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 2018

FINANCIAL HIGHLIGHTS

	Period ended 30 June		
	2018	2017	Change
	HK$ million	*HK$ million*	
Revenue	**5,538.4**	2,971.8	+86.4%
Gross profit	**717.1**	245.9	+191.6%
Profit for the period attributable to owners of the Company	**340.0**	43.7	+678.0%
Gross profit %	**12.9%**	8.3%	+55.4%
Net profit %	**6.1%**	1.5%	+306.7%

The board of directors (the "Board") of PC Partner Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2018

	Notes	**30 June 2018** *HK$'000* **(Unaudited)**	30 June 2017 *HK$'000* (Unaudited)
Revenue	3, 4	**5,538,381**	2,971,767
Cost of sales		**(4,821,242)**	(2,725,899)
Gross profit		**717,139**	245,868
Other revenue and other gains and losses	5	**1,798**	10,916
Selling and distribution expenses		**(71,611)**	(45,001)
Administrative expenses		**(234,740)**	(156,020)
Impairment loss on trade and other receivables		**(699)**	(269)
Finance costs	6	**(21,314)**	(10,125)
Profit before income tax	7	**390,573**	45,369
Income tax expense	8	**(50,788)**	(1,704)
Profit for the period		**339,785**	43,665
Other comprehensive income, after tax, that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(2,196)**	1,013
Total comprehensive income for the period		**337,589**	44,678
Profit for the period attributable to:			
— Owners of the Company		**340,038**	43,720
— Non-controlling interests		**(253)**	(55)
		339,785	43,665

	Notes	30 June 2018 HK$'000 (Unaudited)	30 June 2017 HK$'000 (Unaudited)
Total comprehensive income for the period attributable to:			
— Owners of the Company		**337,842**	44,733
— Non-controlling interests		**(253)**	(55)
		337,589	44,678
Earnings per share	10	***HK$***	*HK$*
— Basic		**0.762**	0.101
— Diluted		**0.761**	0.100

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**64,688**	58,728
Intangible assets		**5,915**	5,915
Other financial assets		**36,612**	36,612
Deferred tax assets		**3,813**	6,445
Total non-current assets		**111,028**	107,700
Current assets			
Inventories		**2,572,448**	1,349,456
Right to return assets		**23,791**	—
Trade and other receivables	11	**1,060,861**	1,186,246
Amount due from a related party		**—**	1,762
Cash and bank balances		**1,281,055**	1,453,815
Total current assets		**4,938,155**	3,991,279
Total assets		**5,049,183**	4,098,979
Current liabilities			
Trade and other payables	12	**1,445,531**	1,487,961
Refund liabilities		**34,196**	—
Contract liabilities		**34,377**	—
Amount due to a related party		**1,033**	—
Borrowings		**2,019,630**	1,350,956
Provisions		**24,826**	28,576
Obligations under finance leases		**18**	18
Current tax liabilities		**66,997**	23,361
Total current liabilities		**3,626,608**	2,890,872
Net current assets		**1,311,547**	1,100,407
Total assets less current liabilities		**1,422,575**	1,208,107

	Notes	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Non-current liabilities			
Obligations under finance leases		**58**	67
NET ASSETS		**1,422,517**	1,208,040
Capital and reserves			
Share capital		**44,619**	44,484
Reserves		**1,377,914**	1,163,669
Equity attributable to owners of the Company		**1,422,533**	1,208,153
Non-controlling interests		**(16)**	(113)
TOTAL EQUITY		**1,422,517**	1,208,040

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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 2018 (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 2017 (the "Annual Financial Statements"), except for the adoption of the new and revised Hong Kong Financial Reporting Standards (the "HKFRSs") (which collective term includes all applicable HKFRSs, Hong Kong Accounting Standards and Interpretations) issued by the HKICPA.

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

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

2. CHANGES IN HKFRSs

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

- HKFRS 9, Financial Instruments
- HKFRS 15, Revenue from Contracts with Customers
- HK(IFRIC) — Interpretation 22, Foreign Currency Transactions and Advance Considerations
- Amendments to HKFRS 2, Classification and Measurement of Share-based Payment Transactions

The impact of the adoption of HKFRS 9 Financial Instruments (see note 2A below) and HKFRS 15 Revenue from Contracts with Customers (see note 2B below) have been summarised below. The other new or amended HKFRSs that are effective from 1 January 2018 did not have any material impact on the Group's accounting policies.

A. HKFRS 9 Financial Instruments ("HKFRS 9")

(i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the Interim Financial Statements.

The directors considered that there is no material impact on transition to HKFRS 9 on the opening balance of reserves, retained profits and non-controlling interests ("NCI") as at 1 January 2018.

HKFRS 9 basically retains the existing requirements in HKAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables that do not contain a significant financing component in accordance with HKFRS 15, an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised costs"); (ii) financial assets at fair value through other comprehensive income ("FVTOCI"); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVTOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to be achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVTOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVTOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised costs	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FVTOCI(equity investments)	Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

(a) As at 1 January 2018, certain unquoted equity investments were reclassified from available-for-sale financial assets at cost to FVTOCI. These unquoted equity investments has no quoted price in an active market. The Group intends to hold these unquoted equity investments for long term strategic purposes. In addition, the Group has designated such unquoted equity investments at the date of initial application as measured at FVTOCI. The directors consider that the fair value of these investments, as at 1 January 2018, approximate to their then carrying amount as at 31 December 2017 and so no opening adjustment is required.

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	**Original classification under HKAS 39**	**New classification under HKFRS 9**	**Carrying amount as at 1 January 2018 under HKAS 39** *HK$'000*	**Carrying amount as at 1 January 2018 under HKFRS 9** *HK$'000*
Other financial assets	Available-for-sale (at cost) (note 2A(i)(a))	FVTOCI	36,612	36,612
Trade and other receivables (excluding non-financial assets of HK$17,627,000)	Loans and receivables (note 2A(ii)(a) and (b))	Amortised cost	1,168,619	1,168,619
Amount due from a related party	Loans and receivables (note 2A(ii)(b))	Amortised cost	1,762	1,762
Cash and cash equivalents	Loans and receivables	Amortised cost	1,453,361	1,453,361

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". HKFRS 9 requires the Group to recognise ECLs for trade receivables, other receivables and amount due from a related party. Impairment on financial assets subject to the ECLs model is immaterial for the current period.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade and other receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. The 12-months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased if it is more than 30 days past due.

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt investment at FVTOCI, the loss allowance is recognised in other comprehensive income ("OCI"), instead of reducing the carrying amount of the assets.

Impact of the ECLs model

(a) Impairment of trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which adopts a life time ECLs for all trade receivables and contract asset. To measure the ECLs, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets have substantially the same risk as the trade receivables. The loss allowance as at 1 January 2018 was determined by the directors to be immaterial.

(b) Impairment of other receivables and amount due from a related party

The directors consider that the loss allowance on other receivable and amount due from a related party by applying the ECLs model on 1 January 2018 and for the six months ended 30 June 2018 is close to zero.

(iii) Hedge accounting

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(iv) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position as at 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained profits and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 which is 1 January 2018 (the "DIA"):

- The determination of the business model within which a financial asset is held;
- The designation of certain investments in equity investments not held for trading as at FVTOCI.

B. HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect (if any) of initially applying HKFRS 15 as an adjustment to the opening balance of retained profits at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated and there is no adjustment to the opening balance of retained profits as at 1 January 2018.

The following tables summarised the impact of adopting HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 and its condensed consolidated statement of comprehensive income for the six months ended 30 June 2018. There was no material impact on the Group's condensed consolidated statement of cash flows for the six months ended 30 June 2018:

Impact on the condensed consolidated interim statement of financial position as at 30 June 2018 (increase/(decrease)):

	HK$'000
Assets	
Current assets	
Right to return assets *(note 2B(a))*	**23,791**
Liabilities	
Current tax liabilities	
Trade and other payables *(note 2B(a))*	**(34,377)**
Refund liabilities *(note 2B(a))*	**34,196**
Contract liabilities *(note 2B(a))*	**34,377**
Provisions	**(10,405)**
Total current liabilities and total liabilities	**23,791**

The impact on the condensed consolidated statement of comprehensive income (increase/(decrease)) for the six months ended 30 June 2018:

	HK$'000
Revenue *(note 2B(a))*	**(23,791)**
Cost of sales *(note 2B(a))*	**23,791**
Profit for the period	**—**
Total comprehensive income for the period	**—**

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below:

Note	Product/ service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
(a)	Sales of video graphics cards ("VGA Cards"), electronics manufacturing services ("EMS") and other personal computer ("PC") related products and components (collectively "products")	Customers obtain control of the products when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the products. There is generally only one performance obligation. Invoices are usually payable within 30–90 days. **Right to return** Some of the Group's contracts with customers from the sale of products provide customers a right to return. **Volume rebate and sales allowance** Some of the Group's contracts with customers from the sale of products provide customers a volume rebate if the customer purchase more than certain volume of products in a calendar year.	**Right to return** Under HKAS 18, revenue for these contracts was recognised when a reasonable estimate of the returns could be made, provide that all other revenue recognition criteria are met. If a reasonable estimate could not be made, such revenue would be deferred until the return period lapsed or a reasonable estimate could be made. Under HKFRS 15, right to return gives rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. In addition, a refund liability and a right to recover returned goods assets are recognised. **Impact** As at 1 January 2018, the Group reclassified HK$5,479,000 from provisions and recognised refund liabilities of HK$33,553,000 and right to return assets of HK$28,074,000. **Volume rebate and sales allowance** Under HKAS 18, the Group estimated the expected volume rebates using the most likely outcome approach and recognised as a reduction of revenue as the sales are recognised. A provision of rebate will be recognised in trade and other payables. Under HKFRS 15, volume rebates give rise to variable consideration. The Group apply the most likely outcome method to estimate the variable consideration. A contract liability would be recognised based on the estimate of the expected to be paid to customer's volume-based rebate. **Impact** As at 1 January 2018, an increase in contract liabilities of HK$11,814,000 and a decrease in trade and other payables of HK$11,814,000 were recognised.

3. REVENUE

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

4. SEGMENT REPORTING

(a) Reportable segments

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

(b) Geographical information

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

	30 June 2018	30 June 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Asia Pacific ("APAC")	**2,187,988**	1,239,322
North and Latin America ("NALA")	**707,700**	390,194
People's Republic of China ("PRC")	**1,246,828**	875,411
Europe, Middle East, Africa and India ("EMEAI")	**1,395,865**	466,840
	5,538,381	2,971,767

The revenue information of the operations above is based on the locations of the customers.

(c) Revenue from major products and services

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

	30 June 2018	30 June 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
VGA Cards	**4,517,261**	2,365,086
EMS	**368,175**	263,573
Other PC related products and components	**652,945**	343,108
	5,538,381	2,971,767

(d) Revenue from brand and non-brand businesses

The following is an analysis of the Group's revenue from its brand and non-brand businesses:

	30 June 2018	30 June 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Brand businesses	**3,185,082**	1,785,287
Non-brand businesses	**2,353,299**	1,186,480
	5,538,381	2,971,767

(e) Information about major customer

Revenue from the customer contributing 10% or more of the Group's revenue for the stated periods is as follows:

	30 June 2018	30 June 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Customer A *(Note)*	**N/A**	475,152

Note: Revenue from this customer was derived from sales of video graphics cards and solid state drivers in the PRC. Its revenue in 2018 did not contribute 10% or more of the Group's revenue.

5. OTHER REVENUE AND OTHER GAINS AND LOSSES

	30 June 2018	30 June 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest income	**2,034**	612
Net exchange (losses)/gains	**(6,898)**	7,665
Net fair value gains on derivative financial instruments	**239**	329
Loss on disposal of property, plant and equipment	**(1)**	—
Sundry income	**6,424**	2,599
Provision for demand of repayment, net	**—**	(289)
	1,798	10,916

6. FINANCE COSTS

	30 June 2018	30 June 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on bank advances and other borrowings	**21,314**	10,125

7. PROFIT BEFORE INCOME TAX

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

	30 June 2018	30 June 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Inventories recognised as expense	**4,783,201**	2,711,484
Provision for obsolete inventories	**38,041**	14,415
Cost of sales	**4,821,242**	2,725,899
Staff costs	**262,332**	152,383
Depreciation of property, plant and equipment	**9,149**	7,360
Bad debt written off	**168**	—
Amortisation of intangible assets *(Note a)*	**—**	143
Provision for impairment losses on trade and other receivables, net	**699**	269
Operating lease payments on plant and machinery	**121**	104
Operating lease payments on premises	**16,038**	15,128
Property, plant and equipment written off	**—**	47
Provision/(reversal of provision) for product warranties and returns, net	**8,538**	(1,119)
Provision for demand of repayment, net	**—**	289
Research and development expenditure *(Note b)*	**30,804**	21,719

Notes:

(a) Amortisation of intangible assets of HK$Nil (2017: HK$143,000) is included in "Administrative expenses" in the condensed consolidated statement of comprehensive income.

(b) The research and development expenditure for the period includes HK$30,804,000 (2017:HK$21,719,000) relating to depreciation of plant and machinery and office equipment and employee benefits expense for research and development activities, which are also included in the total amounts disclosed above for each of these types of expenses.

8. INCOME TAX EXPENSE

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

	30 June 2018	30 June 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax — Hong Kong		
— provision for the period	**47,073**	1,059
Current tax — PRC		
— provision for the period	**955**	265
— under provision in respect of prior year	**163**	6
Current tax — others		
— provision for the period	**—**	37
— (over)/under provision in respect of prior year	**(33)**	337
	48,158	1,704
Deferred tax		
— origination and reversal of temporary differences	**2,630**	—
Income tax expense	**50,788**	1,704

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.

Hong Kong profits tax is calculated at 16.5% (2017: 16.5%) on the estimated assessable profits for the six months ended 30 June 2018. A significant subsidiary of the Company, PC Partner Limited, is entitled to claim 50% of all of its manufacturing profits as offshore in nature and non taxable under Departmental Interpretation and Practice Notes No. 21 issued by the Inland Revenue Department of Hong Kong.

The Company's wholly owned subsidiary located in the PRC, 東莞栢能電子科技有限公司 successfully obtained the "High Technology Enterprise" status during 2012 and renewed successfully during 2015 and the applicable PRC enterprise income tax rate for the six months ended 30 June 2018 is 15% (2017: 15%). Other PRC subsidiaries of the Company are subject to PRC enterprise income tax at a statutory rate of 25% (2017: 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 2018.

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

9. DIVIDENDS

	30 June 2018 (Unaudited)	30 June 2017 (Unaudited)
2017 final dividend — HK$0.28 (note) (2017: 2016 final dividend paid — HK$0.108) per share	**124,934**	47,209
2017 special dividend — HK$Nil (2017: 2016 special dividend paid — HK$0.036) per share	**—**	15,736
Dividend for the period	**124,934**	62,945

The directors of the Company proposed an interim dividend of HK$0.275 (2017: HK$0.04) per share, totalling HK$102,161,000 (2017: HK$17,770,000) for the six months ended 30 June 2018. The interim dividend has not been recognised as liabilities at 30 June 2018.

Note:

As at 30 June 2018, 2017 final dividend has not yet paid and subsequently paid on 10 July 2018.

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2018 and 2017 is based on the following data:

Profit

	30 June 2018 ***HK$'000*** **(Unaudited)**	30 June 2017 *HK$'000* (Unaudited)
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	**340,038**	43,720

Number of shares

	30 June 2018 (Unaudited)	30 June 2017 (Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	**446,013,834**	432,138,419
Effect of dilutive potential ordinary shares: — share options	**633,822**	5,911,323
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**446,647,656**	438,049,742

11. TRADE AND OTHER RECEIVABLES

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Trade receivables	**1,021,519**	1,165,369
Less: Accumulated impairment losses	**(5,787)**	(7,543)
	1,015,732	1,157,826
Other receivables	**10,872**	3,706
Deposits and prepayments	**35,284**	25,741
Less: Accumulated impairment losses	**(1,027)**	(1,027)
	34,257	24,714
	1,060,861	1,186,246

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

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Within 1 month	**557,888**	710,267
Over 1 month but within 3 months	**412,626**	364,466
Over 3 months but within 1 year	**15,473**	24,703
Over 1 year	**29,745**	58,390
	1,015,732	1,157,826

The credit period on sales of goods is 30 to 90 days (2017: 30 to 90 days) from the invoice date.

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

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Neither past due nor impaired	**643,689**	843,191
Within 1 month	**223,836**	212,150
Over 1 month but within 3 months	**114,459**	31,369
Over 3 months but within 1 year	**4,871**	13,287
Over 1 year	**28,877**	57,829
	1,015,732	1,157,826

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

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

12. TRADE AND OTHER PAYABLES

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**1,051,367**	1,057,747
Other payables and accruals	**394,164**	430,214
	1,445,531	1,487,961

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

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

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 1 month	**491,930**	633,874
Over 1 month but within 3 months	**406,495**	389,326
Over 3 months but within 1 year	**149,225**	31,232
Over 1 year	**3,717**	3,315
	1,051,367	1,057,747

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK$0.275 per share, totaling HK$102,161,000 for the six months ended 30 June 2018 (2017: HK$0.04 per share, totaling HK$17,770,000) to be paid on or about 5 October 2018 (Friday) to shareholders whose names appear on the Company's register of members on 21 September 2018 (Friday).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 19 September 2018 (Wednesday) to 21 September 2018 (Friday) (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 18 September 2018 (Tuesday) 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 cards for desktop PCs, electronics manufacturing services ("EMS"), and manufacturing and trading in other PC related products and components.

The Group manufactures video graphics cards for Original Equipment Manufacturer/ Original Design Manufacturer ("OEM/ODM") customers and also manufactures and market video graphics cards and other PC products under its own brands, namely ZOTAC, Inno3D, and Manli. The relationships with NVIDIA and AMD, the two globally dominant graphic processing unit ("GPU") suppliers, enable the Group to develop cost-competitive, high performance products and solutions to serve its customers. Video graphics 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, storage devices, wearable fitness devices, etc. Aside from video graphics cards and the EMS businesses, the Group manufactures and sells other PC related products such as mini-PCs, motherboards, and further derives revenue from trading products and components.

Business Performance

In the first half of 2018, the total revenue has achieved a dramatic increase of 86.4% and increased by HK$2,566.6 million, from HK$2,971.8 million in the first half of 2017 to HK$5,538.4 million in the first half of 2018. The increase was mainly contributed by a significant increase of video graphics cards business with a growth of 91.0% as compared to the same period of last year. Besides the strong growth on video graphics cards, both the EMS and the other PC related products and components have also demonstrated a strong rebound and a strong growth rate at 39.7% and 90.3% respectively in compare to same period of last year.

Video graphics cards business has achieved a growth of HK$2,152.2 million, or 91.0%, from HK$2,365.1 million in the first half of 2017 to HK$4,517.3 million in the first half of 2018. In which, both the revenue contributed from OEM/ODM orders and the revenue contributed from own brands video graphics cards have achieved a high growth rate in comparison to the first half of 2017. Orders on OEM/ODM basis video graphics cards increased by HK$916.2 million or 133.1%, from HK$688.5 million in the first half of 2017 to HK$1,604.7 million in the first half of 2018. It was due to a strong order demands from existing OEM/ODM basis customers. Own brand video graphics cards business increased by HK$1,236.0 million, or 73.7%, from HK$1,676.6 million in the first half of 2017 to HK$2,912.6 million in the first half of 2018. The growth was mainly resulted from a strong demand of the brand products from the channel market in the first half of 2018.

EMS business recorded a growth of HK$104.6 million, or 39.7%, from HK$263.6 million in the first half of 2017 to HK$368.2 million in the first half of 2018. A rebound of EMS business was mainly due to more orders from a customer on ATM and POS systems and new orders contribution from new customers. Other PC related products and components business has achieved a growth of HK$309.8 million, or 90.3%, from HK$343.1 million in the first half of 2017 to HK$652.9 million in the first half of 2018. It was mainly contributed by strong growth on miniPC and other new business in the first half of 2018.

Both the brand businesses and the OEM/ODM basis businesses have experienced a strong growth as compared to the same period of last year. The growth on brand businesses was mainly contributed from a continuous strong demand on gaming hardware especially on high end product segments. Brand businesses achieved a growth of HK$1,399.8 million, or 78.4%, from HK$1,785.3 million in the first half of 2017 to HK$3,185.1 million in the first half of 2018. The OEM/ODM basis businesses has achieved a growth of HK$1,166.8 million, or 98.3%, from HK$1,186.5 million in the first half of 2017 to HK$2,353.3 million in the first half of 2018. The increment was mainly contributed by more orders on video graphics cards from a strong demand on gaming hardware together with new orders from blockchain application and platform in the first half of 2018.

All geographical regions reported a stronger growth in the first half of 2018 in comparison to the same period in last year. The Europe, Middle East, Africa and India ("EMEAI") region has achieved a growth rate of 199.0% and the North and Latin America ("NALA") region has achieved a growth rate of 81.4%.The Asia Pacific ("APAC") region and the People's Republic of China ("PRC") region have also recorded a growth rate of 76.6% and 42.4% respectively.

APAC Region

In the APAC region, the revenue increased by HK$948.7 million, or 76.6%, from HK$1,239.3 million in the first half of 2017 to HK$2,188.0 million in the first half of 2018. It was mainly due to a significant increase of video graphic cards orders from both OEM/ODM basis customers and own brands products.

EMEAI Region

In the EMEAI region, the revenue amounted to HK$1,395.9 million in the first half of 2018, representing an increase of HK$929.0 million, or 199.0%, as compared to HK$466.9 million in the first half of 2017. It was mainly due to the increase in sales of brand businesses of video graphics cards and increase in orders of ODM/OEM basis video graphics cards.

NALA Region

In the NALA region, the revenue significantly increased from HK$390.2 million in the first half of 2017, representing an increase of HK$317.5 million, or 81.4%, to HK$707.7 million in the first half of 2018. The increase was mainly resulted from increasing sales from own brands products.

PRC Region

In the PRC region, the revenue recorded a growth to HK$1,246.8 million in the first half of 2018, representing an increase of HK$371.4 million, or 42.4%, as compared to HK$875.4 million in the first half of 2017. It was mainly attributable to the sales increment on video graphics cards in the first half of 2018. The brand business in the PRC region, especially ZOTAC, has continuously experienced strong growth rates since 2013 due to a stronger brand awareness.

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 turns to be shortened over the years. New products introduction requires significant resources involvement from development, production as well as sales and marketing. The Group will be at risk and may lag behind the competition if it cannot response promptly to the changing business environment. Technological change may impose a significant negative impact on the business if the Group is unable to acquire new technologies and apply onto the business. Talent is a key factor for companies' success especially technology and engineering talents are critical for the Group as a technology company. Lack of capable talents on development of new applications and technologies is a risk to the Group on long term survival. The Group would continue to review the human resources and look for capable talents to join the Group in order to stay ahead of technology and launch new products more efficiently against competition.

Business relationship with customers and suppliers are crucial for business success. The Group has established a long business partnership with both AMD and NVIDIA for over 20 years and over 10 years respectively. The Group rides on the technologies from both AMD and NVIDIA to develop own products and gain the know-how of the video graphics cards in order to obtain orders on contract manufacturing business of video graphics cards. Discontinuance of the business partnership would be a threat to the survival of the business in long run. The Group would continue to maintain a good relationship with partners, customers and suppliers and also look for new cooperation opportunities in the industry.

The Group is not aware of any particular on important event which has occurred would trigger a risk and uncertainty since 30 June 2018.

Outlook

The first half year result of 2018 was outstanding which was contributed by a strong demand on video graphics cards together with a significant growth of all other business lines. It is expected the sales momentum of video graphics cards will slowdown in the third quarter since consumer is expecting new generation of video graphics cards coming out by end of the third quarter this year. Such a situation is in-line with expectation since it happened on every generation of new products launch as consumers would wait and study the new products' price and performance in order to determine whether they will go for the new products or going back to buy the old generation of products. It is expected the sales momentum will be resumed once consumers have a better idea on the price and performance of the next generation of the video graphics cards.

Although the upcoming third quarter is expected to be slow on video graphics cards, the sales momentum on other business lines is still expected to grow continuously. Video graphics cards business is expected to regain a stronger sales momentum in the last quarter of the year once the new products are launched by late third quarter this year. It is very likely the new generation of video graphics cards will trigger another sales blooming of the business.

The Group will continue to devote more resources onto ZOTAC brand and develop more new product lines under the brand. There will be new gaming PCs and hardware to be launched together with new generation of video graphics cards under ZOTAC brand in order to expand the business scope which will also contribute additional income and profit in the long run. The Group will continue to invest onto E-Sports as the major marketing strategy in order to build up ZOTAC as a well-known computer gaming brand in the world. Besides the brand business development, the Group continues to look into opportunities on business expansion and diversification as well as potential investment through merger and acquisition opportunities in order to position the Group as a solid and key player in the industry.

Financial Review

Revenue

The Group's total revenue increased by HK$2,566.6 million, or 86.4%, from HK$2,971.8 million in the first half of 2017 to HK$5,538.4 million in the first half of 2018. All business segments have experienced a strong growth as compared to the same period in last year and majority of the growth remain contributed from video graphics cards product segment by HK$2,152.2 million which represented 83.9% of the revenue growth in the first half of 2018.

Revenue from the video graphics cards business has increased by HK$2,152.2 million, or 91.0%, from HK$2,365.1 million in the first half of 2017 to HK$4,517.3 million in the first half of 2018. It was mainly due to a strong demand on video graphics cards from both the brand business and the ODM/OEM side since both the brand business and the ODM/OEM basis orders have achieved significant growth rates at 73.7% and 133.1% respectively as compared to the same period of last year. Revenue on own brands video graphics cards has increased by HK$1,236.0 million, or 73.7%, from HK$1,676.6 million in the first half of 2017 to HK$2,912.6 million in the first half of 2018. Orders demand on ODM/OEM contract manufacturing businesses increased by HK$916.2 million, or 133.1%, from HK$688.5 million in the first half of 2017 to HK$1,604.7 million in the first half of 2018. In which, orders from customers on blockchain application and platform represented HK$401.7 million, or 25.0%, under the ODM/OEM basis video graphics cards segment.

Revenue derived from the EMS business amounted to HK$368.2 million in the first half of 2018, representing an increase of HK$104.6 million, or 39.7%, as compared to HK$263.6 million in the first half of 2017. The rebound of the EMS business was mainly resulted from more orders from a customer on ATM and POS systems and new orders contribution from new customers during the reported period. Revenue from other PC related products and components business increased by HK$309.8 million, or 90.3%, from HK$343.1 million in the first half of 2017 to HK$652.9 million in the first half of 2018. The growth was mainly contributed by the increase in sales of miniPC and new products in the first half of 2018.

Gross Profit and Margin

The Group's gross profit in the first half of 2018 was HK$717.1 million, representing an increase of HK$471.2 million, or 191.6%, as compared to HK$245.9 million in the first half of 2017. Gross profit margin increased by 4.6 percentage point to 12.9% in the first half of 2018 as compared to 8.3% in the first half of 2017. It was mainly contributed from an increase in sales volume together with an improvement of product mix by selling more expensive products during the reported period. Furthermore, a carry-forward effect on the price increase on own brands video graphics cards since the middle of last year also contributed to a higher gross profit margin on own brand video graphics cards for the reported period.

The Group has spent more on direct labour and conversion costs for a total of HK$108.0 million, or 123.1% from HK$87.7 million in the first half of 2017 to HK$195.7 million in the first half of 2018. The cost increment is in line with sales increase of 86.4% for the reported period. The percentage of direct labour and conversion costs to revenue as a ratio has increased from 3.0% in the first half of 2017 to 3.5% in the first half of 2018. The Group did have more outsourcing arrangement on production during the the peak season which accounted for 0.4% as a ratio of the direct labour and conversion costs to revenue in the first half of 2018. In addition, the minimum wages in the PRC factories have been increased which also resulted in a higher spending of the direct labour and conversion costs.

Profit for the Period

The Group recorded a profit attributable to owners of the Company of HK$340.0 million in the first half of 2018 as compared with the profit attributable to owners of the Company of HK$43.7 million in the first half of 2017. It was mainly due to a significant increase in gross profit being contributed for the first half of 2018. The operating expenses increased by HK$116.9 million, or 55.3%, from HK$211.4 million in the first half of 2017 to HK$328.3 million in the first half of 2018. Operating expenses as a percentage of revenue has decreased by 1.2 percentage point from 7.1% in the first half of 2017 to 5.9% in the first half of 2018.

Other revenue and other gains and losses declined from HK$10.9 million in the first half of 2017 to HK$1.8 million in the first half of 2018. The change was mainly due to a change from a net exchange gain in the first half of 2017 to a net exchange loss position in the first half of 2018.

Selling and distribution expenses increased by HK$26.6 million, or 59.1%, from HK$45.0 million in the first half of 2017 to HK$71.6 million in the first half of 2018. The expenses as a percentage of revenue has decreased by 0.2 percentage point from 1.5% in the first half of 2017 to 1.3% in the first half of 2018. The increment of the selling and distribution expenses was mainly associated with sales increase for the first half of 2018 as well as additional spending on exhibition costs and e-Sports activities being organised under the ZOTAC brand.

Administrative expenses increased by HK$78.7 million or 50.4% from HK$156.0 million in the first half of 2017 to HK$234.7 million in the first half of 2018; director and staff costs represented 75.9% out of the total administrative expenses for the first half of the year under review. Increase on the director and staff costs is in line with revenue increase due to additional provision on director and staff bonus in the first half of 2018. In addition, increase of the costs is also associated with annual salary review at the beginning of the year and additional staff hired to support the future business growth.

Finance costs increased by HK$11.2 million, or 110.9%, from HK$10.1 million in the first half of 2017 to HK$21.3 million in the first half of 2018. It was mainly resulted from increase on interest rates and a higher utilisation of the bank borrowings during the period. Finance costs as a percentage of revenue has increased from 0.34% in the first half of 2017 to 0.38% in the first half of 2018.

Income tax expenses increased to HK$50.8 million which is due to a significant increase in profit during the first half of the year under review.

Profit Attributable to owners of the Company and Dividends

The profit attributable to owners of the Company for the first half of 2018 was HK$340.0 million which resulted in an earnings of HK76 cents per share. Since the Group operated in an earnings position in the first half of 2018, the Directors proposed an interim dividend of HK27.5 cents per share for the period ended 30 June 2018, which is estimated to be HK$102.2 million in total. The Group would maintain the dividend payout policy at 30% to 40% on earned profit of the year.

Liquidity and Financial Resources

Shareholders' Funds

Total shareholders' funds have increased by HK$214.3 million, or 17.7%, from HK$1,208.2 million as at 31 December 2017 to HK$1,422.5 million as at 30 June 2018.

Financial Position

The Group had total current assets of HK$4,938.2 million as at 30 June 2018 and HK$3,991.3 million as at 31 December 2017. The Group's total current liabilities amounted to HK$3,626.6 million as at 30 June 2018 and HK$2,890.9 million as at 31 December 2017. The Group's current ratio, defined as total current assets over total current liabilities, remain at 1.4 as at 31 December 2017 and 30 June 2018.

The Group's cash and bank balances decreased from HK$1,453.8 million as at 31 December 2017 to HK$1,281.1 million as at 30 June 2018. Based on the borrowings of HK$2,019.7 million as at 30 June 2018 and HK$1,351.0 million as at 31 December 2017, and total equity of HK$1,422.5 million as at 30 June 2018 and HK$1,208.0 million as at 31 December 2017, the Group's net debts to equity ratio (being debts minus cash and cash equivalents divided by total equity) changed from a net cash position as at 31 December 2017 to 51.9% as at 30 June 2018. The change was mainly due to an increase in borrowings to finance the procurement of materials and components as at 30 June 2018. Approximately HK$27.6 million of the Group's cash and bank balances came from deposit from customers under contract liabilities in the current liabilities, majority of the remaining cash and bank balances are reserved to settle the procurement of components being purchased to fulfill the backlog orders.

Trade and other receivables consisted of both trade receivables of HK$1,015.7 million, other receivables of HK$10.9 million, and deposit and prepayments of HK$34.3 million as at 30 June 2018. Trade receivables reduced by HK$142.1 million, or 12.3%, from HK$1,157.8 million as at 31 December 2017 to HK$1,015.7 million as at 30 June 2018. Other receivables increased from HK$3.7 million as at 31 December 2017 to HK$10.9 million as at 30 June 2018. Deposits and prepayments increased from HK$24.7 million as at 31 December 2017 to HK$34.3 million as at 30 June 2018. The increase was mainly due to down payment of components purchased by the end of the reported period.

Trade and other payables consisted of trade payables of HK$1,051.4 million and other payables of HK$394.1 million as at 30 June 2018. The trade payables is stable as compared to 31 December 2017. Other payables reduced by HK$36.1 million, or 8.4%, from HK$430.2 million as at 31 December 2017 to HK$394.1 million as at 30 June 2018. It was mainly due to a reduction of deposit received from customers. Due to a much higher income tax expense recorded in the first half of 2018, the current tax liabilities has increased substantially to HK$67.0 million as at 30 June 2018.

Due to a new Hong Kong Financial Reporting Standard, HKFRS 15, the Company is required to report the provision of sales return warranty under refund liabilities in the current liabilities section and the relevant costs of return is reported under the right to return assets in the current assets section. The Company has reported a total of HK$34.2 million as refund liabilities and HK$23.8 million as the right to return assets. Advance payment from customers of HK$27.6 million and volume rebate and sales allowance of HK$6.8 million are reported in aggregate as contract liabilities of HK$34.4 million under the current liabilities as at 30 June 2018.

Exposure to Fluctuation in Exchange Rates

As at 30 June 2018, the Group was exposed to currency risk primarily through sales and purchases denominated in currencies other than the functional currency of the operations to which they relate. The currencies giving rise to the risk are primarily Renminbi and Euro. The Group entered into several foreign exchange forward contracts during the six months ended 30 June 2018.

Working Capital

Inventories as at 30 June 2018 were HK$2,572.4 million, increased by HK$1,222.9 million, or 90.6%, as compared with HK$1,349.5 million as at 31 December 2017. The inventory turnover days increased from 63 days as at 31 December 2017 to 74 days as at 30 June 2018. The high level of inventories as at 30 June 2018 was mainly resulted from a slow down on the inventory turn around cycle as well as additional intakes on components before end of the period for upcoming sales in the third quarter of 2018.

Trade receivables as at 30 June 2018 were HK$1,015.7 million, decreased by HK$142.1 million, or 12.3%, as compared with HK$1,157.8 million as at 31 December 2017. Trade receivable turnover days decreased from 40 days as at 31 December 2017 to 36 days as at 30 June 2018. The reduction was resulted from a faster collection on trade receivables during the reported period.

Trade payables as at 30 June 2018 was HK$1,051.4 million, decreased by HK$6.3 million, or 0.6%, as compared with HK$1,057.7 million as at 31 December 2017. Trade payable turnover days decreased from 45 days as at 31 December 2017 to 40 days as at 30 June 2018 which due to a faster payment to vendors during the reported period.

Charge on Assets

As at 30 June 2018, bank deposit of HK$0.5 million was pledged to banks to secure the corporate credit card granted to the Group.

Capital Expenditure

The Group spent HK$15.1 million on capital expenditure in the first half of 2018. All of these capital expenditures were financed by internal resources.

Capital Commitments and Contingent Liabilities

As at 30 June 2018, total capital commitments amounted to HK$2.3 million, and there was no material contingent liability or off balance sheet obligation.

Contingency

On 29 January 2018, the United States International Trade Commission ("Commission") initialed an investigation in response to a complaint filed by ZiiLabs Inc., Ltd. ("ZiiLabs") against Zotac International (Macao Commercial Offshore) Limited, Zotac USA, Inc. (collectively "Zotac"), Zotac's GPU supplier Nvidia Corporation ("Nvidia") and others (collectively, "Respondents") ("Investigation"). The aforesaid complaint is related to graphics rendering technology and GPU architectures used in the Respondents' products. ZiiLabs alleged that the Respondents' products had infringed its US patents ("Patent") and importation and/or sale of those products in the USA constitutes a violation of section 337 of the Tariff Act of 1930. Zotac denied that there is any infringement of the Patent by Zotac products and has instructed their lawyers to defend the complaint.

Hearing of the Investigation is scheduled on 1 February to 8 February 2019. The Commission will make an initial determination by 9 May 2019 and determine if there is any violation of the Tariff Act by the Respondents. The Investigation will be completed by the Commission in September 2019.

ZiiLabs has already requested the Commission to grant a limited exclusion order against the Respondents and other reliefs. There was no claim of damages by ZiiLabs and no provision has been made in these consolidated financial statements. However, if ZiiLabs succeeds in the Complaint and Zotac is ruled liable to pay damages to ZiiLabs, Zotac believes that they have good prospects of either being indemnified by Nvidia or otherwise recovering from Nvidia the damages paid by Zotac.

Significant Acquisitions and Disposals of Investments

Save for those disclosed in the condensed consolidated statement of financial position, there was no other significant investments held and there was no acquisition of additional interests in subsidiaries or disposal of subsidiary.

Future Plans for Material Investments or Capital Assets

The Group had no plan for material investments or acquisitions of capital assets as at 30 June 2018, 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 2018, the Group had 3,813 employees (2017: 3,539 employees). Employees are remunerated on basis of their individual performance and prevailing industry practice. Compensation policies and remuneration packages of the employees are reviewed at least once a year. In addition to basic salary, medical benefits, provident fund and performance-related bonuses may also be awarded to employees. The Company has adopted a Pre-IPO Share Option Scheme to 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.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

CORPORATE GOVERNANCE

Throughout the six months ended 30 June 2018, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "CG Code"), except for the deviation from code provision A.2.1 of the CG Code as described below.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. For the six months ended 30 June 2018, the roles of chairman and chief executive officer of the Company were performed by Mr. WONG Shik Ho Tony. With Mr. WONG's extensive experience in the electronics industry, in addition to his role as chairman responsible for the overall strategic management and corporate development of the Group, he is also heavily involved and instrumental to the Group in running its daily business. The Board considers that vesting the roles of chairman and chief executive officer simultaneously in Mr. WONG is beneficial to the business prospects and management of the Group. The roles of the respective executive directors and senior management, who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to strong and balance management organisation that enables the Group to operate effectively. The Board currently comprises of five executive Directors, one non-executive Director and three independent non-executive Directors and therefore has sufficient independent elements in its composition.

AUDIT COMMITTEE

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

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2018.

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 2018 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, 24 August 2018

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*