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PC PARTNER GROUP LIMITED

栢能集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1263)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

	Year ended 31 December		Change
	2022	2021	
	<i>HK\$ million</i>	<i>HK\$ million</i>	
Revenue	10,775.3	15,459.1	-30.3%
Gross Profit	1,563.0	4,287.2	-63.5%
Gross Profit%	14.5%	27.7%	-47.7%
Profit for the year attributable to owners of the Company	702.5	2,374.3	-70.4%
Net Profit%	6.5%	15.4%	-57.8%

The board of directors (the “Board”) of PC Partner Group Limited (the “Company”) is pleased to announce the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2022 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue	4, 5	10,775,308	15,459,055
Cost of sales		<u>(9,212,346)</u>	<u>(11,171,893)</u>
Gross profit		1,562,962	4,287,162
Other revenue and other gains and losses	6	(1,347)	123,966
Selling and distribution expenses		(121,532)	(185,831)
Administrative expenses		(523,278)	(816,658)
Impairment losses on financial assets		(533)	(321,712)
Finance costs	7	(32,551)	(20,215)
Share of loss of a joint venture		<u>(40,513)</u>	<u>(136,588)</u>
Profit before income tax	8	843,208	2,930,124
Income tax	9	<u>(141,311)</u>	<u>(553,568)</u>
Profit for the year		<u>701,897</u>	<u>2,376,556</u>
Other comprehensive income, after tax			
Items that will not be reclassified to profit or loss:			
Changes in fair value of equity instruments at fair value through other comprehensive income		(2,249)	(4,001)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign subsidiaries		(5,010)	(7,128)
Exchange differences on translating a joint venture		<u>—</u>	<u>2,446</u>
Total comprehensive income for the year		<u>694,638</u>	<u>2,367,873</u>

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Profit for the year attributable to:			
— Owners of the Company		702,484	2,374,320
— Non-controlling interests		<u>(587)</u>	<u>2,236</u>
		<u>701,897</u>	<u>2,376,556</u>
Total comprehensive income for the year attributable to:			
— Owners of the Company		695,225	2,365,637
— Non-controlling interests		<u>(587)</u>	<u>2,236</u>
		<u>694,638</u>	<u>2,367,873</u>
		<i>HK\$</i>	<i>HK\$</i>
Earnings per share	<i>11</i>		
— Basic		1.81	6.21
— Diluted		<u>1.81</u>	<u>6.14</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	<i>Notes</i>	2022	2021
		<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		596,378	94,215
Right-of-use assets		121,766	114,182
Intangible assets		4,825	4,825
Other financial asset		1,268	3,517
Interest in a joint venture		—	40,513
Deferred tax assets		3,999	9,641
Trade and other receivables	12	5,383	2,705
Total non-current assets		<u>733,619</u>	<u>269,598</u>
Current assets			
Inventories	13	1,831,959	1,511,577
Trade and other receivables	12	1,260,597	1,307,096
Right of return assets		69,561	71,091
Tax recoverable		52,380	—
Cash and bank balances		2,207,323	3,765,101
Total current assets		<u>5,421,820</u>	<u>6,654,865</u>
Total assets		<u>6,155,439</u>	<u>6,924,463</u>
Current liabilities			
Trade and other payables	14	1,237,752	2,130,342
Refund liabilities		83,794	96,445
Contract liabilities	5	76,521	209,564
Borrowings	15	1,738,733	702,337
Provision for product warranties		39,436	61,118
Lease liabilities		30,864	26,049
Current tax liabilities		—	513,042
Total current liabilities		<u>3,207,100</u>	<u>3,738,897</u>
Net current assets		<u>2,214,720</u>	<u>2,915,968</u>
Total assets less current liabilities		<u>2,948,339</u>	<u>3,185,566</u>

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Total non-current liabilities			
Lease liabilities		<u>97,194</u>	<u>95,224</u>
NET ASSETS		<u>2,851,145</u>	<u>3,090,342</u>
Capital and reserves			
Share capital	<i>16</i>	38,768	38,738
Reserves		<u>2,810,038</u>	<u>3,048,678</u>
Equity attributable to owners of the Company		2,848,806	3,087,416
Non-controlling interests		<u>2,339</u>	<u>2,926</u>
TOTAL EQUITY		<u>2,851,145</u>	<u>3,090,342</u>

Notes:

1. GENERAL INFORMATION

PC Partner Group Limited (the “Company”) was incorporated in the Cayman Islands on 1 April 2010 with limited liability under the Companies Act (Revised) of the Cayman Islands and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 12 January 2012. The address of its registered office is Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman, KYI-1108, Cayman Islands. Its principal place of business is situated at 28/F., NCB Innovation Centre, 888 Lai Chi Kok Road, Kowloon, Hong Kong.

The Company and its subsidiaries (referred to as the “Group”) are engaged in the business of design, manufacturing and trading of electronics and personal computer (“PC”) parts and accessories with its operation base in Mainland China and trading of electronics and PC parts and accessories with its operation bases in Hong Kong, Japan, Korea and the United States of America (“U.S.A.”).

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(a) Adoption of revised HKFRSs — effective on 1 January 2022

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

- Amendments to HKAS 16: Property, Plant and Equipment: Proceeds before Intended Use
- Amendments to HKAS 37: Onerous Contracts — Cost of Fulfilling a Contract
- Amendments to HKFRS 3: Reference to the Conceptual Framework
- Annual Improvements to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41: Annual Improvements to HKFRSs 2018–2020

The Group has not early applied any amended HKFRSs that is not yet effective for the current accounting period.

(b) Revised HKFRSs that have been issued but are not yet effective

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

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ²
Amendments to HKAS 1 HK Interpretation 5 (2022)	Non-current Liabilities with Covenants ² Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Definition of Accounting Estimates ¹
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2024.

³ The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

The directors of the Company do not anticipate that the application of the above amendments in the future will have a material impact on the Group's consolidated financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Company.

4. SEGMENT REPORTING

(a) Reportable segments

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

Disaggregation of revenue from contracts with customers

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

For the year ended 31 December	Design, manufacturing and trading of electronics and PC parts and accessories	
	2022 HK\$'000	2021 HK\$'000
Primary geographical markets		
Asia Pacific ("APAC")	3,733,959	5,099,665
North and Latin America ("NALA")	2,078,456	2,654,140
People's Republic of China ("PRC")	1,999,731	3,790,897
Europe, Middle East, Africa and India ("EMEAI")	2,963,162	3,914,353
	<u>10,775,308</u>	<u>15,459,055</u>
Major products/services		
Video graphics cards ("VGA Cards")	8,994,816	13,569,962
Electronics manufacturing services ("EMS")	828,871	819,114
Other PC related products and components	951,621	1,069,979
	<u>10,775,308</u>	<u>15,459,055</u>
Brand and non-brand businesses		
Brand businesses	7,047,288	10,369,359
Non-brand businesses	3,728,020	5,089,696
	<u>10,775,308</u>	<u>15,459,055</u>
Timing of revenue recognition		
At a point in time	<u>10,775,308</u>	<u>15,459,055</u>

(b) Geographic information

The following table provides an analysis of the Group's revenue from external customers and non-current assets other than financial instruments and deferred tax assets ("Specified non-current assets").

	Revenue from external customers		Specified non-current assets	
	(by customer location)			
	2022	2021	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
APAC	3,733,959	5,099,665	450,399	14,688
NALA	2,078,456	2,654,140	23,246	23,203
PRC	1,999,731	3,790,897	254,490	218,173
EMEA	2,963,162	3,914,353	217	376
	<u>10,775,308</u>	<u>15,459,055</u>	<u>728,352</u>	<u>256,440</u>

(c) Information about the major customer

During the years ended 31 December 2022 and 2021, 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.

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contract liabilities	<u>76,521</u>	<u>209,564</u>

The contract liabilities mainly relate to the advance consideration received from customers and volume rebates and sales allowances to customers. HK\$178,995,000 of the contract liabilities as at 1 January 2022 and HK\$59,945,000 of the contract liabilities as at 1 January 2021 has been recognised as revenue for the year ended 31 December 2022 and 2021 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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Government grants (<i>note</i>)	7,009	4,774
Interest income	10,455	9,276
Net exchange losses	(30,355)	(25,516)
Net fair value gains on derivative financial instruments	61	199
Gain on disposal of property, plant and equipment	379	78,704
Sundry income	11,104	18,798
Rental income	—	37,731
	<u>(1,347)</u>	<u>123,966</u>

Note:

Included in 2022 government grants is HK\$4,134,000 obtained from 2022 Employment Support Scheme (“ESS”) under the Anti-Epidemic Fund launched by the Hong Kong SAR Government. Under the ESS, the Group had to commit to spend these grants on payroll expenses, and retain current employees from May to July 2022. Included in 2021 government grants is HK\$3,046,000 obtained from Paycheck Protection Program launched by the U.S.A. supporting the payroll of the Group’s employees. The remaining government grants of 2022 and 2021 were received from several PRC local government authorities on a discretionary basis before year end. There is no unfulfilled conditions and other contingencies attaching to the government grants that have been recognised.

7. FINANCE COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest on bank advances and other borrowings	27,915	14,973
Interest on lease liabilities	4,636	5,242
	<u>32,551</u>	<u>20,215</u>

8. PROFIT BEFORE INCOME TAX

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Inventories recognised as expense	9,161,328	11,166,227
Provision for obsolete inventories	<u>51,018</u>	<u>5,666</u>
Cost of sales	<u>9,212,346</u>	<u>11,171,893</u>
Staff costs	530,701	822,837
Auditor's remuneration	1,854	1,932
Bad debts written off	152	39
Depreciation of property, plant and equipment	36,749	58,573
Depreciation of right-of-use assets	31,186	30,095
Impairment losses on financial assets	533	321,712
Short-term lease expenses	2,991	3,477
Low-value assets leases expenses	20	22
Property, plant and equipment written off	28	10
(Reversal of provision)/provision for product warranties and returns, net	(12,455)	47,374
Research and development expenditure (<i>note</i>)	<u>64,286</u>	<u>58,089</u>

Note:

The research and development expenditure for the year 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 consolidated statement of comprehensive income represents:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current tax — Hong Kong		
— provision for the year	125,536	503,932
— over provision in respect of prior year	(314)	(316)
Current tax — PRC		
— provision for the year	2,063	14,390
— under/(over) provision in respect of prior year	4,545	(4,659)
Current tax — others		
— provision for the year	2,898	39,474
— under/(over) provision in respect of prior year	984	(2)
	<u>135,712</u>	<u>552,819</u>
Deferred tax		
— origination and reversal of temporary differences	<u>5,599</u>	<u>749</u>
Income tax expense	<u><u>141,311</u></u>	<u><u>553,568</u></u>

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act (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 years ended 31 December 2022 and 2021, Hong Kong profits tax is calculated in accordance with the two-tiered profits tax rates regime. A significant subsidiary of the Company, PC Partner Limited, is entitled to claim 50% of all of its manufacturing profits as offshore in nature and non-taxable under Departmental Interpretation and Practice Notes No.21 issued by the Inland Revenue Department of Hong Kong.

The Company's wholly-owned subsidiary located in the PRC, 東莞栢能電子科技有限公司 successfully obtained the "High Technology Enterprise" status during 2012 and renewed successfully for three years from 2021 to 2023 and the applicable PRC enterprise income tax rate for the year is 15% (2021: 15%). Other PRC subsidiaries of the Company are subject to PRC enterprise income tax at a statutory rate of 25% (2021: 25%) on the assessable profits as determined in accordance with the relevant income tax rules and regulations of the PRC for the year ended 31 December 2022.

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

10. DIVIDENDS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
2021 Final dividend paid — HK\$1.61 per share (2021: 2020 Final dividend paid — HK\$0.22 per share)	624,171	85,058
2022 Interim dividend paid — HK\$0.80 per share (2021: 2021 Interim dividend paid — HK\$0.84 per share)	<u>310,147</u>	<u>325,209</u>
Dividends paid for the year	<u><u>934,318</u></u>	<u><u>410,267</u></u>

The directors of the Company do not propose any final dividend (2021: HK\$1.61 per share) for the year ended 31 December 2022 and instead propose a special dividend of HK\$0.25 (2021: HK\$Nil) per share, totalling HK\$96,921,000 (2021: final dividend of HK\$624,171,000) after the end of the reporting period. The special dividend has not been recognised as liabilities at the end of the reporting period.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the years ended 31 December 2022 and 2021 is based on the following data:

Profit	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	<u>702,484</u>	<u>2,374,320</u>
Number of shares	2022	2021
Weighted average number of ordinary shares for the purpose of basic earnings per share	387,559,833	382,364,939
Effect of dilutive potential ordinary shares: — share options	<u>329,508</u>	<u>4,242,584</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>387,889,341</u></u>	<u><u>386,607,523</u></u>

12. TRADE AND OTHER RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables at amortised cost	1,469,736	1,553,726
Less: Accumulated impairment losses	<u>(313,948)</u>	<u>(338,123)</u>
Trade receivables at amortised cost, net	<u>1,155,788</u>	<u>1,215,603</u>
Trade receivables at fair value through profit or loss (<i>note</i>)	28,918	26,032
Other receivables	12,785	4,323
Deposits and prepayments	74,048	69,402
Less: Accumulated impairment losses	<u>(5,559)</u>	<u>(5,559)</u>
	<u>68,489</u>	<u>63,843</u>
	<u>1,265,980</u>	<u>1,309,801</u>
Less: Other receivables — non-current portion	(409)	—
Rental deposits — non-current portion	<u>(4,974)</u>	<u>(2,705)</u>
	<u>(5,383)</u>	<u>(2,705)</u>
Trade and other receivables — current portion	<u>1,260,597</u>	<u>1,307,096</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 the year is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 1 month	751,228	862,943
Over 1 month but within 3 months	289,707	345,072
Over 3 months but within 1 year	110,108	7,523
Over 1 year	<u>4,745</u>	<u>65</u>
	<u>1,155,788</u>	<u>1,215,603</u>

The credit period on sale of goods is 30 to 90 days (2021: 30 to 90 days) from the invoice date.

Movement in the loss allowance account in respect of trade receivable at amortised cost during the year is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
At 1 January	338,123	9,924
Impairment losses recognised during the year	533	320,410
Exchange difference	<u>(24,708)</u>	<u>7,789</u>
At 31 December	<u><u>313,948</u></u>	<u><u>338,123</u></u>

Note:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables at fair value through profit or loss	<u><u>28,918</u></u>	<u><u>26,032</u></u>

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 the year is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 1 month	14,064	12,037
Over 1 month but within 3 months	14,704	12,194
Over 3 months but within 1 year	<u>150</u>	<u>1,801</u>
	<u><u>28,918</u></u>	<u><u>26,032</u></u>

13. INVENTORIES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Raw materials	1,106,830	1,052,327
Work in progress	25,513	17,330
Finished goods	<u>853,095</u>	<u>559,437</u>
	1,985,438	1,629,094
Less: Provision for obsolete inventories	<u>(153,479)</u>	<u>(117,517)</u>
	<u><u>1,831,959</u></u>	<u><u>1,511,577</u></u>

14. TRADE AND OTHER PAYABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade payables	965,382	1,602,678
Other payables and accruals	<u>272,370</u>	<u>527,664</u>
	<u><u>1,237,752</u></u>	<u><u>2,130,342</u></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 the year is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 1 month	528,216	938,263
Over 1 month but within 3 months	396,056	605,733
Over 3 months but within 1 year	37,163	52,419
Over 1 year	<u>3,947</u>	<u>6,263</u>
	<u><u>965,382</u></u>	<u><u>1,602,678</u></u>

15. BORROWINGS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Bank loans — secured and guaranteed	192,637	—
Import loans — guaranteed	<u>1,546,096</u>	<u>702,337</u>
	<u><u>1,738,733</u></u>	<u><u>702,337</u></u>

The above borrowings are denominated in HK\$ and US\$ as follows:

	2022			2021		
	Denominated in		Total	Denominated in		Total
	HK\$	US\$		HK\$	US\$	
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Bank loans — secured and guaranteed	192,637	—	192,637	—	—	—
Import loans — guaranteed	901,954	644,142	1,546,096	—	702,337	702,337
	<u>1,094,591</u>	<u>644,142</u>	<u>1,738,733</u>	<u>—</u>	<u>702,337</u>	<u>702,337</u>

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

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	1,553,853	702,337
Over 1 year but within 2 years	7,757	—
Over 2 years but within 5 years	177,123	—
	<u>1,738,733</u>	<u>702,337</u>

The banks have overriding right of repayment on demand for all bank loans irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations. Therefore, the bank loans were entirely classified as current liabilities in the consolidated statement of financial position.

16. SHARE CAPITAL

	2022		2021	
	Number of shares	Amount <i>HK\$'000</i>	Number of shares	Amount <i>HK\$'000</i>
Authorised:				
Ordinary shares of HK\$0.10 each	<u>1,000,000,000</u>	<u>100,000</u>	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:				
Ordinary shares of HK\$0.10 each				
At beginning of year	387,383,668	38,738	372,093,668	37,209
Share options exercised	<u>300,000</u>	<u>30</u>	<u>15,290,000</u>	<u>1,529</u>
At end of year	<u>387,683,668</u>	<u>38,768</u>	<u>387,383,668</u>	<u>38,738</u>

DIVIDEND

The Board does not propose any final dividend for the year ended 31 December 2022 so as to enable the Company to retain a higher level of cash flow for future investments. However, the Board recommends a special dividend of HK\$0.25 per share for the year ended 31 December 2022 to be paid on or before 10 July 2023 (Monday) to the shareholders of the Company whose names appear on the Company's register of members at the close of business on 27 June 2023 (Tuesday) to celebrate the Group's 25th anniversary. The proposed special dividend is subject to the approval of the shareholders of the Company at the forthcoming Annual General Meeting ("AGM") to be held on 16 June 2023 (Friday).

AGM

The AGM of the Company will be held on 16 June 2023 (Friday). The notice of the AGM, which constitutes part of the circular to shareholders, will be sent together with the 2022 Annual Report in due course.

CLOSURE OF REGISTER OF MEMBERS AND RECORD DATE

- (a) For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from 13 June 2023 (Tuesday) to 16 June 2023 (Friday) (both days inclusive), during which time no transfer of shares will be registered. To ensure that shareholders are entitled to attend and vote at the AGM, shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's share registrar, Computershare Hong Kong Investor Services Limited, located at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 12 June 2023 (Monday) for registration of the relevant transfer.
- (b) The proposed special dividend is subject to the approval of the shareholders at the AGM. The record date for the proposed special dividend is fixed on 27 June 2023 (Tuesday). For determining the entitlement to the proposed special dividend, the register of members of the Company will be closed from 23 June 2023 (Friday) to 27 June 2023 (Tuesday) (both days inclusive), during which time no transfer of shares will be effected. In order to qualify for the proposed special dividend, shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's share registrar, Computershare Hong Kong Investor Services Limited, located at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 21 June 2023 (Wednesday) for registration of the relevant transfer.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is principally engaged in the design, manufacturing and trading of VGA Cards for desktop computer, EMS and manufacturing and trading in other PC related products and components.

The Group manufactures VGA Cards for Original Design Manufacturer/Original Equipment Manufacturer (“ODM/OEM”) customers and also manufactures and markets 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 year.

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 a decrease of HK\$4,683.8 million, or 30.3%, from HK\$15,459.1 million in 2021 to HK\$10,775.3 million in 2022. Sales performance was largely affected by the global economy slowdown which deteriorated quickly during the year. A mixture of high inflation, aggressive monetary policies, uncertainties of the war in Ukraine and the lingering COVID-19 crisis has discouraged consumer spending and corporate investment throughout most of the time in 2022.

VGA Cards business has recorded a decrease of HK\$4,575.2 million, or 33.7%, from HK\$13,570.0 million in 2021 to HK\$8,994.8 million in 2022. Sales of own brand VGA Cards decreased by HK\$3,032.4 million, or 30.5%, from HK\$9,935.0 million 2021 to HK\$6,902.6 million in 2022. Sales momentum of own brand VGA Cards remained strong in the first quarter until the war in Ukraine started hurting consumer spending and the

strong U.S. dollar has further affected consumer purchasing power in many regions throughout the year. Average selling price (“ASP”) of own brand VGA Cards turned from an increase of 6.7% in the middle of the year to a decline of 6.9% for full year of 2022 as compared to prior year. The decline of ASP was largely due to price promotion and discount to stimulate sales revenue and to clear slow moving inventories in the second half of the year.

ODM/OEM orders for VGA Cards decreased by HK\$1,542.8 million, or 42.4%, from HK\$3,635.0 million in 2021 to HK\$2,092.2 million in 2022. Sales contributed by Crypto Mining Processor Cards (“CMP Cards”) to professional miners under the ODM/OEM VGA Cards business has recorded a significant decline by HK\$771.5 million, or 98.1% from HK\$786.7 million in 2021 to HK\$15.2 million in 2022. It was mainly due to a significant drop in cryptocurrency prices together with the fact that one of the major crypto coins no longer required VGA Cards for cryptocurrency mining during the year. The sales of ordinary VGA Cards to the ODM/OEM customers have recorded a decrease of HK\$771.3 million, or 27.1%, from HK\$2,848.3 million in 2021 to HK\$2,077.0 million in 2022. The decline of ODM/OEM orders for VGA Cards was mainly due to a slowdown of global economy together with the fact that the demand of PC has been weakened after more and more countries have relieved travel, work from home, study online restrictions from the long lasting COVID-19 lockdowns.

EMS business has recorded an increase of HK\$9.8 million, or 1.2%, from HK\$819.1 million in 2021 to HK\$828.9 million in 2022. It was mainly due to additional sales revenue contribution by new customers which had fully offset sales downtrend of some existing customers during the year. Sales of other PC related products and components business decreased by HK\$118.4 million, or 11.1%, from HK\$1,070.0 million in 2021 to HK\$951.6 million in 2022. The drop was mainly associated with a slowdown of global economy together with a drop on demand of PC as a result of the recovery and returning to normal activities after the long lasting COVID-19 lockdowns.

Revenue of brand business decreased by HK\$3,322.1 million, or 32.0%, from HK\$10,369.4 million in 2021 to HK\$7,047.3 million in 2022. Performance of brand business was affected by a mixture of high inflation, aggressive monetary policies, uncertainties of the war in Ukraine and the lingering COVID-19 crisis. The industry has experienced a slowdown of PC demand due to the recovery and returning to normal activities without further restriction on travel, work from home, study online after the long lasting COVID-19 lockdowns.

The ODM/OEM business which includes component trade has recorded a decrease in revenue of HK\$1,361.7 million, or 26.8%, from HK\$5,089.7 million in 2021 to HK\$3,728.0 million in 2022. It was partially due to sales decline of CMP Cards of HK\$771.5 million as there were significant drop in cryptocurrency prices and the fact that one of the major crypto coins no longer required VGA Cards for cryptocurrency mining during the year. The remaining portion of HK\$771.3 million was mainly associated with decline of ODM/OEM orders for VGA Cards which was due to a slowdown of global economy and the weakening demand of PC after more and more countries have relieved travel, work from home and study online restrictions from COVID-19 lockdowns.

Year 2022 was an extraordinary year as business was high volatile. Regional business performance was largely distorted by global and regional political, economical and administrative policies throughout the year. The APAC region, the NALA region, the PRC region and the EMEAI region all have recorded a drop of revenue by 26.8%, 21.7%, 47.2% and 24.3% respectively.

APAC Region

In the APAC region, revenue decreased by HK\$1,365.7 million, or 26.8%, from HK\$5,099.7 million in 2021 to HK\$3,734.0 million in 2022. It was mainly due to strong U.S. dollar has weakened consumer purchasing power in many countries such as Japan and Korea. In addition, the region has experienced a slowdown of demand on VGA Cards and PC due to the recovery and returning to normal activities after the long lasting COVID-19 lockdowns.

NALA Region

In the NALA region, revenue amounted to HK\$2,078.4 million in 2022, representing a decrease of HK\$575.7 million, or 21.7%, as compared to HK\$2,654.1 million in 2021. The change was mainly due to a decline in demand of VGA Cards and PC and many Latin America countries also faced depreciation of currencies which has discouraged consumer spending.

PRC Region

In the PRC region, revenue amounted to HK\$1,999.7 million in 2022, representing a decrease of HK\$1,791.2 million, or 47.2%, as compared to HK\$3,790.9 million in 2021. The decline was mainly associated with COVID-19 lockdowns in some major cities that have discouraged consumer spending and disrupted supply chain during the lockdown periods.

EMEI Region

In the EMEAI region, revenue amounted to HK\$2,963.2 million in 2022, representing a decrease of HK\$951.2 million, or 24.3%, as compared to HK\$3,914.4 million in 2021. The change was mainly associated with the war in Ukraine that has discouraged consumer spending and corporate investment in Europe during the year. Products were unable to be sold to Russia under sanctions which has also affected the regional business performance in 2022.

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, ISO13485 and the code issued by Responsible Business Alliance (“RBA”).

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 a 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 suitable 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 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 which will ultimately be passed onto consumers that may discourage and reduce consumer and corporate demand in the 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 United States technologies. It is a risk to the Group if the United States restrict the export of consumer grade technologies to Hong Kong.

Appreciation of cryptocurrency prices usually generated a dramatic increase in demand of VGA Cards according to the past experience; however, the sales momentum would be lost once the cryptocurrency prices depreciated significantly. Those companies and individuals who bought machines and VGA Cards for cryptocurrency mining may end up with selling machines and equipment at a big discount in the market. The Group has experienced such impact in 2018 and ended up with a significant write down on inventories and sold VGA Cards at a discount or at a loss in order to reduce the inventory risk. If the cryptocurrency prices decline significantly in future, inventory risk may increase and the Group may be compelled to clear its on-hand inventories by selling products at a discount or at a loss again.

The Group is not aware of any other particular or important event that has occurred which would trigger a risk and uncertainty as at 31 December 2022.

Outlook

Although COVID-19 crisis seems coming to an end, the economical and political issues may last for a much longer period in 2023. Channel inventory level has reduced back to a comfortable level before end of last year; however, consumers may become more price-sensitive and reduce spending if the economic situation continues to deteriorate in this year.

Full year revenue is now projected to achieve a mild growth as compared with last year, while gross profit margin is anticipated to decline in this year. Company will continue to phase in new generation of VGA Cards but also have to phase out old generation products with a certain level of discount. We foresee an improvement of profit margin once the product replacement cycle is completed later on this year.

ChatGPT as one of the latest hot topics and all other artificial intelligence developments require high performance hardware and powerful processors to process tons of data for machine learning. Metaverse seems to be cooling down recently but there are still lots of continuous development which may take some longer time to see how it will adopt to our everyday lives. The Group will continue to allocate resources to take part in these new business opportunities.

Our management team closely monitors the market situation and will take appropriate action to minimize risk from impacting our business.

Financial Review

Revenue

The Group's total revenue decreased by HK\$4,683.8 million, or 30.3%, from HK\$15,459.1 million in 2021 to HK\$10,775.3 million in 2022. High inflation, aggressive monetary policies, uncertainties of the war in Ukraine, the lingering COVID-19 crisis has discouraged consumer spending and corporate investment throughout most of the time in 2022.

Revenue on VGA Cards decreased by HK\$4,575.2 million, or 33.7%, from HK\$13,570.0 million in 2021 to HK\$8,994.8 million in 2022. Sales of own brand VGA Cards and ODM/OEM VGA Cards have recorded a decline by HK\$3,032.4 million and HK\$1,542.8 million respectively during the year. Sales of own brand VGA Cards decreased by HK\$3,032.4 million, or 30.5%, from HK\$9,935.0 million in 2021 to HK\$6,902.6 million in 2022. Both sales volume and ASP has been dropped by 26.0% and 6.9% respectively. The decline was mainly due to a weak demand of VGA Cards and the fact that the Group has offered more price promotion and discount to stimulate sales revenue in the second half of the year.

ODM/OEM orders on VGA Cards decreased by HK\$1,542.8 million, or 42.4%, from HK\$3,635.0 million in 2021 to HK\$2,092.2 million in 2022. Sales contributed by CMP Cards to professional miners under the ODM/OEM VGA Cards business has recorded a significant decline by HK\$771.5 million, or 98.1%, from HK\$786.7 million in 2021 to HK\$15.2 million in 2022. The decline was mainly associated with the fact that the cryptocurrency prices dropped significantly together with the fact that one of the major crypto coins no longer required VGA Cards for cryptocurrency mining during the year. The sales of ordinary VGA Cards to the ODM/OEM customers has recorded a decrease of HK\$771.3 million, or 27.1%, from HK\$2,848.3 million in 2021 to HK\$2,077.0 million in 2022. The change was mainly resulted from a decrease of sales volume by 27.1% as the global economy slowed down together with the weakening demand of PC after more and more countries has relieved travel, work from home and study online restrictions after the long lasting COVID-19 crisis.

Revenue derived from the EMS business amounted to HK\$828.9 million in 2022, representing an increase of HK\$9.8 million, or 1.2%, as compared to HK\$819.1 million in 2021. It was mainly due to additional sales revenue contribution by new customers which has fully offset sales downtrend of some existing customers during the year.

Sales of other PC related products and components decreased by HK\$118.4 million, or 11.1%, from HK\$1,070.0 million in 2021 to HK\$951.6 million in 2022. The drop was mainly associated with a slowdown of global economy together with a drop on demand of PC with recovery and returning to normal activities after the long lasting COVID-19 crisis.

Gross Profit and Margin

The Group's gross profit in 2022 was HK\$1,563.0 million, representing a decrease of HK\$2,724.2 million, or 63.5%, as compared with HK\$4,287.2 million in 2021. Gross profit margin was 14.5% in 2022 as compared with 27.7% in 2021. Decline of gross profit margin was mainly associated with price promotion to stimulate sales of own brand VGA Cards and clearance of the last generation of VGA Cards by discount in the second half of the year. Drop in sales volume across all business segments has also resulted in a decline of gross profit and margin in 2022.

Material cost as a percentage of sales increased by 12.8% from 70.4% in 2021 to 83.2% in 2022 which was mainly resulted from sales discount offered to customers under own brand VGA Cards. The Group has spent less on conversion cost which consisted of direct labour and production overheads for a total of HK\$37.9 million, or 13.3%, from HK\$285.9 million in 2021 to HK\$248.0 million in 2022. The change was associated with sales volume decline and part of the savings was contributed by increase in automation of manufacturing processes to replace labour resources as a long term manufacturing strategy.

Other Revenue and Other Gains and Losses

Other revenue and other gains and losses decreased by HK\$125.3 million, or 101.1%, from a gain of HK\$123.9 million in 2021 to a loss of HK\$1.4 million in 2022. The change was mainly due to a significant decline of the gain on disposal of property, plant and equipment for HK\$78.3 million, or 99.5%, from HK\$78.7 million in 2021 to HK\$0.4 million in 2022. Since the above machinery for leasing was sold in 2021, the relevant rental income has declined by HK\$37.7 million as there was no such rental income generated in 2022. The Group has received HK\$2.2 million more government grants in 2022 as compared to prior year. It was mainly due to 2022 Employment Support Scheme under the Anti-epidemic Fund launched by Hong Kong SAR Government supporting payroll of the Group's employees in Hong Kong. The Group has incurred more net exchange loss by HK\$4.9 million, or 19.2%, from HK\$25.5 million in 2021 to HK\$30.4 million in 2022. In addition, the Group has less chargeback to customers on freight costs under sundry income but has collected more on interest income in 2022 as compared to prior year.

Operating Expenses

Operating expenses, consisting of selling and distribution expenses, administrative expenses, impairment losses on financial assets and finance costs, decreased by HK\$666.5 million, or 49.6%, from HK\$1,344.4 million in 2021 to HK\$677.9 million in 2022. The change was mainly due to a significant decline in impairment loss of financial assets by HK\$321.2 million and the Group has also incurred less selling and distribution expenses as well as lower spending on directors' profit sharing and staff bonus and depreciation under administrative expenses in 2022 as compared to 2021.

Selling and distribution expenses decreased by HK\$64.3 million, or 34.6%, from HK\$185.8 million in 2021 to HK\$121.5 million in 2022. Freight and transportation expenses under selling and distribution expenses decreased by HK\$16.4 million, or 33.0%, from HK\$49.7 million in 2021 to HK\$33.3 million in 2022. It was mainly due to a lower sales volume and easing of logistic congestion with less spending on air freight during the year. In addition, provision of return mechanize, sales commission and marketing expenses together decreased by HK\$58.6 million, or 70.2%, from HK\$83.5 million in 2021 to HK\$24.9 million in 2022, and such decrease was in line with sales drop in the year.

Administrative expenses were HK\$293.4 million lower than last year, which decreased by 35.9% from HK\$816.7 million in 2021 to HK\$523.3 million in 2022. Staff cost included directors' remuneration under administrative expenses decreased by HK\$259.2 million, or 38.4%, from HK\$675.4 million in 2021 to HK\$416.2 million in 2022. It was mainly associated with a lower level of staff performance bonus and directors' profit sharing due to the profit decline for the year. Other administrative expenses decreased by HK\$34.2 million, or 24.2%, from HK\$141.3 million in 2021 to HK\$107.1 million in 2022 which was mainly due to decrease in depreciation since the Group has sold out the machinery for leasing in last year.

The impairment losses on financial assets decreased by HK\$321.2 million, or 99.8%, from HK\$321.7 million in 2021 to HK\$0.5 million in 2022. There was one-off impairment loss incurred for a customer in 2021 and there was no further material impairment loss incurred in 2022.

Finance costs increased by HK\$12.4 million, or 61.4%, from HK\$20.2 million in 2021 to HK\$32.6 million in 2022. The increase was mainly due to increase in interest rate and a higher utilization of bank borrowings to finance the business operation during the year.

Share of loss of a joint venture decreased by HK\$96.1 million, or 70.4%, from HK\$136.6 million in 2021 to share of loss of HK\$40.5 million in 2022. The change was due to the cessation of operation of the joint venture since July 2021 and the Group fully recognised its share of loss up to the carrying value of the joint venture investment of HK\$40.5 million.

Profit attributable to Owners of the Company

The Group recorded a profit attributable to owners of the Company of HK\$702.5 million in 2022 as compared with HK\$2,374.3 million in 2021. The decrease was mainly due to a reduction of gross profit which has been partially offset by a lower level of operating expenses in 2022.

Income tax expenses of HK\$141.3 million were recorded in 2022 which decreased by HK\$412.3 million, or 74.5%, from HK\$553.6 million in 2021. The change was mainly due to a decrease in profit of major operating subsidiaries of the Company during the year.

Earnings per share and Dividends

The profit attributable to owners of the Company in 2022 was HK\$702.5 million which resulted in basic earnings of HK\$1.81 per share and diluted earnings of HK\$1.81 per share. Profit attributable to owners of the Company in 2021 was HK\$2,374.3 million with basic earnings of HK\$6.21 per share and diluted earnings of HK\$6.14 per share. The Board does not propose any final dividend for the year ended 31 December 2022. However, the Board propose a special dividend of HK\$0.25 per share for the year ended 31 December 2022 and it is estimated to be HK\$96.9 million in total, to celebrate the Group's 25th anniversary.

Liquidity and Financial Resources

Shareholders' Funds

Total shareholders' funds decreased by HK\$238.6 million, or 7.7%, from HK\$3,087.4 million as at 31 December 2021 to HK\$2,848.8 million as at 31 December 2022.

Financial Position

Total non-current assets increased by HK\$464.0 million, or 172.1%, from HK\$269.6 million as at 31 December 2021 to HK\$733.6 million as at 31 December 2022. The change was mainly due to purchase of a property in Hong Kong for internal use together with capital expenditure for factories which offset the decrease in interest in a joint venture as at 31 December 2022.

Net book value of property, plant and equipment increased by HK\$502.2 million, or 533.1%, from HK\$94.2 million as at 31 December 2021 to HK\$596.4 million as at 31 December 2022. The Group has incurred capital expenditure for HK\$135.8 million to enhance production efficiency, automation and office improvements and also spent HK\$403.1 million for an acquisition of property and car parks in Hong Kong for internal use. The Group recognised its share of loss of a joint venture for HK\$40.5 million as at 31 December 2022. The right-of-use assets increased by HK\$7.6 million, or 6.7%, from HK\$114.2 million as at 31 December 2021 to HK\$121.8 million as at 31 December 2022. The change was mainly due to the depreciation of right-of-use assets associated with lease contracts on land and buildings. Deferred tax assets decreased by HK\$5.7 million, or 58.8%, from HK\$9.7 million as at 31 December 2021 to HK\$4.0 million as at 31 December 2022. It was mainly due to realisation of deferred tax assets charged to profit or loss during the year.

Other financial asset decreased by HK\$2.2 million from HK\$3.5 million as at 31 December 2021 to HK\$1.3 million as at 31 December 2022. It was mainly due to change in fair value of unlisted equity investment.

The Group has total current assets of HK\$5,421.8 million as at 31 December 2022 and HK\$6,654.8 million as at 31 December 2021. The Group's total current liabilities amounted to HK\$3,207.1 million as at 31 December 2022 and HK\$3,738.9 million as at 31 December 2021. The Group's current ratio, defined as total current assets over total current liabilities, was reduced from 1.8 as at 31 December 2021 to 1.7 as at 31 December 2022.

The Group's cash and bank balances decreased from HK\$3,765.1 million as at 31 December 2021 to HK\$2,207.3 million as at 31 December 2022. The change was mainly due to a total of HK\$934.3 million dividend paid and HK\$700.7 million of profits tax and provisional tax paid during the year. In addition, the Group has acquired a property in Hong Kong for a total capitalised value of HK\$403.1 million together with capital expenditure of HK\$135.8 million for the Group during the year. The Group has incurred additional borrowings which included import loans and the mortgage loan for the property in Hong Kong for a total of HK\$1,738.7 million as at 31 December 2022 as compared to HK\$702.3 million as at 31 December 2021. Due to the adoption of HKFRS 16, the Group has recognised current lease liabilities amounting to HK\$30.9 million and non-current lease liabilities amounting to HK\$97.2 million as at 31 December 2022. The Group's net cash to equity ratio (being cash and cash equivalents minus debts divided by total equity) decreased from 95.2% as at 31 December 2021 to 11.9% as at 31 December 2022. The change was mainly due to a decrease of cash and bank balances and an increase of borrowings as at 31 December 2022.

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\$46.5 million, or 3.6%, from HK\$1,307.1 million as at 31 December 2021 to HK\$1,260.6 million as at 31 December 2022. Trade receivables at amortised cost decreased by HK\$59.8 million, or 4.9%, from HK\$1,215.6 million as at 31 December 2021 to HK\$1,155.8 million as at 31 December 2022. Trade receivables at fair value through profit or loss in factoring arrangement increased by HK\$2.9 million, or 11.2%, from HK\$26.0 million as at 31 December 2021 to HK\$28.9 million as at 31 December 2022. Other receivables, deposits and prepayment under current assets increased by HK\$10.4 million, or 15.9%, from HK\$65.5 million as at 31 December 2021 to HK\$75.9 million as at 31 December 2022. It was mainly associated with deposit paid to a supplier of HK\$8.2 million as at 31 December 2022.

Trade and other payables decreased by HK\$892.6 million, or 41.9%, from HK\$2,130.4 million as at 31 December 2021 to HK\$1,237.8 million as at 31 December 2022. Trade payables decreased by HK\$637.3 million, or 39.8%, from HK\$1,602.7 million as at 31 December 2021 to HK\$965.4 million as at 31 December 2022. It was mainly associated with a decrease in purchase of materials which aligned with business slowdown in the second half of the year. Other payables decreased by HK\$255.3 million, or 48.4%, from HK\$527.7 million as at 31 December 2021 to HK\$272.4 million as at 31 December 2022. The change was mainly due to a decrease of provision of staff performance bonus and directors' profit sharing of HK\$254.7 million during the year.

Under HKFRS 15, the Group is required to report provision of sales return warranty under refund liabilities in the current liabilities section and the relevant costs of return is reported under the right of return assets in the current assets section. Right of return assets decreased by HK\$1.5 million, or 2.1%, from HK\$71.1 million as at 31 December 2021 to HK\$69.6 million as at 31 December 2022. Refund liabilities decreased by HK\$12.6 million, or 13.1%, from HK\$96.4 million as at 31 December 2021 to HK\$83.8 million as at 31 December 2022. The change was mainly due to a sales decline, which resulted in a decrease of sales return warranty provision under refund liabilities and the costs of return reported under the right of return assets as at 31 December 2022.

Contract liabilities has substantially decreased by HK\$133.1 million, or 63.5%, from HK\$209.6 million as at 31 December 2021 to HK\$76.5 million as at 31 December 2022. The change was mainly due to a significant decrease of customer prepayment to secure purchase of products as at 31 December 2022. Provision for product warranties decreased by HK\$21.7 million, or 35.5%, from HK\$61.1 million as at 31 December 2021 to HK\$39.4 million as at 31 December 2022 which was mainly due to a decrease in cost incurred to repair products. Current tax liabilities decreased from HK\$513.0 million as at 31 December 2021 to tax recoverable of HK\$52.4 million as at 31 December 2022. The change was mainly due to profits tax for 2021 and provisional tax being paid during the year and the profit for the year of 2022 significantly declined so that the Group has recorded less profit tax provision as at 31 December 2022.

Exposure to Fluctuation in Exchange Rates

As at 31 December 2022, 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 one forward exchange contract in 2021 and 2022.

Working Capital

Inventories of the Group as at 31 December 2022 were HK\$1,831.9 million which increased by HK\$320.4 million, or 21.2%, as compared with HK\$1,511.5 million as at 31 December 2021. Inventory turnover days increased from 40 days as at 31 December 2021 to 66 days as at 31 December 2022. The change was mainly associated with a slowdown of sales which induced a higher inventory turnover days.

Trade receivables as at 31 December 2022 were HK\$1,184.7 million, which decreased by HK\$56.9 million, or 4.6%, as compared with HK\$1,241.6 million as at 31 December 2021. Trade receivable turnover days increased from 31 days as at 31 December 2021 to 41 days as at 31 December 2022. The change of trade receivable turnover days was mainly due to slowdown of customer payment during the year.

Trade payables as at 31 December 2022 were HK\$965.4 million, which decreased by HK\$637.3 million, or 39.8%, as compared with HK\$1,602.7 million as at 31 December 2021. Trade payable turnover days increased from 47 days as at 31 December 2021 to 51 days as at 31 December 2022 which was mainly due to some of the vendors have offered longer payment terms during the year.

Charges on Assets

As at 31 December 2022, bank deposits of HK\$0.3 million were pledged to a bank to secure the corporate credit card granted to the Group.

As at 31 December 2022, the Group had pledged certain office premises with an aggregate carrying value of approximately HK\$369.8 million to a bank.

Capital Management

The capital structure of the Group consists of debts, which includes borrowings and lease liabilities and equity of the Group, comprising share capital, reserves and retained earnings disclosed in the consolidated statement of changes in equity. Management reviews the capital structure on a semi-annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of below 100% determined as the proportion of net debt to equity.

Capital Expenditure

The Group's additions to property, plant and equipment in 2022 amounted to HK\$538.9 million.

Capital Commitments and Contingent Liabilities

As at 31 December 2022, total capital commitments amounted to HK\$3.8 million, and there was no material contingent liability or off balance sheet obligation.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

There were no material acquisitions or disposals of subsidiaries, associates and joint ventures by the Group during the year.

Future Plans for Material Investments or Capital Assets

The Group has no plan for material investment or acquisition of capital assets as at 31 December 2022.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed herein, there are no important events that have occurred after the year ended 31 December 2022 and up to the date of this announcement.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2022, the Group had 2,714 employees (2021: 3,029 employees). Employees are remunerated on the basis of their individual performance and prevailing industry practice. Compensation policies and remuneration packages of the employees are reviewed at least once a year. In addition to basic salary, medical benefits, provident fund, performance related bonuses may also be awarded to employees.

The Company 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. On 17 June 2016, the Company adopted another share option scheme (“2016 Share Option Scheme”) as incentives or rewards to its directors, employees, consultants and other participants of the 2016 Share Option Scheme for their retention and contribution or potential contribution to the Group.

SIGNIFICANT ACQUISITION AND DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

On 31 May 2022, PC Partner Properties Limited (“PCP Properties”), an indirect wholly owned subsidiary of the Company, acquired an office situated at 28th Floor, NCB Innovation Centre (the “Building”), 888 Lai Chi Kok Road, Kowloon, Hong Kong from Good Sense Development Limited (the “Vendor”) as the Group’s headquarter at a consideration of HK\$353.9 million (after deduction of a special cash rebate paid by the Vendor). On 1 August 2022, PCP Properties further acquired 20 car parking spaces of the Building from the Vendor for the Group’s own use at a total consideration of HK\$30.0 million (after deduction of a special cash rebate paid by the Vendor).

Details of the above acquisitions were provided in the Company’s announcements dated 9 February 2022 and 30 June 2022 respectively.

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

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

CORPORATE GOVERNANCE

During the year ended 31 December 2022, the Company has complied with code provisions of the Corporate Governance Code (the “Code”) as set out in Part 2 of Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except for the deviation from code provisions C.2.1 and D.2.5 of the Code as described below.

Under code provision C.2.1 of the Code, the roles of chairman and chief executive officer should be separately held. During the year ended 31 December 2022, the roles of chairman and chief executive officer were performed by Mr. WONG Shik Ho Tony. Being one of the founders of the Group, Mr. WONG has been heavily involved in its daily business operation since its incorporation. He is responsible for strategic planning and corporate development with the support of the other Executive Directors. Starting from 1 January 2023, there are 10 Directors on the Board. Half of them are Non-Executive (including 4 Independent Non-Executive) Directors possessing different professional or management expertise, and it provides sufficient independent elements in the board composition. Given that all major decisions would be decided after thorough discussions by the Board and the Independent Non-Executive Directors have along played an active role in discussion, the Board considers that the current structure is conducive to a strong and balanced corporate management, which is in the best interests of shareholders of the Company.

Under code provision D.2.5 of the Code, the Company should have an internal audit function. During the year, the Company did not have an internal audit function but appointed an audit firm to undergo a regular review on its risk management and internal control systems. The audit firm reported directly to and held regular meetings with the Audit Committee. It submitted an assessment report with recommendations to the Audit Committee to enable the Committee to conduct an evaluation on the effectiveness of the Company’s risk management and internal control systems. The Board considers that engaging the professional firm to perform the above review on an annual basis can provide an independent unbiased opinion and enhance the risk management and internal control of the Group.

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 as set out in the Model Code during the year.

AUDIT COMMITTEE

The Company established the Audit Committee on 21 December 2011 with written terms of reference. The Audit Committee serves as a focal point for communication between the Board, its external and internal auditors (or professional firm which performs internal audit function for the Company) in respect of the Company’s financial reporting, internal controls, external and internal audits.

The Audit Committee comprises four Independent Non-Executive Directors, namely, Mr. LAI Kin Jerome (chairman), Mr. IP Shing Hing, Mr. CHEUNG Ying Sheung and Ms. CHAN Yim.

The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2022.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the preliminary announcement of the Group’s results for the year ended 31 December 2022 have been agreed by the Group’s auditor, BDO Limited, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the website of Hong Kong Exchanges and Clearing Limited (“HKEx”) www.hkex.com.hk and on the Company’s website at www.pcpartner.com. The 2022 Annual Report of the Company will be dispatched to the shareholders and will be available on the websites of HKEx and the Company in due course.

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

Hong Kong, 24 March 2023

As at the date of this announcement, the Executive Directors of the Company are Mr. WONG Shik Ho Tony, Mr. WONG Fong Pak, Mr. LEUNG Wah Kan, Mr. HO Nai Nap and Mr. MAN Wai Hung, the Non-Executive Director is Mrs. HO WONG Mary Mee-Tak (Mr. CHIU Wing Yui is Alternate Director to Mrs. HO WONG Mary Mee-Tak); and the Independent Non-Executive Directors are Mr. IP Shing Hing, Mr. LAI Kin Jerome, Mr. CHEUNG Ying Sheung and Ms. CHAN Yim.

* *For identification purposes only*