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**TK Group (Holdings) Limited**

**東江集團(控股)有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2283)**

## **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020**

### **RESULTS**

The board of directors (the “**Board**”) of TK Group (Holdings) Limited (the “**Company**”) is pleased to present the consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2020, together with the comparative figures for the corresponding period in 2019.

### **REVIEW OF FINANCIAL INFORMATION**

The independent auditor of the Company, PricewaterhouseCoopers, has reviewed the unaudited interim financial information for the six months ended 30 June 2020 in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

## FINANCIAL HIGHLIGHTS

### Six months ended 30 June

2020 2019

#### Results and financial performances

##### Results

Revenue (HK dollar '000)	<b>729,393</b>	1,004,945
Profit attributable to owners of the Company (HK dollar '000)	<b>41,357</b>	114,123
Basic earnings per share (HK cents)	<b>5.0</b>	13.7
Proposed interim dividend per share (HK cents)	<b>2.0</b>	5.0

Gross profit margin	<b>22.3%</b>	27.5%
Net profit margin	<b>5.7%</b>	11.4%
Return on equity ( <i>Note 1</i> )	<b>3.7%</b>	10.7%
Return on assets ( <i>Note 2</i> )	<b>1.8%</b>	4.6%
Inventory turnover days ( <i>Note 3</i> )	<b>137</b>	91
Trade receivable turnover days ( <i>Note 4</i> )	<b>64</b>	55
Trade payable turnover days ( <i>Note 5</i> )	<b>81</b>	74

**30 June** 31 December  
**2020** 2019

##### Financial position

Net current assets (HK dollar '000)	<b>640,682</b>	619,628
Current ratio ( <i>Note 6</i> )	<b>173.8%</b>	170.1%
Quick ratio ( <i>Note 7</i> )	<b>122.9%</b>	125.2%
Gearing ratio ( <i>Note 8</i> )	<b>27.5%</b>	20.3%
Net gearing ratio ( <i>Note 9</i> )	<b>0%</b>	0%

*Notes:*

- (1) Return on equity ratio is calculated by dividing profit after tax by total equity as at period end and multiplying the resulting value by 100%.
- (2) Return on assets ratio is calculated by dividing profit after tax by total assets as at period end and multiplying the resulting value by 100%.
- (3) Inventory turnover days is calculated based on the average balance of inventories divided by the cost of sales for the relevant period and multiplied by 180 days.
- (4) Trade receivable turnover days is calculated based on the average trade receivables divided by the revenue for the relevant period and multiplied by 180 days.
- (5) Trade payable turnover days is calculated based on the average trade payables divided by the cost of sales for the relevant period and multiplied by 180 days.
- (6) Current ratio is calculated by dividing current assets by current liabilities and multiplying the resulting value by 100%.
- (7) Quick ratio is calculated by dividing current assets less inventories by current liabilities and multiplying the resulting value by 100%.
- (8) Gearing ratio is calculated by dividing total borrowings by total equity and multiplying the resulting value by 100%.
- (9) Net gearing ratio is calculated by dividing net borrowings (total borrowings net-off cash and pledged bank deposits) by total equity and multiplying the resulting value by 100%. Net gearing ratio was zero as net cash of the Company as at 30 June 2020 and 31 December 2019 was HK\$502,589,000 and HK\$493,150,000 respectively.

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

(All amounts in HK dollar thousands unless otherwise stated)

		As at	
	Note	30 June 2020 (Unaudited)	31 December 2019 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	552,951	592,278
Intangible assets	9	22,972	13,831
Investment in an associate	10	14,855	15,526
Prepayments for property, plant and equipment		14,948	22,812
Financial assets at fair value through profit or loss	8	33,621	33,621
Right-of-use assets	9, 18	109,007	142,530
		<u>748,354</u>	<u>820,598</u>
<b>Current assets</b>			
Inventories	11	441,959	397,041
Trade and other receivables	12	253,312	371,794
Deposits for bank borrowings	17(a)	134,075	134,594
Restricted cash		880	17,638
Cash and cash equivalents		678,452	582,878
		<u>1,508,678</u>	<u>1,503,945</u>
<b>Total assets</b>		<u>2,257,032</u>	<u>2,324,543</u>

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

(All amounts in HK dollar thousands unless otherwise stated)

		As at	
	<i>Note</i>	<b>30 June 2020 (Unaudited)</b>	31 December 2019 (Audited)
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	13	83,326	83,326
Share premium	13	251,293	251,293
Shares held for employee share scheme	14	(10,416)	(5,517)
Other reserves		(2,327)	21,188
Retained earnings		<u>807,539</u>	<u>841,175</u>
<b>Total equity</b>		<b><u>1,129,415</u></b>	<b><u>1,191,465</u></b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Bank borrowings	17	122,492	75,911
Lease liabilities	18	55,342	92,671
Deferred income on government grants	19	40,910	36,442
Deferred income tax liabilities	20	<u>40,877</u>	<u>43,737</u>
		<b><u>259,621</u></b>	<b><u>248,761</u></b>
<b>Current liabilities</b>			
Trade and other payables	16	307,918	411,751
Contract liabilities		284,717	226,663
Income tax liabilities		21,643	21,299
Bank borrowings	17	188,326	166,049
Lease liabilities	18	<u>65,392</u>	<u>58,555</u>
		<b><u>867,996</u></b>	<b><u>884,317</u></b>
<b>Total liabilities</b>		<b><u>1,127,617</u></b>	<b><u>1,133,078</u></b>
<b>Total equity and liabilities</b>		<b><u>2,257,032</u></b>	<b><u>2,324,543</u></b>

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*(All amounts in HK dollar thousands unless otherwise stated)*

	<i>Note</i>	<b>Six months ended 30 June</b>	
		<b>2020</b>	2019
		<b>(Unaudited)</b>	(Unaudited)
<b>Revenue</b>	7	<b>729,393</b>	1,004,945
Cost of sales	22	<b>(566,914)</b>	(728,575)
<b>Gross profit</b>		<b>162,479</b>	276,370
Other income	21	<b>19,704</b>	22,737
Other gains/(losses) – net	21	<b>7,052</b>	(8,639)
Selling expenses	22	<b>(32,168)</b>	(35,798)
Administrative expenses	22	<b>(110,416)</b>	(117,640)
<b>Operating profit</b>		<b>46,651</b>	137,030
Interest income	23	<b>6,792</b>	10,814
Interest expenses	23	<b>(5,800)</b>	(10,908)
Finance income/(cost) – net		<b>992</b>	(94)
Share of net loss of an associate accounted for using the equity method	10	<b>(671)</b>	–
<b>Profit before income tax</b>		<b>46,972</b>	136,936
Income tax expense	24	<b>(5,615)</b>	(22,813)
<b>Profit for the period attributable to owners of the Company</b>		<b>41,357</b>	114,123
<b>Other comprehensive income</b>			
<i>Item that may be reclassified to profit and loss:</i>			
Currency translation differences		<b>(24,521)</b>	(2,230)
<b>Total comprehensive income for the period</b>		<b>16,836</b>	111,893
<b>Earnings per share attributable to equity holders of the Company</b> (expressed in HK cents per share)			
– Basic and diluted	25	<b>5.0</b>	13.7

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*(All amounts in HK dollar thousands unless otherwise stated)*

	Note	Share capital	Share premium	Shares held for employee share scheme	Other reserves			Retained earnings	Total
					Statutory reserves	Share-based payments	Currency translation reserve		
<b>For the six months ended</b>									
<b>30 June 2020 (unaudited)</b>									
Balance at 1 January 2020 (audited)		83,326	251,293	(5,517)	97,589	1,239	(77,640)	841,175	1,191,465
<b>Comprehensive income</b>									
Profit for the period		-	-	-	-	-	-	41,357	41,357
Currency translation differences		-	-	-	-	-	(24,521)	-	(24,521)
<b>Total comprehensive income</b>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,521)</u>	<u>41,357</u>	<u>16,836</u>
<b>Contributions by and distributions to owners of the Company recognised directly in equity</b>									
Acquisition of shares under employee share scheme	14	-	-	(4,899)	-	-	-	-	(4,899)
Employee share schemes – value of employee services	15	-	-	-	-	1,006	-	-	1,006
Dividends	26	-	-	-	-	-	-	(74,993)	(74,993)
<b>Total contributions by and distributions to owners of the Company for the period</b>		<u>-</u>	<u>-</u>	<u>(4,899)</u>	<u>-</u>	<u>1,006</u>	<u>-</u>	<u>(74,993)</u>	<u>(78,886)</u>
<b>Balance at 30 June 2020 (unaudited)</b>		<u>83,326</u>	<u>251,293</u>	<u>(10,416)</u>	<u>97,589</u>	<u>2,245</u>	<u>(102,161)</u>	<u>807,539</u>	<u>1,129,415</u>

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*(All amounts in HK dollar thousands unless otherwise stated)*

	Share capital	Share premium	Shares held for employee share scheme	Other reserves			Retained earnings	Total
				Statutory reserves	Share-based payments	Currency translation reserve		
<b>For the six months ended 30 June 2019</b>								
<b>(unaudited)</b>								
Balance at 1 January 2019 (audited)	83,326	251,293	-	79,665	-	(54,441)	715,615	1,075,458
<b>Comprehensive income</b>								
Profit for the period	-	-	-	-	-	-	114,123	114,123
Currency translation differences	-	-	-	-	-	(2,230)	-	(2,230)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,230)</b>	<b>114,123</b>	<b>111,893</b>
<b>Contributions by and distributions to owners of the Company recognised directly in equity</b>								
Dividends	-	-	-	-	-	-	(116,656)	(116,656)
<b>Total contributions by and distributions to owners of the Company for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(116,656)</b>	<b>(116,656)</b>
<b>Balance at 30 June 2019 (unaudited)</b>	<b>83,326</b>	<b>251,293</b>	<b>-</b>	<b>79,665</b>	<b>-</b>	<b>(56,671)</b>	<b>713,082</b>	<b>1,070,695</b>



## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in HK dollar thousands unless otherwise stated)

	<i>Note</i>	<b>Six months ended 30 June</b>	
		<b>2020</b>	2019
		<b>(Unaudited)</b>	(Unaudited)
<b>Cash flows from operating activities</b>			
Cash generated from operations		<b>184,189</b>	112,426
Interest received		<b>2,008</b>	7,349
Income tax paid		<b>(11,519)</b>	(40,467)
		<b>174,678</b>	79,308
<b>Net cash generated from operating activities</b>			
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets		<b>(44,177)</b>	(134,155)
Proceeds from disposal of property, plant and equipment		<b>921</b>	2,408
Additions of financial assets at fair value through profit or loss		<b>(541,128)</b>	(411,114)
Proceeds from financial assets at fair value through profit or loss		<b>546,180</b>	414,579
		<b>(38,204)</b>	(128,282)
<b>Net cash used in investing activities</b>			
<b>Cash flows from financing activities</b>			
Proceeds from bank borrowings	<i>17</i>	<b>101,270</b>	353,229
Repayments of bank borrowings	<i>17</i>	<b>(31,523)</b>	(136,207)
Decrease/(increase) in deposits for bank borrowings		<b>519</b>	(30,613)
Interest paid	<i>23</i>	<b>(5,800)</b>	(10,908)
Principal elements of lease payments		<b>(23,505)</b>	(28,751)
Acquisition of shares for employee share scheme	<i>14</i>	<b>(4,899)</b>	–
Dividends paid	<i>26</i>	<b>(74,993)</b>	(116,656)
		<b>(38,931)</b>	30,094
<b>Net cash (used in)/generated from financing activities</b>			
<b>Net increase/(decrease) in cash and cash equivalents</b>			
		<b>97,543</b>	(18,880)
Cash and cash equivalents at beginning of the period		<b>582,878</b>	753,811
Exchange losses on cash and cash equivalents		<b>(1,969)</b>	(3,159)
		<b>678,452</b>	731,772
<b>Cash and cash equivalents at end of the period</b>			
Analysis of balances of cash and cash equivalents:			
Cash and cash on hand		<b>679,332</b>	762,602
Restricted cash		<b>(880)</b>	(30,830)
		<b>678,452</b>	731,772

## NOTES TO THE INTERIM FINANCIAL INFORMATION

*(All amounts in HK dollar thousands unless otherwise stated)*

### 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 28 March 2013 as an exempted company with limited liability. The address of the Company's registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company is an investment holding company and its subsidiaries (collectively the "**Group**") are principally engaged in the manufacturing, sales, subcontracting, fabrication and modification of molds and plastic components in the People's Republic of China (the "**PRC**"). As at 30 June 2020, the ultimate shareholders of the Group are Mr. Li Pui Leung, Mr. Yung Kin Cheung Michael and Mr. Lee Leung Yiu (the "**Ultimate Shareholders**"), each holding an effective equity interest of 28.86%, 17.95% and 17.31% in the Company, respectively.

On 20 December 2013, the Company completed public offering and shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

This interim financial information ("**Interim Financial Information**") is presented in Hong Kong dollar ("**HK\$**"), unless otherwise stated.

This Interim Financial Information was approved for issue on 21 August 2020 and has not been audited.

### 2. BASIS OF PREPARATION

This Interim Financial Information for the six months ended 30 June 2020 (the "**Period**") has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants. This Interim Financial Information should be read in conjunction with the annual financial statements for the year ended 31 December 2019 ("**2019 Financial Statements**"), which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**").

### 3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2019, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of new or amendments to HKFRSs effective for the financial year beginning 1 January 2020.

#### 3.1 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

- (a) Definition of Material – amendments to HKAS 1 and HKAS 8
- (b) Definition of a Business – amendments to HKFRS 3
- (c) Revised Conceptual Framework for Financial Reporting
- (d) COVID-19-Related Rent Concessions – amendment to HKFRS 16
- (e) Interest Rate Benchmark Reform – amendments to HKFRS 9, HKAS 39 and HKFRS 7

#### 3.2 Impact of standards issued but not yet applied by the Group

		<b>Effective for annual periods beginning on or after</b>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The effective date has now been deferred
HKFRS 17	Insurance Contracts	1 January 2021

The Group is in the process of making an assessment of the impact of these new and revised HKFRS upon initial application. So far the Group has identified no aspects of the new and revised standards and interpretations that are expected to have significant financial impact on the Group's performance and position.

#### 3.3 Changes in accounting policies

HKFRS 16 (Amendment), "COVID-19-related rent concessions" (effective for annual periods beginning on or after 1 June 2020). The amendment provides lessees with exemption from assessing whether COVID-19-related rent concession is a lease modification and requires lessees that apply the exemption to account for COVID-19-related rent concession as if they were not lease modifications. In applying HKFRS 16 (Amendment) for the first time, the Group has applied the practical expedient and elected not to assess whether COVID-19-related rent concession is a lease modification. All of the COVID-19-related rent concessions amounting to HK\$5,327,000 has been credited to the income statement within "other gains".

#### **4. ESTIMATES**

The preparation of the Interim Financial Information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this Interim Financial Information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.

#### **5. FINANCIAL RISK MANAGEMENT**

##### **5.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

This Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the 2019 Financial Statements.

There have been no changes in the risk management function since 31 December 2019 or in any risk management policies since 31 December 2019.

##### **5.2 Liquidity risk**

Compared to 31 December 2019, there was no material change in the contractual undiscounted cash outflows for financial liabilities. The Group exercises prudent liquidity risk management by maintaining sufficient cash and bank balances. The Group's liquidity risk is further mitigated through the availability of financing through its own cash resources and the availability of banking facilities to meet its financial commitments. In the opinion of the directors, the Group does not have any significant liquidity risk.

##### **5.3 Fair value estimation**

The table below analyses financial instruments carried at fair value, by the levels of inputs to valuation techniques. The inputs to valuation techniques are categorised into three levels within a fair value hierarchy, as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Group's financial assets at fair value through profit or loss are carried at fair value based on level 3 valuation method.

Other than the financial assets at fair value through profit or loss, the carrying amounts of the Group's other financial assets (including cash and cash equivalents, deposits for bank borrowings, trade and other receivables), trade and other payables and bank borrowings approximate their fair values.

## **6. SEASONALITY**

The Group's sales volume has historically been affected by seasonality. As the Group's products are used by the Group's customers in their respective manufacturing processes, the demand for the Group's products fluctuates in accordance with fluctuations in the demand for their products. A significant portion of the Group's downstream industries has generally been in higher demand in the second half of each calendar year due to the seasonal purchase patterns of consumers such as Thanksgiving Day and Christmas holidays. As a result, it is expected that the revenue in the second half of the year will be higher than that of the first half of the year. In the financial year ended 31 December 2019, 43% of revenue accumulated in the first half of the year, with 57% accumulating in the second half of the year.

Under the outbreak of COVID-19 in early 2020, domestic consumption and production have been affected in the short run. Since the end of February 2020, the development of the COVID-19 outbreak has been increasing impacts. The impact was mainly reflected in the orders being delayed in the first half of the year due to the delayed delivery.

## **7. SEGMENT INFORMATION**

The chief operating decision-maker has been identified as the executive directors of the Group. The executive directors review the Group's internal reporting in order to assess performance and allocate resources and have determined the operating segments based on the internal reports that are used to make strategic decisions. During the Period, the Group has 21 operating segments, out of which 11 operating segments relating to the mold business are aggregated into 'mold fabrication' operating segment as they have similar economic characteristics and satisfy all conditions and meet all the aggregation criteria in HKFRS 8; the remaining 10 operating segments relating to the plastic business are aggregated into 'plastic components manufacturing' operating segment as they have similar economic characteristics and satisfy all conditions and meet all the aggregation criteria in HKFRS 8. Accordingly, the executive directors consider the nature of the Group's business and determine that the Group has two reportable segments as follows: (i) mold fabrication and (ii) plastic components manufacturing.

The executive directors assess the performance of the operating segments based on their revenue and gross profit and do not assess the assets and liabilities of the operating segments.

Sales between segments are carried out on terms equivalent to those that prevail in arm's length transactions.

Segment information for consolidated statement of comprehensive income

	Six months ended 30 June					
	Mold fabrication		Plastic components manufacturing		Total	
	2020	2019	2020	2019	2020	2019
<b>Revenue</b>						
Segment revenue	<b>296,979</b>	364,845	<b>457,821</b>	675,035	<b>754,800</b>	1,039,880
Inter-segment revenue elimination	<b>(25,407)</b>	(34,935)	–	–	<b>(25,407)</b>	(34,935)
Revenue from external customers	<b>271,572</b>	329,910	<b>457,821</b>	675,035	<b>729,393</b>	1,004,945
Timing of revenue recognition						
At a point in time	<b>271,572</b>	329,910	<b>457,821</b>	675,035	<b>729,393</b>	1,004,945
Segment results	<b>75,763</b>	109,946	<b>86,716</b>	166,424	<b>162,479</b>	276,370
Other income and other gains/(losses) – net					<b>26,756</b>	14,098
Selling expenses					<b>(32,168)</b>	(35,798)
Administration expenses					<b>(110,416)</b>	(117,640)
Finance income/(cost) – net					<b>992</b>	(94)
Share of net loss of an associate accounted for using the equity method					<b>(671)</b>	–
<b>Profit before income tax</b>					<b>46,972</b>	136,936

Non-current assets, other than financial instruments and deferred income tax assets, by country:

	30 June 2020	31 December 2019
PRC	<b>689,261</b>	760,163
Germany	<b>10,617</b>	11,288
	<b>699,878</b>	771,451

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>30 June 2020</b>	31 December 2019
Unlisted equity investments	<b><u>33,621</u></b>	<u>33,621</u>

The following table presents the changes in level 3 instruments for the half-year ended 30 June 2020:

	<b>Unlisted equity investments</b>
Balance as at 30 June 2020 and 31 December 2019	<u>33,621</u>

As at 30 June 2020, the management of the Group has assessed the fair value of financial assets at fair value through profit or loss and held the view of no significant changes between the carrying amount and fair value.

## 9. INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

	<b>Intangible assets</b>	<b>Property, plant and equipment</b>	<b>Right-of-use assets</b>
<b>Net book amount as at 1 January 2020</b>	<b>13,831</b>	<b>592,278</b>	<b>142,530</b>
Additions	12,421	39,620	1,635
Disposals	(17)	(441)	–
Currency translation differences	(228)	(10,493)	(2,606)
Amortisation/depreciation	<u>(3,035)</u>	<u>(68,013)</u>	<u>(32,552)</u>
<b>Net book amount as at 30 June 2020</b>	<b><u>22,972</u></b>	<b><u>552,951</u></b>	<b><u>109,007</u></b>
<b>Net book amount as at 1 January 2019</b>	11,693	516,190	212,147
Additions	1,735	124,160	45
Disposals	–	(212)	–
Currency translation differences	18	387	433
Amortisation/depreciation	<u>(2,246)</u>	<u>(61,305)</u>	<u>(34,088)</u>
<b>Net book amount as at 30 June 2019</b>	<b><u>11,200</u></b>	<b><u>579,220</u></b>	<b><u>178,537</u></b>

## 10. INVESTMENT IN AN ASSOCIATE

Name of entity	Place of business/ country of incorporation	% of ownership interest 30 June 2020 %	Nature of relationship	Measurement method	Carrying amount 30 June 2020 HK\$'000
Motlles i Matrius Fisas Navarro, S.L.	Spain	43.01	Associate*	Equity method	14,855

\* Motlles i Matrius Fisas Navarro, S.L. is a private company incorporated in Spain. Its principal activities are the provision of mold modification services in Europe.

The carrying amount of equity-accounted investment has changed as follows in the six months ended 30 June 2020:

	Six months ended 30 June	
	2020	2019
Beginning of the period	15,526	–
Loss for the period	(671)	–
At the end of the period	<u>14,855</u>	<u>–</u>

## 11. INVENTORIES

	30 June 2020	31 December 2019
Raw materials	40,502	38,352
Work in progress	364,337	302,565
Finished goods	<u>51,658</u>	<u>64,312</u>
	456,497	405,229
Less: allowance for impairment	<u>(14,538)</u>	<u>(8,188)</u>
	<u>441,959</u>	<u>397,041</u>



## 12. TRADE AND OTHER RECEIVABLES

	<b>30 June 2020</b>	31 December 2019
Trade receivables	<b>201,950</b>	315,867
Less: allowance for impairment	<b>(2,702)</b>	(4,361)
	<hr/>	<hr/>
Trade receivables, net	<b>199,248</b>	311,506
Prepayments and deposits	<b>36,283</b>	31,270
Export tax refund receivables	<b>11,842</b>	21,051
Advances to employees	<b>3,399</b>	4,037
Value-added tax recoverable	<b>1,372</b>	1,921
Others	<b>1,168</b>	2,009
	<hr/>	<hr/>
	<b>253,312</b>	371,794
	<hr/>	<hr/>

The credit period granted to customers is generally between 30 and 90 days. The ageing analysis of the trade receivables from the date of sales is as follows:

	<b>30 June 2020</b>	31 December 2019
Less than 3 months	<b>188,163</b>	294,175
More than 3 months but not exceeding 1 year	<b>13,787</b>	21,692
	<hr/>	<hr/>
	<b>201,950</b>	315,867
	<hr/>	<hr/>

The Group's sales are made to various customers. While there is concentration of credit risk within a few major customers, these customers are reputable with good track record.

### 13. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares <i>(thousands)</i>	Share capital <i>(HK\$'000)</i>	Share Premium <i>(HK\$'000)</i>	Total <i>(HK\$'000)</i>
As at 1 January 2020 and 30 June 2020 and 1 January 2019 and 30 June 2019	833,260	83,326	251,293	334,619

### 14. SHARES HELD FOR EMPLOYEE SHARE SCHEME

	30 June 2020 shares <i>(thousands)</i>	30 June 2020 Total consideration <i>HK\$'000</i>
Shares held for employee share scheme	2,932	10,416

The Group through its trustee, Bank of Communications Trustee Limited (the “Trustee”), acquired a total of 1,778,000 of the Company’s shares for the half year ended 30 June 2020 (30 June 2019: Nil). The total consideration paid to acquisition of these shares was HK\$4,899,000 (30 June 2019: Nil), which has been presented as a deduction from equity attributable to owners of the Company. These shares are held by the Trustee for the purpose of granting share award under the Company’s employee share award scheme.

Details	Number of shares <i>(thousands)</i>	Total consideration <i>HK\$'000</i>
Opening balance as at 1 January 2020	1,154	5,517
Acquisition of shares by the Trustee	1,778	4,899
Balance as at 30 June 2020	2,932	10,416

## 15. EMPLOYEE SHARE SCHEME

The share-based compensation expense recognised during the Period is as follows:

	<b>30 June 2020</b>	30 June 2019
Share award scheme	<u><b>1,006</b></u>	<u>–</u>

The Company adopted a share award scheme on 25 February 2019 (the “**Share Award Scheme**”) as means to recognise the contribution by the Group’s personnel and to provide them with incentives with aims to retain them for the continual operation and development of the Group. Pursuant to the Share Award Scheme, the vesting period of the awarded shares is 5 years from their respective grant dates.

The Group planned to use shares held for employee share scheme to award the grantees of the Share Award Scheme. The awarded shares are held by the Trustee. This Trust is consolidated.

## 16. TRADE AND OTHER PAYABLES

	<b>30 June 2020</b>	31 December 2019
Trade payables (a)	<b>234,075</b>	273,906
Wages and staff welfare benefits payable	<b>56,239</b>	108,981
Accrual for expenses and other payables	<b>12,778</b>	22,449
Other taxes payable	<b>4,826</b>	6,415
	<u><b>307,918</b></u>	<u>411,751</u>

(a) The ageing analysis of the trade payables based on the goods/services receipt date is as follows:

	<b>30 June 2020</b>	31 December 2019
Within 90 days	<b>188,862</b>	206,165
91 – 120 days	<b>33,913</b>	42,799
121 – 365 days	<b>7,881</b>	20,801
Over 365 days	<b>3,419</b>	4,141
	<u><b>234,075</b></u>	<u>273,906</u>

## 17. BORROWINGS

	<b>30 June 2020</b>	31 December 2019
<b>Non-current</b>		
Bank borrowings		
– unsecured	<b>204,177</b>	134,950
Less: current portion of non-current borrowings	<b>(81,685)</b>	(59,039)
	<b><u>122,492</u></b>	<u>75,911</u>
<b>Current</b>		
Short-term bank borrowings – secured (a)	<b>106,641</b>	107,010
Current portion of non-current borrowings	<b>81,685</b>	59,039
	<b><u>188,326</u></b>	<u>166,049</u>
Total borrowings	<b><u>310,818</u></b>	<u>241,960</u>

Movements in borrowings are as follows:

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
Opening balance as at 1 January	<b>241,960</b>	342,232
Proceeds from borrowings	<b>101,270</b>	353,229
Repayments of borrowings	<b>(31,523)</b>	(133,837)
Currency translation differences	<b>(889)</b>	(2,370)
Closing balance as at 30 June	<b><u>310,818</u></b>	<u>559,254</u>

(a) As at 30 June 2020, bank borrowings amounting to HK\$106,641,000 (31 December 2019: HK\$107,010,000) were secured over the following:

	<b>30 June 2020</b>	31 December 2019
Bank deposits	<b><u>134,075</u></b>	<u>134,594</u>

(b) The carrying amounts of the borrowings are denominated in the following currencies:

	<b>30 June 2020</b>	31 December 2019
HK\$	<b>109,472</b>	134,950
EUR	<b>106,641</b>	107,010
USD	<b>94,705</b>	–
	<b><u>310,818</u></b>	<b><u>241,960</u></b>

## 18. LEASES

(a) Amounts recognised in the balance sheet

	<b>30 June 2020</b>	31 December 2019
<b>Right-of-use assets</b>		
– Properties	<b><u>109,007</u></b>	<b><u>142,530</u></b>
<b>Lease liabilities</b>		
– Non-current	<b>55,342</b>	92,671
– Current	<b><u>65,392</u></b>	<b><u>58,555</u></b>
	<b><u>120,734</u></b>	<b><u>151,226</u></b>

Additions to the right-of-use assets during the Period are HK\$1,635,000.

(b) Amounts recognised in the statement of comprehensive income

	<b>Six months ended 30 June 2020</b>	2019
Depreciation of right-of-use assets	<b>32,552</b>	34,088
Interest expenses	<b><u>3,295</u></b>	<b><u>4,866</u></b>
	<b><u>35,847</u></b>	<b><u>38,954</u></b>

## 19. DEFERRED INCOME ON GOVERNMENT GRANTS

The amount represented various subsidies granted by and received from local government authorities in the PRC. The movements in deferred income on government grants are as follows:

	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
Opening balance as at 1 January	<b>36,442</b>	23,793
Receipt of grants	<b>9,806</b>	12,922
Recognised in the profit or loss	<b>(4,631)</b>	(2,914)
Currency translation differences	<b>(707)</b>	(64)
	<hr/>	<hr/>
Closing balance as at 30 June	<b>40,910</b>	33,737
	<hr/>	<hr/>

## 20. DEFERRED INCOME TAX ASSETS AND LIABILITIES

The movements in deferred income tax assets and liabilities before offsetting are as follows:

	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
<b>Deferred income tax assets</b>		
Opening balance as at 1 January	<b>16,790</b>	5,338
Recognised in the profit or loss	<b>3,335</b>	1,308
Currency translation differences	<b>(358)</b>	(31)
	<hr/>	<hr/>
Closing balance as at 30 June	<b>19,767</b>	6,615
	<hr/>	<hr/>
	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
<b>Deferred income tax liabilities</b>		
Opening balance as at 1 January	<b>60,527</b>	27,266
Recognised in the profit or loss	<b>928</b>	11,001
Currency translation differences	<b>(811)</b>	(390)
	<hr/>	<hr/>
Closing balance as at 30 June	<b>60,644</b>	37,877
	<hr/>	<hr/>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax relates to the same taxation authority and are in the same entity within the Group.

As at 30 June 2020, deferred income tax assets and deferred income tax liabilities were offset to the extent of HK\$19,767,000 (31 December 2019: HK\$16,790,000).

## 21. OTHER INCOME AND OTHER GAINS/(LOSSES) – NET

	Six months ended 30 June	
	2020	2019
<b>Other income</b>		
Government subsidies	13,016	14,841
Sales of scrap and surplus materials	5,247	7,544
Others	1,441	352
	<u>19,704</u>	<u>22,737</u>
<b>Other gains/(losses) – net</b>		
Rent concessions (a)	5,327	–
Net foreign exchange gains/(losses)	1,262	(10,835)
Gains on disposal of property, plant and equipment	463	2,196
	<u>7,052</u>	<u>(8,639)</u>

- (a) Certain lessors offered rent concessions to the Group, without changing the terms of the lease contracts, due to the outbreak of COVID-19. The rent concessions were accounted for as gain for the period ended 30 June 2020 with a corresponding reduction in the lease liabilities.

## 22. EXPENSES BY NATURE

	Six months ended 30 June	
	2020	2019
Changes in inventories of finished goods and work in progress	(49,118)	(30,663)
Raw materials and consumables used	267,979	370,398
Employee benefit expenses	233,565	282,064
Subcontracting expenses	71,862	77,875
Depreciation of property, plant and equipment and amortization of intangible assets (Note 9)	71,048	63,551
Depreciation of right-of-use assets (Note 9)	32,552	34,088
Transportation and travelling expenses	23,564	21,655
Water and electricity expenditures	19,979	23,024
Allowance for impairment of inventories	6,350	1,111
Other taxes and levies	5,623	5,913
Maintenance expenses	3,858	4,984
Security and estate management expenses	3,560	3,093
Advisory and legal service expenses	3,511	3,308
Auditors' remuneration	1,821	2,042
Commission expenses	1,894	6,651
Donations	1,731	1,101
Utilities and postage fees	1,662	2,051
Operating lease payments	1,148	360
Advertising and promotion fees	927	3,271
Customs declaration charge	763	1,124
Bank charges and handling fees	702	756
Reversal of allowance for impairment of receivables	(1,501)	(2,137)
Other expenses	6,018	6,393
	<u>709,498</u>	<u>882,013</u>

## 23. FINANCE INCOME/(COST) – NET

	Six months ended 30 June	
	2020	2019
Interest income:		
– Interest income on bank deposits	1,740	7,349
– Interest income from financial assets at fair value through profit or loss	5,052	3,465
	<u>6,792</u>	<u>10,814</u>
Interest expenses		
– Bank borrowings	(2,505)	(6,042)
– Lease liabilities	(3,295)	(4,866)
	<u>(5,800)</u>	<u>(10,908)</u>
Finance income/(cost) – net	<u>992</u>	<u>(94)</u>

## 24. INCOME TAX EXPENSE

Under the current Hong Kong Inland Revenue Ordinance, from the year of assessment 2018/2019 onwards, the subsidiaries in Hong Kong are subject to profits tax at the rate of 8.25% on assessable profits up to HK\$2,000,000, and 16.5% on any part of assessable profits over HK\$2,000,000. The payments of dividends by these companies to their shareholders are not subject to any Hong Kong withholding tax.

Taxes on overseas profits have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The PRC corporate income tax (“CIT”) was calculated based on the assessable profits of the Group’s subsidiaries located in the PRC for the Period at the rate of 15% and 25% applicable to the respective companies.

According to the CIT Law, starting from 1 January 2008, a withholding income tax of 10% will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of the profits earned after 1 January 2008. A lower 5% withholding income tax rate is applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong and fulfill certain requirements under the tax treaty arrangements between the PRC and Hong Kong.

	Six months ended 30 June	
	2020	2019
Current income tax		
– Hong Kong profit tax	3,974	8,952
– PRC corporate income tax	3,274	4,125
– Income tax under-provided in previous years	774	43
Deferred income tax	<u>(2,407)</u>	<u>9,693</u>
	<u>5,615</u>	<u>22,813</u>



## 25. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the Period by the weighted average number of ordinary shares in issue for the Period, excluding shares held for employee share scheme (Note 14).

	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
Profit attributable to equity holders of the Company (HK\$'000)	<b>41,357</b>	114,123
Weighted average number of ordinary shares issued (thousands)	<b>831,227</b>	833,260
Basic earnings per share (HK cents)	<b>5.0</b>	13.7

As at 30 June 2020, the diluted earnings per share approximates basic earnings per share (30 June 2019: same).

## 26. DIVIDENDS

On 21 August 2020, the board of directors resolved to declare an interim dividend of HK2.0 cents per share (2019 interim: HK5.0 cents per share). This interim dividend, amounting to approximately HK\$16,665,000 (2019 interim: HK\$41,663,000), has not been recognised as a liability in this Interim Financial Information.

Dividends in respect of the year ended 31 December 2019 of HK\$0.09 per ordinary share, amounting to a total of approximately HK\$74,993,000, were paid on 24 June 2020.

## 27. COMMITMENTS

### (a) Capital commitments

The Group has the following capital expenditure committed but not yet incurred:

	<b>30 June 2020</b>	31 December 2019
In respect of the acquisitions of plant and equipment, contracted but not provided for	<u>32,136</u>	<u>52,312</u>

### (b) Operating commitments

The Group leases premises under non-cancellable operating lease agreements. The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<b>30 June 2020</b>	31 December 2019
Not later than one year		
– to related companies	155	314
– to third parties	<u>3,536</u>	<u>–</u>
	<u>3,691</u>	<u>314</u>

## 28. RELATED-PARTY TRANSACTIONS

The following is a summary of significant related party transactions entered into the ordinary course of business between the Group and its related parties.

Transactions with related parties during the Period:

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
Additions of right-of-use assets	<u>1,635</u>	<u>45</u>
Interest expenses on lease liabilities	2,716	4,113
Repayments of lease liabilities	21,877	26,494
Operating lease expenses paid	151	104
Rent concessions	<u>4,830</u>	<u>–</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

Looking back in the first half of 2020, the COVID-19 outbreak has spread across the world. Lockdowns and various other preventive measures were gradually implemented to contain the epidemic in different regions, and affected the production of the Group, as well as the overall global consumption and economy. The Group's consumer brand customers requested to delay the order delivery under such circumstances. For the first half of 2020, revenue of the Group amounted to HK\$729.4 million (first half of 2019: HK\$1,004.9 million), representing a decrease of 27.4% compared to the same period last year. In terms of the downstream industries, the medical and health care segment maintained a slight increase, while the mobile phones and wearable devices segment, the commercial telecommunications equipment segment and the smart home segment were on a downward trend.

#### *Revenue Analyzed by Downstream Industries*

Industry	Six months ended 30 June					
	2020		2019		Change	
	HK\$ million	%	HK\$ million	%	HK\$ million	%
Mobile phones and wearable devices	212.9	29.2	241.2	24.0	-28.3	-11.7
Automobiles	162.8	22.3	205.3	20.4	-42.5	-20.7
Medical and health care	140.8	19.3	136.3	13.6	4.5	3.3
Smart home	71.7	9.8	106.4	10.6	-34.7	-32.6
Commercial telecommunications equipment	50.9	7.0	205.0	20.4	-154.1	-75.2
Digital devices	18.8	2.6	19.5	1.9	-0.7	-3.6
Household electrical appliances	17.8	2.4	47.9	4.8	-30.1	-62.8
Others	53.7	7.4	43.3	4.3	10.4	24.0
	<u>729.4</u>	<u>100.0</u>	<u>1,004.9</u>	<u>100.0</u>	<u>-275.5</u>	<u>-27.4</u>

For the Period, gross profit of the Group was HK\$162.5 million (first half of 2019: HK\$276.4 million), representing a decrease of 41.2% compared to the same period last year, and the gross profit margin dropped by 5.2 percentage points to 22.3% (first half of 2019: 27.5%), which was mainly due to the idle production capacity caused by insufficient business. During the severest period of the epidemic in China from February to March 2020, worker's return-to-work rate was very low due to traffic restriction, while during the period from March to May 2020, the utilization rate of production lines was low and the production cost increased as the overseas brand customers delayed their delivery plans and suspended new orders and new product development progress due to the epidemic. The revenue and orders gradually rebounded in June 2020, but the gross profit margin in the first half of the year had been inevitably dragged down. The Group believes that the profit margins will be substantially improved in the second half of the year with increasing orders placed by customers, stable mass production resumed and improving capacity utilization. In order to adjust the expenses, the salaries of all executive directors and senior management of the Group have been reduced by 20% since 1 April 2020, and various cost-saving measures have been effectively implemented. Such measures offset the one-off cost incurred due to the implementation of epidemic preventive measures required by the government.

During the Period, the Group recorded a profit attributable to owners of the Company of HK\$41.4 million (first half of 2019: HK\$114.1 million), representing a year-on-year decrease of 63.8%. Net profit margin was 5.7% (first half of 2019: 11.4%), representing a year-on-year decrease of 5.7 percentage points. Basic earnings per share were HK5.0 cents (first half of 2019: HK13.7 cents).

During the special period disturbed by the epidemic, the suspension of work and production in various regions caused the Group's trade receivables turnover days to slightly increase to about 64 days, and the Group's inventory turnover days in the first half of 2020 increased to about 137 days due to the delay in the delivery of orders as requested by the customers. Meanwhile, the sustainably effective and prudent operating policies enabled the Group to maintain net cash of HK\$502.6 million (30 June 2019: HK\$318.9 million). The steady cash flows allow the Group to flexibly deal with the uncertainties under the current macro environment. As at 30 June 2020, the Group's orders on hand amounted to HK\$955.1 million, representing a slight decrease of 2.5% as compared with HK\$979.3 million as at 30 June 2019, and an increase of 8.1% as compared with orders of HK\$883.2 million as at 31 December 2019.

## **Business Segment Analysis**

### *Mold Fabrication Business*

For the first half of 2020, revenue of the mold fabrication segment from external customers amounted to approximately HK\$271.6 million, representing a decrease of approximately 17.7% when compared to approximately HK\$329.9 million in the same period last year, and accounting for approximately 37.2% of the Group's total revenue.

The Group has production lines for ultra-large standard molds and high-precision molds. The major products of the Group's ultra-large standard molds are automobiles components. Its clients mainly include first-tier component suppliers who manufacture automobile components for renowned automobile brands in Europe, such as Mercedes-Benz, BMW and Volkswagen. High-precision molds production lines mainly produce high-precision molds with multi-cavity and efficiency, covering the markets of high-end consumer electronics product and commercial telecommunications equipment such as smart home, mobile phones and wearable devices, medical and health care. The Group continues to focus on expert-level molding technology research and provide customers with high quality and cost-effective design solutions. In addition to developing external customers, the Group also cooperated with the downstream plastic components manufacturing business to provide more premium one-stop services to the customers.

For the Period, the impact of the epidemic was relatively small due to the long production time of mold products. However, since the commencement of Sino-US trade war, the Group has suffered the pressure of price reduction, and the prices for molds have declined, resulting in the decline of the revenue of this segment. The gross profit margin of the mold fabrication segment declined by 5.4 percentage points to 27.9%. The Group will continue to improve the process technology and maintain its dominant advantage of quality and technology in the industry for the plastic mold fabrication technique.

#### *Plastic Components Manufacturing Business*

For the first half of 2020, revenue of the plastic components manufacturing segment amounted to approximately HK\$457.8 million (first half of 2019: HK\$675.0 million), representing a year-on-year decrease of 32.2%, and accounting for approximately 62.8% of the Group's total revenue.

In light of the spread of the COVID-19 epidemic in Europe and the United States, the physical retail stores of multiple brands were temporarily closed from March to May 2020 to reduce the flow of people and maintain social distance to prevent the epidemic from spreading. The product sales and new product launch plans of most of the Group's downstream consumer electronics customers were therefore dragged.

Revenue of the mobile phones and wearable devices segment recorded a year-on-year decrease of 11.7%, which was mainly due to the postponement of delivery of most overseas orders at the request of customers, and some of them will be postponed to the third quarter of 2020. The Group remains confident in the performance of mobile phones and wearable devices segment for the year, and believes that the Group's diversification strategy can effectively balance the risks of relying on any single brand customer.

Revenue of commercial telecommunications equipment segment recorded a year-on-year decrease of 75.2%, which was mainly due to the stagnating customer market demand for our the major products on the market and the change of relevant supply chain policies. However, with years of solid relationships, the Group has already involved in the customers' development of new products, which are expected to be launched in the near future.

Revenue of the smart home segment was also affected by the close of global physical retail stores in the first half of the year. As the two leading smart home brand customers in North America requested to postpone the delivery of products and suspended certain new product development plans, the revenue recorded a year-on-year decrease of 32.6% for the first half of the year.

Revenue of medical and health care segment recorded a year-on-year increase of 3.3% due to stable market demand. This segment is expected to be less affected by the economic cycle, and its performance will remain stable and good.

In the first half of 2020, the utilization rate of plastic products machines decreased by 18.2 percentage points year-on-year to 30.4%, resulting in a decrease of 5.8 percentage points in gross profit margin from approximately 24.7% in the corresponding period of last year to 18.9%. However, as the orders delayed during the first half of the year are expected to be processed and delivered in the second half of the year, the Group expects that the production capacity utilization rate will significantly increase in the second half of the year with plentiful orders on hand, which will improve the gross profit margin as well.

## **FINANCIAL REVIEW**

### **Revenue**

Revenue for the Period was approximately HK\$729.4 million, representing a decrease of approximately HK\$275.5 million or 27.4% as compared with the revenue of approximately HK\$1,004.9 million for the corresponding period in 2019. Such decrease was mainly because the epidemic prevention lockdowns were launched at different times in different places due to the outbreak of COVID-19 across the world, which affected the production of the Group as well as the global overall consumption and economy, and the consumer goods customers of the Group also requested to delay the delivery of orders under such circumstances.

## **Gross Profit**

Gross profit for the first half of 2020 was approximately HK\$162.5 million, representing a decrease of approximately HK\$113.9 million or 41.2% as compared with the gross profit of approximately HK\$276.4 million for the corresponding period in 2019. The gross profit margin was 22.3%, representing a decrease of 5.2 percentage points from 27.5% for the corresponding period of last year, which was mainly attributable to the low capacity utilization rate resulting in idle capacity as impacted by the epidemic.

Gross profit margin for mold fabrication segment for the first half of 2020 was 27.9%, down 5.4 percentage points from 33.3% for the corresponding period in 2019. Since the trade war between China and the United States commenced, the Group has been under the pressure of price reduction as a result the drop in the price of mold has led to the decrease in the revenue and the gross profit margin of this segment.

Gross profit margin for plastic components manufacturing segment for the first half of 2020 was 18.9%, representing a decrease of 5.8 percentage points from 24.7% for the first half of 2019. During the most severe period of the epidemic in China from February to March 2020, work resumption rate was seriously insufficient due to the travel restriction; from March to May 2020, the foreign brand customers delayed the delivery schedule and suspended the development progress of new orders and new products because of the epidemic, which resulted in the low capacity utilization rate of production lines and the increase in production cost. Although the revenue and orders had gradually risen in June 2020, the gross profit margin for the first half of the year was inevitably dragged down. However, the Group believes that after the orders pick up and the production lines resume the stable mass production stage in the second half of the year, the capacity utilization rate will be increased, and the gross profit margin will be improved accordingly.

## **Other Income**

Other income for the first half of 2020 was approximately HK\$19.7 million, representing a decrease of approximately HK\$3.0 million or 13.3% as compared with the other income of approximately HK\$22.7 million for the corresponding period in 2019, which was mainly due to the decrease in sales of scrap by the Group during the Period.

## **Other Gains/(Losses) – Net**

Other gains, net for the first half of 2020 was approximately HK\$7.1 million, compared with the other losses, net of approximately HK\$8.6 million for the corresponding period in 2019, which was mainly attributable to the rental concessions of approximately HK\$5.3 million related to the COVID-19 obtained during the Period. Besides, in order to effectively guard against the effect of fluctuation of the Euro exchange rate to the Group, the Group borrowed a Euro-denominated bank loan equivalent to the amount of the Group's existing orders from Europe to effectively hedge the effect of fluctuation of the exchange rate of Euro to the Group.

## **Selling Expenses**

Selling expenses for the first half of 2020 was approximately HK\$32.2 million (first half of 2019: HK\$35.8 million), accounted for 4.4% (first half of 2019: 3.6%) of the sales, representing a decrease of approximately HK\$3.6 million or 10.1% as compared with the selling expenses for the corresponding period in 2019, and an increase by 0.8 percentage point in terms of the percentage to sales. The increase in the percentage to sales was mainly attributable to the increase in transportation expenses resulting from the reduction of flights and the increase in air freight costs due to the epidemic.

## **Administrative Expenses**

Administrative expenses for the first half of 2020 was approximately HK\$110.4 million (first half of 2019: HK\$117.6 million), accounted for 15.1% (first half of 2019: 11.7%) of the sales, representing a decrease of approximately HK\$7.2 million or 6.1% as compared with the corresponding period in 2019, and an increase by 3.4 percentage points in terms of the percentage to sales. The increase in the percentage to sales was mainly attributable to (1) increase in one-off anti-epidemic cost; (2) increase in allowance for impairment of inventories due to the delayed delivery of certain customer orders as a result of the epidemic; and (3) increase in research and development expenses as compared to the corresponding period of previous year due to the development of new products in medical projects. The percentage of administrative expenses to sales for the Period are similar to those of previous year after excluding the above one-off anti-epidemic cost and increase in research and development expenses.

## **Finance Income/(Cost) – Net**

Net finance income for the first half of 2020 was approximately HK\$1.0 million, compared with the net finance cost of approximately HK\$0.1 million for the corresponding period in 2019, which was mainly due to the decrease in interest expenses for the lease liabilities.

## **Share of Net Loss of an Associate Accounted for Using the Equity Method**

For the first half of 2020, share of net loss of an associate accounted for using the equity method was approximately HK\$1.0 million (first half of 2019: nil).



## **Income Tax Expense**

Income tax expense for the first half of 2020 was approximately HK\$5.6 million (first half of 2019: HK\$22.8 million) and the effective tax rate was 12.0% (first half of 2019: 16.7%). Effective tax rate decreased by 4.7 percentage points as compared with the corresponding period in 2019, which was mainly attributable to the decrease in deferred income tax.

## **Profit for the Period Attributable to Owners of the Company**

Profit attributable to owners of the Company for the first half of 2020 was approximately HK\$41.4 million, representing a decrease of approximately HK\$72.7 million or 63.8% from approximately HK\$114.1 million for the corresponding period in 2019.

## **SEASONALITY**

The Group's sales volume has historically been affected by seasonality. As the Group's products are used by the Group's customers in their respective manufacturing processes, the demand for the Group's products fluctuates as the demand for their products varies. A significant portion of the Group's products under its downstream business segments has generally been in higher demand in the second half of each calendar year, which is primarily due to the seasonal purchase patterns of consumers during festivals such as the Thanksgiving Day and Christmas holidays. As a result, it is expected that the revenue of the Group will be higher in the second half of the year than in the first half of the year. In the financial year ended 31 December 2019, 43% of revenue accumulated in the first half of the year, with 57% accumulated in the second half of the year.

Under the outbreak of COVID-19 in early 2020, domestic consumption and production have been affected in the short run. Since the end of February 2020, the development of the COVID-19 outbreak has been increasing impacts. The impact mainly reflected in the orders delayed in the first half of the year due to the delayed delivery.

## **LIQUIDITY, FINANCIAL RESOURCES AND RATIOS**

As at 30 June 2020, the Group had net current assets of approximately HK\$640.7 million (31 December 2019: HK\$619.6 million). The Group had total cash and bank balances of approximately HK\$813.4 million (31 December 2019: HK\$735.1 million), including cash and cash equivalents of approximately HK\$678.5 million (31 December 2019: HK\$582.9 million), and restricted cash and deposit of approximately HK\$134.9 million (31 December 2019: HK\$152.2 million). The current ratio of the Group as at 30 June 2020 was approximately 173.8% (31 December 2019: 170.1%).

Total equity of the Group as at 30 June 2020 was approximately HK\$1,129.4 million (31 December 2019: HK\$1,191.5 million). The gearing ratio as at 30 June 2020 was approximately 27.5% (31 December 2019: 20.3%). Such increase was mainly attributable to the increase in bank borrowings of the Group during the Period.

## DEBT MATURITY PROFILE

The maturity profile of the Group's borrowings is set out below:

	<b>30 June 2020</b>	31 December 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	<b>188,326</b>	166,049
Between 1 and 2 years	<b>100,327</b>	75,911
Between 2 and 5 years	<b>22,165</b>	–
	<b><u>310,818</u></b>	<b><u>241,960</u></b>

An analysis of the Group's key liquidity ratios as at 30 June 2020 is as follows:

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
Inventory turnover days ( <i>Note 1</i> )	<b>137</b>	91
Trade receivable turnover days ( <i>Note 2</i> )	<b>64</b>	55
Trade payable turnover days ( <i>Note 3</i> )	<b>81</b>	74
	<b>30 June 2020</b>	31 December 2019
Current ratio ( <i>Note 4</i> )	<b>173.8%</b>	170.1%

*Notes:*

1. Inventory turnover days is calculated based on the average balance of inventories divided by the cost of sales for the relevant period and multiplied by 180 days.
2. Trade receivable turnover days is calculated based on the average trade receivables divided by the revenue for the relevant period and multiplied by 180 days.
3. Trade payable turnover days is calculated based on the average trade payables divided by cost of sales for the relevant period and multiplied by 180 days.
4. Current ratio is calculated by dividing current assets by current liabilities and multiplying the resulting value by 100%.

## **INVENTORY TURNOVER DAYS**

During the Period, the Group's inventory turnover days were 137 days, representing an increase of 46 days compared to that of the same period in last year, which was mainly attributable to that some customers delayed the orders delivery due to the impact of epidemic.

## **TRADE RECEIVABLE TURNOVER DAYS**

During the Period, the Group's trade receivable turnover days were 64 days, representing an increase of 9 days compared to that of the same period in last year, which was mainly attributable to production suspension in various regions due to the impact of epidemic.

## **TRADE PAYABLE TURNOVER DAYS**

During the Period, the Group's trade payable turnover days were 81 days, representing an increase of 7 days compared to that of the same period in last year, which was mainly attributable to production suspension in various regions due to the impact of epidemic.

## **CURRENT RATIO**

As at 30 June 2020, the Group's current ratio was 173.8%, which was comparable to that as at 31 December 2019.

## **PLEDGED ASSETS**

Details of pledged assets as at 30 June 2020 are set out in note 17(a) to the interim financial information.

## **FOREIGN EXCHANGE RISK MANAGEMENT**

The Group mainly operates in the PRC and is exposed to foreign currency risks arising from various currency exposures, mainly with respect to the HK dollar, US dollar, Euro and RMB. Exchange rate fluctuations and market trends have always been the main concerns of the Group. Foreign currency hedging of the Group has been managed by the Group's chief financial officer, and overseen by the Group's chief executive officer. In accordance with the Group's hedging needs and the then foreign exchange situation, the Group's chief financial officer would collect and analyze information regarding various hedging instruments and determine stop-loss thresholds. The Group's chief financial officer would then collect quotations from various banks as to the financial instrument and present such quotations to the Group's chief executive officer, who would then evaluate and make a decision as to whether to enter into the relevant hedging agreement.

The Euro fluctuated in recent years. As the European market is one of the key markets for the Group's mold fabrication segment, in order to hedge the risk of depreciation of the payments received from European customers, the Group's chief financial officer collected information on hedging instruments for analysis, having taken into account of the Group's business operations, the Group decided to adopt the Euro-denominated loan to hedge the risk of depreciation of the receivables from Euro-denominated orders in the future.

The Group's cash and bank balances were primarily denominated in US dollar, RMB, Euro and HK dollar. Its operating cash inflows and outflows were primarily denominated in RMB, US dollar, Euro and HK dollar. The Group will closely monitor the exchange rate movements and regularly review its gearing structure so as to mitigate the expected exchange rate risk.

### **RMB EXCHANGE RATE RISK**

The Group's major revenue is principally denominated in US dollar, Euro, HK dollar and RMB, and the Group's major expenses are denominated in RMB. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The Group has not entered into any agreement for RMB hedging purpose.

### **CAPITAL STRUCTURE**

There was no change in the capital structure of the Company during the Period, and the Company's capital included ordinary shares and other reserves.

### **PLANS FOR MATERIAL CAPITAL INVESTMENTS**

The Group have invested in capacity expansion and investment projects to capitalize the potential growth of the Group's business in the coming years in the manner set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

### **STAFF POLICY**

As at 30 June 2020, the Group had 3,475 full-time employees (31 December 2019: 4,072) and 370 workers dispatched to us from third party staffing companies (31 December 2019: 632).

The Group's remuneration policy aims to offer competitive remuneration packages to recruit, retain and motivate competent directors and employees. The Group believes the remuneration packages are reasonable and competitive and in line with market trends. The Group has put in place a share option scheme and a share award scheme for its directors and employees in a bid to provide a competitive remuneration packages for the Group's long-term growth and development. The Group also provides appropriate training and development programmes to its employees to enhance the staff's work ability and personal performance.

The Group has implemented training programmes for the employees to meet different job requirements. The Group believes that these initiatives have contributed to increasing employee productivity.

As required by PRC regulations, the Group makes contributions to mandatory social security funds for the benefits of its PRC employees which provide pension insurance, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and housing funds.

## **MATERIAL ACQUISITIONS AND DISPOSALS**

During the six months ended 30 June 2020, the Group has made no material acquisitions or disposals of subsidiaries.

## **CONTINGENT LIABILITIES**

As at 30 June 2020, the Group did not have any significant contingent liabilities.

## **PROSPECT**

Economic recovery is dragged down by uncertainties caused by global economic activities' disruptions due to the ongoing global COVID-19 epidemic, and geopolitical turmoil. Nevertheless, the management considers that the worst has passed in the first half of the year, and the Group is catching up with the delayed production schedule and processing the backlog of orders and believes that the pandemic shall exert certain effect on our business in the second half of the year. The management will continue to respond to market conditions and economic fluctuations in the second half of the year in a prudent and flexible manner, striving to maintain a steady development throughout the year.

As there is no under-control indication of the epidemic in the western countries for the time being, the Group has stepped up its efforts to develop its business in China and reach out to more Chinese customers, especially those leaders in the consumer electronics industry. In recognition of the importance of diversification, the Group will continue to focus on diversification in both customer and geography for future development to diversify geographical risks. In the second half of the year, the Group may slow down its overseas plant expansion and acquisition plans, but will continuously monitor all opportunities conducive to long-term development and make plans prudently.

The Group expects the market conditions to remain volatile in the second half of 2020. However, with solid business foundation, strong financial strength and sound corporate governance, the Group will overcome difficulties and weather storms under the leadership of our cautiously optimistic management.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed listed securities of the Company during the Period.

## **CORPORATE GOVERNANCE**

The Company believes that good corporate governance is important for maintaining and promoting investor confidence and for the sustainable growth of the Group. The directors of the Company are of the view that the Company has complied with all the code provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange during the Period.

## **AUDIT COMMITTEE**

The Audit Committee comprises three independent non-executive directors of the Company, namely, Mr. Tsang Wah Kwong (Chairman), Dr. Chung Chi Ping Roy and Ms. Christine Wan Chong Leung.

The Audit Committee has reviewed with management the accounting policies and practices adopted by the Group and discussed, among other things, risk management, internal controls and financial reporting matters including a review of the unaudited interim financial information for the Period.

## **DIVIDEND**

On Friday, 21 August 2020, the Board resolved to declare an interim dividend of HK2.0 cents per share for the Period, amounting to a total of approximately HK\$16,665,000. The interim dividend is expected to be paid on Thursday, 24 September 2020 to all shareholders whose names appear on the register of members of the Company at the close of business on Friday, 11 September 2020.

## **CLOSURE OF REGISTER OF MEMBERS**

For determining the entitlement to the aforesaid interim dividend, the register of members of the Company will be closed from Wednesday, 9 September 2020 to Friday, 11 September 2020, both dates inclusive, during which period no transfer of shares will be registered. In order to be qualified for the interim dividend, unregistered holders of shares of the Company should ensure that all share transfer documents, accompanied by the relevant share certificates, are lodged with the branch share registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 8 September 2020.

## **PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT**

This interim results announcement is published on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.tkmold.com](http://www.tkmold.com).

The interim report will be dispatched to the shareholders of the Company and published on the above websites in due course.

On behalf of the Board  
**TK Group (Holdings) Limited**  
**Li Pui Leung**  
*Chairman*

Hong Kong, 21 August 2020

*As at the date of this announcement, the executive directors of the Company are Mr. Li Pui Leung, Mr. Yung Kin Cheung Michael, Mr. Lee Leung Yiu and Mr. Cheung Fong Wa; and the independent non-executive directors of the Company are Dr. Chung Chi Ping Roy, Ms. Christine Wan Chong Leung and Mr. Tsang Wah Kwong.*