,484,058
Refund liabilities		58,667	62,759
Contract liabilities		538,661	76,150
Borrowings		792,192	1,070,038
Provision		38,088	31,447
Lease liabilities		27,089	27,662
Current tax liabilities		249,595	17,208
		3,400,234	2,769,322
Total current liabilities			

	30 June 2021 <i>Notes</i> HK\$'000 (Unaudited)	31 December 2020 <i>HK\$'000</i> (Audited)
Net current assets	<u>1,581,675</u>	<u>534,863</u>
Total assets less current liabilities	<u>2,079,996</u>	<u>1,218,061</u>
Total non-current liabilities		
Lease liabilities	<u>101,835</u>	<u>114,283</u>
NET ASSETS	<u><u>1,978,161</u></u>	<u><u>1,103,778</u></u>
Capital and reserves		
Share capital	38,675	37,209
Reserves	<u>1,937,691</u>	<u>1,065,879</u>
Equity attributable to owners of the Company	1,976,366	1,103,088
Non-controlling interests	<u>1,795</u>	<u>690</u>
TOTAL EQUITY	<u><u>1,978,161</u></u>	<u><u>1,103,778</u></u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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 2021 (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 2020 (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 2021:

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2
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The above amended HKFRSs did not have any material impact on the Group’s accounting policies.

3. USE OF JUDGEMENTS AND ESTIMATES

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

4. SEGMENT REPORTING

(a) Reportable segments

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

Disaggregation of revenue from contracts with customers

In the following table, revenue is disaggregated by primary geographical 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 2021 HK\$'000 (Unaudited)	30 June 2020 HK\$'000 (Unaudited)
<i>Primary geographical markets</i>		
Asia Pacific ("APAC")	2,237,614	1,343,314
North and Latin America ("NALA")	1,099,937	486,546
People's Republic of China ("PRC")	1,811,076	801,398
Europe, Middle East, Africa and India ("EMEAI")	1,700,653	659,515
	<u>6,849,280</u>	<u>3,290,773</u>
<i>Major products/services</i>		
	30 June 2021 HK\$'000 (Unaudited)	30 June 2020 HK\$'000 (Unaudited)
Video graphics cards ("VGA Cards")	5,958,871	2,474,327
Electronics manufacturing services ("EMS")	382,144	298,794
Other PC related products and components	508,265	517,652
	<u>6,849,280</u>	<u>3,290,773</u>

Brand and non-brand businesses

	30 June 2021 HK\$'000 (Unaudited)	30 June 2020 HK\$'000 (Unaudited)
Brand businesses	4,592,821	1,687,781
Non-brand businesses	<u>2,256,459</u>	<u>1,602,992</u>
	<u>6,849,280</u>	<u>3,290,773</u>

Timing of revenue recognition

	30 June 2021 HK\$'000 (Unaudited)	30 June 2020 HK\$'000 (Unaudited)
At a point in time	<u>6,849,280</u>	<u>3,290,773</u>

(b) Information about the major customer

During the period ended 30 June 2021 and 2020, none of the customers contributed 10% or more of the Group's revenue.

5. REVENUE

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

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

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Contract liabilities	<u>538,661</u>	<u>76,150</u>

The contract liabilities mainly relate to the advance consideration received from customers and volume rebates and sales allowances to customers. HK\$56,186,000 of the contract liabilities as at 1 January 2021 and HK\$13,354,000 of the contract liabilities as at 1 January 2020 have been recognised as revenue for the six months ended 30 June 2021 and 2020 respectively from performance obligations satisfied when the goods were sold.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its contracts for sale of goods and services and therefore the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sale of goods and services which had an original expected duration of one year or less.

6. OTHER REVENUE AND OTHER GAINS AND LOSSES

	30 June 2021 HK\$'000 (Unaudited)	30 June 2020 HK\$'000 (Unaudited)
Government grants <i>(note (a))</i>	469	2,075
Interest income	7,642	8,053
Net exchange losses	(20,900)	(17,937)
Net fair value gains on derivative financial instruments	564	366
Gain on disposal of property, plant and equipment	1	—
Sundry income	9,694	3,335
Rental income	27,678	7,722
COVID-19-related rent concessions <i>(note (b))</i>	—	1,752
	<u>25,148</u>	<u>5,366</u>

Notes:

- (a) Included in 2020 government grants is HK\$1,492,000 obtained from Employment Support Scheme (“ESS”) under the Anti-epidemic Fund launched by the Hong Kong SAR Government supporting the payroll of the Group’s employees. Under the ESS, the Group had to commit to spend these grants on payroll expenses, and not reduce employee head count below prescribed levels for a specified period of time. The Group does not have other unfulfilled obligations relating to this program. The remaining government grants for 2021 and 2020 were received from several PRC local government authorities on a discretionary basis before period end. There is no unfulfilled conditions and other contingencies attaching to the government grants that have been recognised.
- (b) The Group has received rent concessions in the form of rent forgiveness from lessors as the Group was unable to operate for certain period of time in 2020. 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 received during the year 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. 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.

7. FINANCE COSTS

	30 June 2021 HK\$'000 (Unaudited)	30 June 2020 HK\$'000 (Unaudited)
Interest on bank advances and other borrowings	8,783	16,696
Interest on lease liabilities	2,640	2,953
	11,423	19,649

8. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	30 June 2021 HK\$'000 (Unaudited)	30 June 2020 HK\$'000 (Unaudited)
Inventories recognised as expense (<i>note (a)</i>)	4,985,196	2,993,248
Staff costs (<i>note (b)</i>)	353,337	171,416
Depreciation of property, plant and equipment	37,850	37,312
Depreciation of right-of-use assets	15,167	15,443
Impairment of intangible asset	—	1,530
Impairment losses on financial assets	315,279	7,430
Short-term lease expenses	953	200
Low-value assets lease expenses	11	12
Property, plant and equipment written off	3	15
Provision for product warranties and returns, net	16,939	2,893
Research and development expenditure (<i>note (c)</i>)	25,008	22,607

Notes:

- (a) Included in the figures disclosed above is write down of inventories to net realisable value of approximately HK\$16,313,000 (2020: HK\$47,865,000).
- (b) For the six-month period ended 30 June 2020, 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.
- (c) The research and development expenditure for the period represents 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.

9. INCOME TAX

The amount of income tax expense in the condensed consolidated statement of comprehensive income represents:

	30 June 2021 HK\$'000 (Unaudited)	30 June 2020 HK\$'000 (Unaudited)
Current tax — Hong Kong		
— provision for the period	221,511	1,391
— over provision in respect of prior year	—	(89)
Current tax — PRC		
— provision for the period	135	821
— under provision in respect of prior year	56	40
Current tax — others		
— provision for the period	17,540	343
— over provision in respect of prior year	(2)	—
	239,240	2,506
Deferred tax		
— origination and reversal of temporary differences	2,093	5,855
Income tax expense	241,333	8,361

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 profits 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 2021 and 2020, 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 the applicable PRC enterprise income tax rate for the six months ended 30 June 2021 is 15% (2020: 15%). Other PRC subsidiaries of the Company are subject to PRC enterprise income tax at a statutory rate of 25% (2020: 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 2021.

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

10. DIVIDENDS

	30 June 2021 HK\$'000 (Unaudited)	30 June 2020 HK\$'000 (Unaudited)
2020 final dividend declared — HK\$0.22 per share (2020: 2019 final dividend paid— HK\$Nil) per share	<u>85,058</u>	<u>—</u>

The directors of the Company proposed an interim dividend of HK\$0.84 (2020: HK\$ Nil) per share, totalling HK\$324,873,000 (2020: HK\$ Nil) for the six months ended 30 June 2021. The interim dividend has not been recognised as liabilities at 30 June 2021.

Note:

2020 final dividend was subsequently paid on 15 July 2021.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2021 and 2020 is based on the following data:

Profit

	30 June 2021 HK\$'000 (Unaudited)	30 June 2020 HK\$'000 (Unaudited)
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	<u>932,156</u>	<u>31,723</u>

Number of shares

	30 June 2021 (Unaudited)	30 June 2020 (Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	377,505,513	372,093,668
Effect of dilutive potential ordinary shares: — share options	<u>6,078,691</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>383,584,204</u>	<u>372,093,668</u>

12. TRADE AND OTHER RECEIVABLES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Trade receivables at amortised cost	1,406,593	1,375,207
Less: Accumulated impairment losses	<u>(327,618)</u>	<u>(9,924)</u>
Trade receivables at amortised cost, net	<u>1,078,975</u>	<u>1,365,283</u>
Trade receivables at fair value through profit or loss	12,860	32,038
Other receivables	4,557	5,535
Deposits and prepayments	30,097	24,798
Less: Accumulated impairment losses	<u>(4,247)</u>	<u>(4,247)</u>
	<u>25,850</u>	<u>20,551</u>
	<u>1,122,242</u>	<u>1,423,407</u>
Less: Trade receivables — non-current portion	—	(201,027)
Rental deposits — non-current portion	<u>(3,153)</u>	<u>(4,110)</u>
	<u>(3,153)</u>	<u>(205,137)</u>
Trade and other receivables — current portion	<u>1,119,089</u>	<u>1,218,270</u>

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

	30 June 2021 <i>HK\$'000</i> (Unaudited)	31 December 2020 <i>HK\$'000</i> (Audited)
Within 1 month	763,576	615,737
Over 1 month but within 3 months	300,372	271,856
Over 3 months but within 1 year	14,523	16,749
Over 1 year	504	460,941
	<u>1,078,975</u>	<u>1,365,283</u>

The credit period on sales of goods is 30 to 90 days (2020: 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 2021 <i>HK\$'000</i> (Unaudited)	31 December 2020 <i>HK\$'000</i> (Audited)
Within 1 month	4,195	6,122
Over 1 month but within 3 months	8,665	25,431
Over 3 months but within 1 year	—	485
	<u>12,860</u>	<u>32,038</u>

13. TRADE AND OTHER PAYABLES

	30 June 2021	31 December 2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Trade payables	1,341,675	1,279,516
Other payables and accruals	354,267	204,542
	<u>1,695,942</u>	<u>1,484,058</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 2021	31 December 2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within 1 month	781,331	688,034
Over 1 month but within 3 months	471,622	531,917
Over 3 months but within 1 year	82,961	53,746
Over 1 year	5,761	5,819
	<u>1,341,675</u>	<u>1,279,516</u>

14. EVENT AFTER THE REPORTING DATE

The joint venture company which provides leasing of systems in China has temporarily ceased operations in July 2021 since the provincial government has requested all the data centers in the province to perform a self investigation to identify whether there was computational power in data centers serving cryptocurrency mining which are required to suspend immediately. The joint venture company has come contracts with customers on leasing systems for cloud computing applications and it has come to the knowledge of the Company that customers had used the systems for cryptocurrency mining. The joint venture company has ceased to provide service to the mining customers since the middle of July 2021 and has started exploring solutions such as cloud computing applications and other feasible alternatives. It will take some time for the joint venture company to restructure the business and then resume it on a right track. The joint venture company may not generate a positive income return to the Group on upcoming few months but the long-term business outlook remains positive since the demand of computational power continues to grow in China and in the rest of the world. The directors of the Company are continuously assessing the implications to the financial conditions and operating results of the Group and cannot predict the exact impact at the date of this announcement.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.84 per share, totaling HK\$324.9 million for the six months ended 30 June 2021 (2020: HK\$ Nil) to be paid on or about 8 October 2021 (Friday) to shareholders whose names appear on the Company's register of members on 21 September 2021 (Tuesday).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 17 September 2021 (Friday) to 21 September 2021 (Tuesday) (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim dividend, shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 16 September 2021 (Thursday) for registration of the relevant transfer.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is principally engaged in the design, manufacturing and trading of video graphics card ("VGA Cards") for desktop computer, electronics manufacturing services ("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 graphics processing unit ("GPU") suppliers, enable the Group to develop cost-competitive, high performance products and solutions to serve its customers. VGA Cards remain the core business of the Group for the period under review.

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

Business Performance

Revenue has recorded an increase of HK\$3,558.5 million, or 108.1%, from HK\$3,290.8 million in the first half of 2020 to HK\$6,849.3 million in the first half of 2021. The change was mainly resulted from an increase in sales of VGA Cards by HK\$3,484.6 million as compared to the same period of last year. Besides the increase in sales of VGA Cards, the EMS has also recorded an increase in revenue by HK\$83.3 million but other PC related products and components have recorded a decline in revenue by HK\$9.4 million as compared to the same period of last year.

VGA Cards business has recorded an increase of HK\$3,484.6 million, or 140.8%, from HK\$2,474.3 million in the first half of 2020 to HK\$5,958.9 million in the first half of 2021. Sales of own brand VGA Cards increased by HK\$2,813.8 million, or 175.9%, from HK\$1,600.1 million in the first half of 2020 to HK\$4,413.9 million in the first half of 2021. Demand of own brand VGA Cards remained very strong throughout the first half of 2021, especially the demand of the RTX 3000 Series VGA Cards consistently far exceeded supply since the products were first launched in September 2020. RTX 3000 Series VGA Cards remained out of stock at major retailers, e-commerce stores and distributors for most of the time in the first half of 2021. Due to the imbalance between demand and supply of VGA Cards, customers were willing to accept price increases throughout the first half of 2021 and the average selling price (“ASP”) increased by approximately 103.5% from the first half of 2020 to the first half of 2021. In addition, the product mix of VGA Cards which included own brand and ODM/OEM VGA Cards was shifted towards more expensive product lines which resulted in a higher ASP in the first half of 2021.

ODM/OEM orders on VGA Cards increased by HK\$670.8 million, or 76.7%, from HK\$874.2 million in the first half of 2020 to HK\$1,545.0 million in the first half of 2021. Approximately HK\$273.5 million of the sales was contributed by Crypto Mining Processor cards (“CMP Cards”) to professional miners in the first half of 2021. Shortage of supply on central processing unit (“CPU”) and GPU has disrupted PC production schedules of original ODM/OEM customers; therefore, sales volume of VGA Cards to the ODM/OEM customers declined by 16.7% in the first half of 2021 as compared to the same period in last year. Higher ASP of RTX 3000 Series VGA Cards manufactured for ODM/OEM customers has jacked up the sales revenue and has compensated for the decline of sales volume in the ODM/OEM VGA Cards segment.

EMS business has recorded an increase of HK\$83.3 million, or 27.9%, from HK\$298.8 million in the first half of 2020 to HK\$382.1 million in the first half of 2021. The growth was mainly due to more orders for the ATM and POS systems as well as other consumer electronic products during the period under review. Other PC related products and components business decreased by HK\$9.4 million, or 1.8%, from HK\$517.7 million in the first half of 2020 to HK\$508.3 million in the first half of 2021. It was mainly due to less trading activities as a result of supply shortage of components during the period under review.

Revenue of brand business sector increased by HK\$2,905.0 million, or 172.1%, from HK\$1,687.8 million in the first half of 2020 to HK\$4,592.8 million in the first half of 2021, it was mainly driven by a strong sales performance of own brand VGA Cards and a continuous demand of computer and gaming hardware during the long lasting COVID-19 pandemic outbreak. The Group has also established e-commerce platforms in Japan, Korea and the United States under ZOTAC business, direct sales to consumers have reached HK\$135.0 million which represented 2.9% of total brand business revenue in the first half of 2021 and such direct sales revenue was HK\$7.8 million for the same period in last year.

The ODM/OEM business sector which includes component trade has recorded an increase in revenue of HK\$653.5 million, or 40.8%, from HK\$1,603.0 million in the first half of 2020 to HK\$2,256.5 million in the first half of 2021. It was mainly resulted from increase in sales of ODM/OEM VGA Cards together with more orders from EMS business which offset a lower level of component trade activity.

All geographical regions, the APAC, the EMEAI, the NALA and the PRC regions have reported a strong sales growth in the range of 66.6% to 157.9% in the first half of 2021 as compared to the same period in last year.

APAC Region

In the APAC region, the revenue increased by HK\$894.3 million, or 66.6%, from HK\$1,343.3 million in the first half of 2020 to HK\$2,237.6 million in the first half of 2021. It was mainly driven by a strong demand of own brand VGA Cards together with more orders on ODM/OEM VGA Cards during the period under review. The region has benefited from sales volume increase and higher ASP on both own brand and ODM/OEM VGA Cards.

EMEAI Region

In the EMEAI region, the revenue amounted to HK\$1,700.7 million in the first half of 2021, representing an increase of HK\$1,041.2 million, or 157.9%, as compared to HK\$659.5 million in the first half of 2020. It was mainly driven by a strong sales growth of the own brand VGA Cards together with an increase in the sales of desktop PCs in the region. In addition, there were more orders on ATM and POS systems under EMS division in the first half of 2021 as compared to the same period in last year.

NALA Region

In the NALA region, the revenue amounted to HK\$1,099.9 million in the first half of 2021, representing an increase of HK\$613.3 million, or 126.0%, as compared to HK\$486.6 million in the first half of 2020. The change was mainly resulted from a strong sales of own brand VGA Cards with an increase in both the sales volume and the ASP during the period under review.

PRC Region

In the PRC region, the revenue amounted to HK\$1,811.1 million in the first half of 2021, representing an increase of HK\$1,009.7 million, or 126.0%, as compared to HK\$801.4 million in the first half of 2020. Besides the strong sales performance of own brand VGA Cards in 2021, the Group has also fulfilled orders of the new CMP Cards for cryptocurrency mining customers which has contributed approximately HK\$273.5 million during the period under review.

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, ISO45001, 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 the business success. The Group has established a long business partnership with 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 has lasted for more than a year and is still threatening human being. Even though millions of people had been fully vaccinated, it does not give a full protection to human being especially on the virus variants. The latest Delta variant has demonstrated a higher transmissibility which has already spread out to many countries. The current vaccines may not be highly effective to prevent infection with the Delta variant virus as indicated by the World Health Organization (“WHO”) and experts. Many countries and cities had lifted restriction on social distancing, mobility, travel and quarantine. Unfortunately, many governments had tightened the restrictions again as COVID-19 cases surged in their countries and cities. The virus continues to be a threat on supply chain and logistics, productivity, and both consumer and corporate demands.

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

VGA Card has recently experienced a large demand for cryptocurrency mining since the cryptocurrency prices have increased again by end of last year. The appreciation of cryptocurrency generated a dramatic increase in computer hardware demand which includes VGA Cards back in 2017; however, the demand momentum was lost once the cryptocurrency significantly depreciated in 2018. Those companies and individuals who bought machines and VGA Cards they hold for cryptocurrency mining ended up with selling machines and equipment at a big discount in the market, so the market was flooded with both new and second hand VGA Cards and took more than one year to clear the inventories. The Group ended up with a significant write down on inventories and sold VGA Cards at discount or at a loss in order to reduce the inventory risk. Although the Group remains focused on gaming business and not selling VGA Cards to cryptocurrency miners except the CMP Cards which are designed for cryptocurrency mining, the Group could not control its customers and distributors who might have sold products to the cryptocurrency miners either directly or indirectly even though the Group has strongly advised its customers and distributors not to sell the Group's products to the cryptocurrency miners. If the cryptocurrency prices crashed again in future, inventory risk will increase and the Group may be compelled to clear its on-hand inventories by selling products at a discount or at a loss again.

China has recently imposed rules to crack down on cryptocurrency mining and trading since May 2021 which caused a drop on prices of cryptocurrencies. It is uncertain what will be the impact on the demand of VGA Cards and whether there will be excessive second hand VGA Cards from cryptocurrency miners flooding in the market again. If there will be many second hand VGA Cards being re-sold in the market at a big discount, the Group may have to sell its on-hand inventories at a discount or at a loss to reduce the inventory risk.

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 2021.

Outlook

The profit in the first half of 2021 far exceeded previous years which was driven by a remarkable sales performance of VGA Cards. Sales outlook remains strong as the fundamentals that drive the business have not changed much since 2020. The demand of VGA Cards keeps exceeding the supply throughout the rest of the year or may even last for a longer period of time. Product prices are likely going uptrend as the product mix of VGA Cards keeps moving towards higher ASP product lines and the latest RTX 3000 VGA Cards series remain one of the hottest selling products in the computer industry. Various semiconductor foundries have announced capacity constraint and will probably take two to three years to resolve the issue. The demand and supply imbalance of VGA Cards shall continue to drive a strong business performance in the upcoming quarters.

In addition, cost increase of components and logistics will further put upward pressure on product prices. Due to the long lasting pandemic crisis, some major components continue facing supply shortages. The situation may not improve soon so that the demand over supply of the components will drive the cost up which will likely reflect on product pricing. The longer lead-time of sea shipment continues to force some businesses switching from sea shipment to air freight delivery. Such additional cost of delivery may ultimately be passed onto customers which is another factor causing price increase.

China has recently cracked down on cryptocurrency mining and trading and caused a sudden drop of VGA Cards demand in the region. It appears that there is not a lot of second hand mining equipment including VGA Cards being re-sold in the market causing a significant drop on prices. Demand of VGA Cards in China rebounds afterwards which may be due to the demand still surpassing the supply in the market. The cryptocurrency mining crackdown in China does not seem to have an impact on the overseas markets as the VGA Cards demand remains strong in most other countries. The Group will continue selling CMP Cards as long as there is a demand in the professional mining sector.

The joint venture company which provides leasing of systems in China has temporarily ceased operations in July 2021. The provincial government has requested all the data centers in the province to perform a self investigation to identify whether there was computational power in data centers serving cryptocurrency mining which are required to suspend immediately. The joint venture company has entered contracts with customers on leasing systems for cloud computing applications and it has come to our knowledge that customers had used the systems for cryptocurrency mining. The joint venture company has ceased to provide service to the mining customers since the middle of July 2021 and has started exploring solutions such as cloud computing applications and other feasible alternatives. It will take some time for the joint venture company to restructure the business and then resume it on a right track. The joint venture company may not generate a positive income return to the Group on upcoming few months but the long-term business outlook remains positive since the demand of computational power continues to grow in China and in the rest of the world.

FINANCIAL REVIEW

Revenue

The Group's total revenue increased by HK\$3,558.5 million, or 108.1%, from HK\$3,290.8 million in the first half of 2020 to HK\$6,849.3 million in the first half of 2021. It was mainly contributed by a strong sales performance of VGA Cards with a higher sales volume and a substantial increase in ASP.

Revenue on VGA Cards increased by HK\$3,484.6 million, or 140.8%, from HK\$2,474.3 million in the first half of 2020 to HK\$5,958.9 million in the first half of 2021. Revenue on own brand VGA Cards increased by HK\$2,813.8 million, or 175.9%, from HK\$1,600.1 million in the first half of 2020 to HK\$4,413.9 million in the first half of 2021. The demand of the VGA Cards, especially the latest RTX 3000 Series VGA Cards, consistently far exceeded supply throughout the first half of 2021. Customers were willing to pay for higher prices to get allocation of VGA Cards and many gamers still complained being unable to buy RTX 3000 series VGA Cards since the products were launched. The Group has also raised the prices on regular basis and part of the prices increase was to compensate the continuous cost increment on components and logistics. In addition, product mix of brand VGA Cards was shifted towards more expensive product lines which has also induced a higher ASP in the first half of 2021. ASP has been increased substantially by approximately 103.6% in the first half of 2020 to the first half of 2021.

The revenue on ODM/OEM orders of VGA Cards increased by HK\$670.8 million, or 76.7%, from HK\$874.2 million in the first half of 2020 to HK\$1,545.0 million in the first half of 2021. Under the ODM/OEM VGA Cards segment, approximately HK\$273.5 million was the orders of CMP Cards sold to professional miners during the period under review and there was no CMP Cards being sold for the same period in last year since the CMP Cards were newly introduced by NVIDIA in this year. The revenue from the ordinary ODM/OEM orders of VGA Cards increased by HK\$397.3 million, or 45.4%, from HK\$874.2 million in the first half of 2020 to HK\$1,271.5 million in the first half of 2021. Sales volume of ODM/OEM VGA Cards dropped by 16.7% during the period under review, it was mainly due to a continuous shortage of supply on both CPU and GPU affected the PC production schedules of ODM/OEM customers and such production schedule delay caused a drop in sales volume. Due to a change of product mix towards more expensive VGA Cards and prices have been increased to compensate a rise on component costs, the ASP of original ODM/OEM customers has increased by approximately 75.5% in the first half of 2021 as compared to the same period in last year. The higher ASP fully compensated the decline of sales volume and resulted in an increase of revenue for HK\$397.3 million, or 45.4% in the ODM/OEM VGA Cards segment without taken into account the sales of CMP Cards during the period under review.

Revenue derived from the EMS business amounted to HK\$382.1 million in the first half of 2021, representing an increase of HK\$83.3 million, or 27.9%, as compared to HK\$298.8 million in the first half of 2020. The growth was mainly due to more orders on the ATM and POS systems as well as other consumer electronic products during the period under review. Sales volume of EMS orders declined in the first half of 2021 as compared to the same period in last year, it was mainly due to shortage of components supply which in turn resulted in a lower sales volume. However, the ASP has increased by 44.4% which was contributed from both a change of product mix and price increase to compensate for the increase in component costs.

Other PC related products and components business decreased by HK\$9.4 million, or 1.8%, from HK\$517.7 million in the first half of 2020 to HK\$508.3 million in the first half of 2021. It was mainly due to less trading activities as a result of supply shortage of components during the period under review.

Gross Profit and Margin

The Group's gross profit in the first half of 2021 was HK\$1,864.1 million, representing an increase of HK\$1,566.6 million, or 526.6%, as compared with HK\$297.5 million in the first half of 2020. Gross profit margin increased by 18.2% to 27.2% in the first half of 2021 as compared with 9.0% in the first half of 2020. A substantial increase in gross profit was mainly due to a strong sales performance of VGA Cards with price increase and a change of product mix towards more expensive product lines especially of the own brand VGA Cards during the period under review. Overall sales volume of VGA Cards which included both own brand and ODM/OEM VGA Cards increased by 13.8% and the ASP increased by 112.7% in the first half of 2021 as compared to the same period in last year.

Material cost as a percentage of sales decreased by 17.4% from 88.2% in the first half of 2020 to 70.8% in the first half of 2021. It was mainly contributed by price increase in most of the product lines especially the VGA Cards which has recorded a substantial increase in ASP during the period under review. The Group has spent more on conversion cost which consisted of direct labour and production overheads for a total of HK\$42.4 million, or 46.2%, from HK\$91.7 million in the first half of 2020 to HK\$134.1 million in the first half of 2021. A higher spending of conversion cost was associated with wages increase for factory labour and increase of production output during the period under review. Conversion costs as a percentage of sales reduced by 0.8% from 2.8% in the first half of 2020 to 2.0% in the first half of 2021, which was mainly resulted from price increase and a change of product mix towards more expensive product lines that has driven down the conversion cost to sales as a ratio.

Other Revenue and Other Gains and Losses

Other revenue and other gains and losses increased by HK\$19.7 million, from HK\$5.4 million in the first half of 2020 to HK\$25.1 million in the first half of 2021. The change was mainly contributed by the income on leasing machines and equipment for a total of HK\$27.7 million in the first half of 2021 and such income was only HK\$7.7 million in the first half of 2020. The Group has incurred more net exchange loss of HK\$20.9 million in the first half of 2021 as compared to HK\$17.9 million for the same period in last year. Sundry income increased from HK\$3.3 million in the first half of 2020 to HK\$9.7 million in the first half of 2021, which was mainly due to shipping cost charged back to customers and promotion incentive collected from business partners. Government grants have decreased from HK\$2.1 million in the first half of 2020 to HK\$0.5 million in the first half of 2021. Majority of the government grants was associated with the Employment Support Scheme under the Anti-epidemic Fund launched by the Hong Kong SAR Government supporting the payroll of the Group's employees in 2020 and such arrangement was no longer available in 2021. The Group has also received COVID-19 related rent concessions for HK\$1.8 million in the first half of 2020 and there was no such arrangement in the first half of 2021.

Operating Expenses

Operating expenses, consisting of selling and distribution expenses, administrative expenses, impairment loss on financial assets and finance costs, increased by HK\$506.9 million, or 188.6%, from HK\$268.8 million in the first half of 2020 to HK\$775.7 million in the first half of 2021. The change was mainly due to impairment loss of financial assets, additional provision of directors' profit sharing and staff bonus under administrative expenses as well as a higher spending on selling and distribution expenses.

Selling and distribution expenses increased by HK\$39.6 million, or 90.2%, from HK\$43.9 million in the first half of 2020 to HK\$83.5 million in the first half of 2021. Freight and transportation expenses under selling and distribution expenses increased by HK\$16.6 million, or 118.6%, from HK\$14.0 million in the first half of 2020 to HK\$30.6 million in the first half of 2021. It was mainly due to an increase on both air freight and sea shipment charges during the period as well as re-allocation of more goods for air shipment instead of sea shipment which has resulted in a higher spending of the freight and transportation expenses. COVID-19 has continued to decline in container capacity, tighter air and sea shipment capacity, ports congestion, and trucking and warehousing bottlenecks. In addition, provision of return mechanize, sales commission and marketing expenses together increased by HK\$20.7 million, or 180.0% from HK\$11.5 million in the first half of 2020 to HK\$32.2 million in the first half of 2021. Such an increase was in line with the sales growth in the first half of the year.

Administrative expenses was HK\$167.6 million higher than the same period in last year, which increased by 84.7% from HK\$197.9 million in the first half of 2020 to HK\$365.5 million in the first half of 2021. Staff costs included directors' remuneration under administrative expenses increased by HK\$154.4 million, or 119.3%, from HK\$129.4 million in the first half of 2020 to HK\$283.8 million in the first half of 2021. It was mainly associated with provision of staff performance bonus and directors' profit sharing scheme. Other administrative expenses increased by HK\$13.2 million, or 19.3%, from HK\$68.5 million in the first half of 2020 to HK\$81.7 million in the first half of 2021 which was mainly due to an increase in depreciation and consumables during the period under review.

The impairment loss on financial assets increased by HK\$307.9 million, or 4,160.8%, from HK\$7.4 million in the first half of 2020 to HK\$315.3 million in the first half of 2021. The Group has entered an installment payment scheme under a sales contract with a customer for sale of VGA Cards in 2019. However, the COVID-19 pandemic crisis has resulted in operation lockdown of the customer and resulted in a delay of payment. A revised repayment schedule was agreed by both parties with the last installment falling in September 2022. The customer has resumed regular repayment from October 2020 to June 2021 and the total collected amount of the receivable was HK\$298.6 million as at 30 June 2021. The recent crack down on cryptocurrency mining and trading in China has forced the customer to cease operation and resulted in a repayment issue of the remaining installment receivable. The Group has reviewed the collectability of the debts. It is uncertain when the customer will be able to resume payment of the remaining balance according to the installment payment scheme; therefore, the Group has decided to make a full impairment of the remaining installment receivable of HK\$315.6 million in the first half of 2021.

Finance costs decreased by HK\$8.2 million, or 41.8%, from HK\$19.6 million in the first half of 2020 to HK\$11.4 million in the first half of 2021. The decrease was mainly resulted from lower bank borrowing throughout the first half of 2021 as compared to the same period in last year.

Share of profit of a joint venture increased by HK\$55.4 million, or 971.9%, from HK\$5.7 million in the first half of 2020 to HK\$61.1 million in the first half of 2021. The joint venture company has leased out most of the systems which generated a high income level and profit in the first half of 2021. The operation was very much interrupted by the lockdown in China during the COVID-19 pandemic crisis which only generated a lower profit contribution to the Group in the first half of 2020.

Profit for the Period

The Group recorded a profit attributable to owners of the Company of HK\$932.2 million in the first half of 2021 as compared with the profit attributable to owners of the Company of HK\$31.7 million in the first half of 2020. The increase was mainly due to a strong sales performance which contributed a much higher profit level in the first half of 2021.

Income tax expenses of HK\$241.3 million was recorded in the first half of 2021 which increased by HK\$233.0 million from HK\$8.3 million in the first half of 2020. The change was mainly resulted from a substantial increase in profit before income tax during the period under review.

Profit Attributable to Owners of the Company and Dividends

The profit attributable to owners of the Company in the first half of 2021 was HK\$932.2 million which resulted in a basic earnings of HK\$2.469 per share and a diluted earnings of HK\$2.430 per share. Profit attributable to owners of the Company in the first half of 2020 was HK\$31.7 million with basic and diluted earnings of HK8.5 cents per share in the first half of 2020. The Board of Directors proposed an interim dividend of HK\$0.84 per share for the period ended 30 June 2021 and it is estimated to be HK\$324.9 million in total.

Liquidity and Financial Resources

Shareholders' Funds

Total shareholders' funds increased by HK\$873.3 million, or 79.2%, from HK\$1,103.1 million as at 31 December 2020 to HK\$1,976.4 million as at 30 June 2021.

Financial Position

Total non-current assets decreased by HK\$184.9 million, or 27.1%, from HK\$683.2 million as at 31 December 2020 to HK\$498.3 million as at 30 June 2021. The change was mainly due to a decrease in trade and other receivables, net book value of property, plant and equipment and the right-of-use assets.

Trade and other receivables under non-current assets decreased by HK\$201.9 million, or 98.4%, from HK\$205.1 million as at 31 December 2020 to HK\$3.2 million as at 30 June 2021. The change was mainly associated with an impairment loss on a trade receivable under an installment payment scheme. The Group has entered an installment payment scheme under a sales contract with a customer for sale of VGA Cards in 2019. However, the COVID-19 pandemic crisis has resulted in a lockdown of the customer operation and ultimately caused a delay of payment. Since a revised repayment schedule was agreed by both parties with the last installment falling in September 2022, the customer has resumed regular repayment from October 2020 to June 2021 and the total collected

amount of the receivable was HK\$298.6 million as at 30 June 2021. The recent crack down on cryptocurrency mining and trading in China has forced the customer to cease operation and resulted in a repayment issue of the remaining installment receivable. The Group has reviewed the collectability of the debts. It is uncertain when the customer will be able to resume the payment of the remaining balance according to the installment payment scheme; therefore, the Group has decided to make a full impairment of the remaining balance of the installment receivable of HK\$315.6 million in the first half of 2021 which included the carrying balances under both non-current and current trade receivables as at 30 June 2021.

Net book value of property, plant and equipment decreased by HK\$30.0 million, or 20.8%, from HK\$144.2 million as at 31 December 2020 to HK\$114.2 million as at 30 June 2021, which was mainly associated with depreciation during the period. The Group has frozen capital expenditure and has minimized spending on capital expenditure during COVID-19 pandemic outbreak in the year of 2020 and has resumed capital expenditure for HK\$7.9 million to enhance production efficiency and automation in the first half of 2021. The right-of-use assets decreased by HK\$13.8 million, or 10.1%, from HK\$136.5 million as at 31 December 2020 to HK\$122.7 million as at 30 June 2021. The change was mainly associated with the depreciation of the lease contracts on land and buildings under the right-of-use assets. Interest in a joint venture increased by HK\$62.9 million, or 36.0%, from HK\$174.7 million as at 31 December 2020 to HK\$237.6 million as at 30 June 2021. The change was mainly due to profit shared from the joint venture company by the Group in the first half of 2021. Deferred tax assets decreased by HK\$2.1 million from HK\$10.4 million as at 31 December 2020 to HK\$8.3 million as at 30 June 2021, which was mainly due to realisation of deferred tax assets charged to profit or loss during the period under review.

The Group has total current assets of HK\$4,981.9 million as at 30 June 2021 and HK\$3,304.2 million as at 31 December 2020. The Group's total current liabilities amounted to HK\$3,400.2 million as at 30 June 2021 and HK\$2,769.3 million as at 31 December 2020. The Group's current ratio, defined as total current assets over total current liabilities, increased from 1.2 as at 31 December 2020 to 1.5 as at 30 June 2021.

The Group's cash and bank balances increased from HK\$1,124.6 million as at 31 December 2020 to HK\$2,218.3 million as at 30 June 2021 which was contributed by a strong sales growth in the first half of year. Borrowings reduced from HK\$1,070.0 million as at 31 December 2020 to HK\$792.2 million as at 30 June 2021, which was mainly due to a strong cash inflow which allowed the Group to reduce the borrowings during the period under review. Due to the adoption of HKFRS 16, the Group has recognised current lease liabilities amounting to HK\$27.1 million and non-current lease liabilities amounting to HK\$101.8 million as at 30 June 2021. The Group's net debts to equity ratio (being debts minus cash and cash equivalents divided by total equity) was at 8.0% as at 31 December 2020 and has turned into a net cash to equity ratio (being cash and cash equivalents minus debts divided by total equity) at 65.6% as at 30 June 2021. The change was mainly due to a strong cash inflow which was resulted from a substantial increase in sales revenue for the period.

Trade and other receivables under current assets consisting of both trade receivables at amortised cost and at fair value, together with other receivables, deposits and prepayment decreased by HK\$99.2 million, or 8.1%, from HK\$1,218.3 million as at 31 December 2020 to HK\$1,119.1 million as at 30 June 2021. Trade receivables at amortised cost decreased by HK\$286.3 million, or 21.0%, from HK\$1,365.3 million as at 31 December 2020 to HK\$1,079.0 million as at 30 June 2021. The change was mainly due to an impairment loss of an installment receivable of HK\$315.6 million which was reported under both current and non-current trade receivables as at 30 June 2021. Trade receivables at fair value through profit or loss in factoring arrangement decreased by HK\$19.1 million, or 59.7%, from HK\$32.0 million as at 31 December 2020 to HK\$12.9 million as at 30 June 2021. Other receivables, deposits and prepayment under current assets increased by HK\$5.2 million, or 23.6%, from HK\$22.0 million as at 31 December 2020 to HK\$27.2 million as at 30 June 2021. Such an increase was mainly due to prepayment to acquire new machines and equipment for the manufacturing facilities.

Trade and other payables increased by HK\$211.9 million, or 14.3%, from HK\$1,484.1 million as at 31 December 2020 to HK\$1,696.0 million as at 30 June 2021. Trade payables increased by HK\$62.2 million, or 4.9%, from HK\$1,279.5 million as at 31 December 2020 to HK\$1,341.7 million as at 30 June 2021. It was mainly associated with an increase in inventory intake in the second quarter which has resulted in a higher trade payable balance as at 30 June 2021. Other payables increased by HK\$149.7 million, or 73.2%, from HK\$204.6 million as at 31 December 2020 to HK\$354.3 million as at 30 June 2021. It was mainly associated with HK\$85.1 million of dividend payable which was approved by the annual general meeting on 18 June 2021, and an addition of HK\$62.9 million of provision on staff performance bonus and directors' profit sharing for the period.

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\$7.7 million, or 14.6%, from HK\$52.6 million as at 31 December 2020 to HK\$44.9 million as at 30 June 2021. Refund liabilities decreased by HK\$4.1 million, or 6.5%, from HK\$62.8 million as at 31 December 2020 to HK\$58.7 million as at 30 June 2021. The change was mainly due to a lower projected level of credit sales return which resulted in a lower level of provision of sales return warranty under refund liabilities and the costs of return reported under the right of return assets on the financial statements.

Contract liabilities has been substantially increased by HK\$462.4 million, or 606.8%, from HK\$76.2 million as at 31 December 2020 to HK\$538.6 million as at 30 June 2021. The change was mainly due to customer prepayment to secure purchase of VGA Cards and CMP Cards in the period ended 30 June 2021. Provision was associated with product warranties and returns which was increased by HK\$6.7 million, or 21.3%, from HK\$31.4 million as at 31 December 2020 to HK\$38.1 million as at 30 June 2021. The change was mainly associated with sales increase on own brand VGA Cards which resulted in a higher projection of provision on product warranties and returns. Current tax liabilities increased from HK\$17.2 million as at 31 December 2020 to HK\$249.6 million as at 30 June 2021. The change was mainly due to a substantial increase in profit before income tax of most operating entities which has resulted in a higher current tax liabilities of the Group.

Exposure to Fluctuation in Exchange Rates

As at 30 June 2021, 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 2020 and one forward contract in the first half of 2021.

Working Capital

Inventories of the Group as at 30 June 2021 were HK\$1,599.1 million which was increased by HK\$690.8 million, or 76.1%, as compared with HK\$908.3 million as at 31 December 2020. Inventory turnover days decreased from 53 days as at 31 December 2020 to 46 days as at 30 June 2021. The Group benefited from a strong demand of VGA Cards as the demand far exceeded supply consistently so that the relevant finished goods were turning faster during the period. The ratio of finished goods to overall inventories decreased by 44.0% as at 31 December 2020 to 30.6% as at 30 June 2021.

Trade receivables as at 30 June 2021 were HK\$1,091.9 million, which decreased by HK\$305.4 million, or 21.9%, as compared with HK\$1,397.3 million as at 31 December 2020. Trade receivable turnover days decreased from 65 days as at 31 December 2020 to 33 days as at 30 June 2021. The change of trade receivable turnover days was mainly due to a strong demand on computer hardware and VGA Cards that facilitated a faster payment from customers together with an impairment loss of a trade receivable account under an installment payment scheme as at 30 June 2021.

Trade payables as at 30 June 2021 were HK\$1,341.7 million, which increased by HK\$62.2 million, or 4.9%, as compared with HK\$1,279.5 million as at 31 December 2020. Trade payable turnover days decreased from 68 days as at 31 December 2020 to 48 days as at 30 June 2021. The Group has speeded up payment to some of the suppliers in order to secure allocation of some components and materials under a serious shortage of supply. Such an action has driven down the payable turnover days as at 30 June 2021.

Charges on Assets

As at 30 June 2021, 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 2021 amounted to HK\$7.9 million.

Capital Commitments and Contingent Liabilities

As at 30 June 2021, total capital commitments amounted to HK\$23.7 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 investment during the period.

Future Plans for Material Investments or Capital Assets

The Group has no plan for material investment or acquisition of capital assets as at 30 June 2021, 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 2021, the Group had 3,082 employees (2020: 3,140 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 recognise 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. In addition and supplemental to the information relating to the 2016 Share Option Scheme disclosed in the Company's annual report for the year ended 31 December 2020 and the Company's announcement dated 4 August 2021, pursuant to the rules of the 2016 Share Option Scheme, a grantee of an option must take up the underlying shares of the option within such period as the Board may in its absolute discretion determine, which in any event shall not be more than ten (10) years from 17 June 2016, being the effective date of the 2016 Share Option Scheme, otherwise the option will lapse automatically.

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 2021.

CORPORATE GOVERNANCE

Throughout the six months ended 30 June 2021, 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 2021, 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 2021.

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 2021 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, 27 August 2021

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*