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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 2017

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 2017, together with the comparative figures for the corresponding period in 2016:

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 2017 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
2017 2016

Results and financial performance

Results

Revenue (HK dollar '000)	816,268	721,328
Profit attributable to owners of the Company (HK dollar '000)	110,524	78,880
Basic earnings per share (HK cents)	13.4	9.5
Proposed interim dividend per share (HK cents)	5.0	4.0
Gross profit margin	32.3%	26.4%
Net profit margin	13.5%	10.9%
Return on equity (<i>Note 1</i>)	14.8%	12.7%
Return on assets (<i>Note 2</i>)	8.0%	6.0%
Inventory turnover days (<i>Note 3</i>)	90	93
Trade receivable turnover days (<i>Note 4</i>)	47	46
Trade payable turnover days (<i>Note 5</i>)	69	75
	30 June	31 December
	2017	2016

Financial position

Net current assets (HK dollar '000)	368,050	348,431
Current ratio (<i>Note 6</i>)	159.4%	152.2%
Quick ratio (<i>Note 7</i>)	115.1%	112.6%
Gearing ratio (<i>Note 8</i>)	17.5%	29.1%
Net gearing ratio (<i>Note 9</i>)	0%	0%

Notes:

- (1) Return on equity ratio is calculated by dividing profit after tax by total equity as at period ended 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 ended and multiplying the resulting value by 100%.
- (3) Inventory turnover days is calculated based on the average balance of inventory divided by the cost of sales for the relevant period 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 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 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 inventory 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 2017 and 31 December 2016 was HK\$324,782,000 and HK\$299,258,000 respectively.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

(All amounts in HK dollar thousands unless otherwise stated)

		As at	
	<i>Note</i>	30 June 2017 (Unaudited)	31 December 2016 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	8	377,046	362,400
Intangible assets	8	11,253	11,035
Prepayments for property, plant and equipment	8	13,481	12,154
		<u>401,780</u>	<u>385,589</u>
Current assets			
Inventories	9	274,642	264,388
Trade and other receivables	10	257,413	253,564
Deposits for bank borrowings	13	72,132	90,766
Restricted cash		25,024	26,476
Cash and cash equivalents		357,950	381,310
		<u>987,161</u>	<u>1,016,504</u>
Total assets		<u>1,388,941</u>	<u>1,402,093</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	11	83,326	82,660
Share premium	11	251,293	237,902
Other reserves		11,867	(5,767)
Retained earnings		398,079	370,215
		<u>744,565</u>	<u>685,010</u>
Total equity		<u>744,565</u>	<u>685,010</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

(All amounts in HK dollar thousands unless otherwise stated)

		As at	
	<i>Note</i>	30 June 2017 (Unaudited)	31 December 2016 (Audited)
LIABILITIES			
Non-current liabilities			
Bank borrowings	13	6,725	34,310
Deferred income on government grants	14	12,483	7,516
Deferred income tax liabilities	15	6,057	7,184
		<u>25,265</u>	<u>49,010</u>
Current liabilities			
Trade and other payables	12	484,732	494,021
Income tax liabilities		10,780	9,068
Bank borrowings	13	123,599	164,984
		<u>619,111</u>	<u>668,073</u>
Total liabilities		<u>644,376</u>	<u>717,083</u>
Total equity and liabilities		<u>1,388,941</u>	<u>1,402,093</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in HK dollar thousands unless otherwise stated)

		Six months ended 30 June	
	<i>Note</i>	2017	2016
		(Unaudited)	(Unaudited)
Revenue	7	816,268	721,328
Cost of sales	17	<u>(552,933)</u>	<u>(530,827)</u>
Gross profit		263,335	190,501
Other income	16	7,698	7,513
Other (losses)/gains — net	16	(8,246)	3,405
Selling expenses	17	(41,334)	(34,282)
Administrative expenses	17	<u>(93,140)</u>	<u>(78,704)</u>
Operating profit		128,313	88,433
Interest income	18	2,784	2,521
Finance expenses	18	<u>(893)</u>	<u>(1,563)</u>
Finance income — net		<u>1,891</u>	958
Profit before income tax		130,204	89,391
Income tax expense	19	<u>(19,680)</u>	<u>(10,511)</u>
Profit for the period attributable to owners of the Company		<u>110,524</u>	<u>78,880</u>
Other comprehensive income			
<i>Item that may be reclassified to profit and loss:</i>			
Currency translation differences		<u>20,968</u>	<u>(6,589)</u>
Total comprehensive income for the period		<u>131,492</u>	<u>72,291</u>
Earnings per share attributable to equity holders of the Company (expressed in HK cents per share)			
— Basic	20	<u>13.4</u>	<u>9.5</u>
— Diluted	20	<u>13.4</u>	<u>9.5</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Share capital	Share premium	Other reserves			Retained earnings	Total
				Statutory reserves	Share option reserve	Currency translation reserve		
For the six months ended								
30 June 2017 (unaudited)								
Balance at 1 January 2017 (audited)		82,660	237,902	47,357	3,334	(56,458)	370,215	685,010
Comprehensive income								
Profit for the period		—	—	—	—	—	110,524	110,524
Currency translation differences		—	—	—	—	20,968	—	20,968
Total comprehensive income		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>20,968</u>	<u>110,524</u>	<u>131,492</u>
Contributions by and distributions to owners of the Company recognised directly in equity								
Proceeds from shares issued upon exercise of share options	11	666	10,057	—	—	—	—	10,723
Transfer to share premium upon exercise of share options	11	—	3,334	—	(3,334)	—	—	—
Dividends	21	—	—	—	—	—	(82,660)	(82,660)
Total contributions by and distributions to owners of the Company for the period		<u>666</u>	<u>13,391</u>	<u>—</u>	<u>(3,334)</u>	<u>—</u>	<u>(82,660)</u>	<u>(71,937)</u>
Balance as at 30 June 2017 (unaudited)		<u>83,326</u>	<u>251,293</u>	<u>47,357</u>	<u>—</u>	<u>(35,490)</u>	<u>398,079</u>	<u>744,565</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in HK dollar thousands unless otherwise stated)

	Share capital	Share premium	Other reserves			Retained earnings	Total
			Statutory reserves	Share option reserve	Currency translation reserve		
For the six months ended							
30 June 2016 (unaudited)							
Balance as at 1 January 2016 (audited)	82,660	237,902	33,751	3,334	(21,195)	269,049	605,501
Comprehensive income							
Profit for the period	—	—	—	—	—	78,880	78,880
Currency translation differences	—	—	—	—	(6,589)	—	(6,589)
Total comprehensive income	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(6,589)</u>	<u>78,880</u>	<u>72,291</u>
Contributions by and distributions to owners of the Company recognised directly in equity							
Dividends	—	—	—	—	—	(57,862)	(57,862)
Total contributions by and distributions to owners of the Company for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(57,862)</u>	<u>(57,862)</u>
Balance as at 30 June 2016 (unaudited)	<u>82,660</u>	<u>237,902</u>	<u>33,751</u>	<u>3,334</u>	<u>(27,784)</u>	<u>290,067</u>	<u>619,930</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in HK dollar thousands unless otherwise stated)

		Six months ended 30 June	
	<i>Note</i>	2017	2016
		(Unaudited)	(Unaudited)
Cash flows from operating activities			
Cash generated from operations		158,813	82,832
Interest received		1,685	2,051
Income tax paid		(16,720)	(13,532)
		<u>143,778</u>	<u>71,351</u>
Net cash generated from operating activities			
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(23,048)	(29,729)
Prepayments for property, plant and equipment	8	(25,332)	(14,099)
Receipt of government grants	14	7,036	9,821
Proceeds from disposal of property, plant and equipment		1,217	2,492
Purchase of available-for-sale financial assets		(193,326)	(111,177)
Proceeds from available-for-sale financial assets		194,400	112,294
		<u>(39,053)</u>	<u>(30,398)</u>
Net cash used in investing activities			
Cash flows from financing activities			
Proceeds from shares issued upon exercise of share options	11	10,723	–
Proceeds from bank borrowings	13	10,000	122,280
Repayments of bank borrowings	13	(84,008)	(106,424)
Decrease/(increase) in pledge of bank deposit		18,634	(4,052)
Interest paid		(980)	(1,580)
Dividends paid	21	(82,660)	(57,862)
		<u>(128,291)</u>	<u>(47,638)</u>
Net cash used in financing activities			
Net decrease in cash and cash equivalents			
		<u>(23,566)</u>	<u>(6,685)</u>
Cash and cash equivalents at beginning of the period		381,310	319,951
Exchange gain on cash and cash equivalents		206	865
		<u>357,950</u>	<u>314,131</u>
Cash and cash equivalents at end of the period			

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 2017, 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 30.79%, 19.16% and 18.48% 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 14 August 2017 and has not been audited.

2. BASIS OF PREPARATION

This Interim Financial Information for the six months ended 30 June 2017 (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 2016 ("2016 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 2016, 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 amendments to HKFRSs effective for the financial year ending 31 December 2017.

- (a) Amendments to HKFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group.

(b) Impact of standards issued but not yet applied by the Group

The following new standards, amendments to standards and interpretation have been issued but are not effective for the financial year beginning 1 January 2017. They are relevant to the operations of the Group but have not been early adopted.

Effective for
accounting periods
beginning on or after

HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 16	Leases	1 January 2019

The Group has already commenced an assessment of the impact of these new or revised standards which are relevant to the Group's operation. According to the preliminary assessment made by the directors of the Company, no significant impact on the financial performance and positions of the Group is expected when adopting HKFRS 9 and HKFRS 15. The directors also do not expect the adoption of HKFRS 16 would result in significant impact on the Group's financial performance and positions except for the recognition of the right-of-use assets and corresponding lease liabilities arising from accounting for operating leases by the Group as a lessee.

4. ESTIMATES

The preparation of the Interim Financial Information requires management to make judgements, 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 judgements 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 2016 Financial Statements.

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 2016 Financial Statements.

There have been no changes in the risk management function or in any risk management policies since 31 December 2016.

5.2 Liquidity risk

Compared to 31 December 2016, 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 Group has no financial asset or liability that is measured at fair value at 30 June 2017 and 31 December 2016.

5.4 Fair value of financial assets and liabilities measured at amortised cost

The fair values of the following financial assets and liabilities approximate their respective carrying amounts:

- Cash and cash equivalents
- Deposits for bank borrowings
- Trade and other receivables
- Trade and other payables
- Bank borrowings

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 have 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 Group recorded higher revenue in the second half of the year than that of the first half of the year.

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 17 operating segments, out of which 9 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 8 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 considered the nature of the Group's business and determined 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	
	2017	2016	2017	2016	2017	2016
Revenue						
Segment revenue	333,464	310,306	510,170	431,081	843,634	741,387
Inter-segment revenue elimination	(27,366)	(20,059)	–	–	(27,366)	(20,059)
Revenue from external customers	306,098	290,247	510,170	431,081	816,268	721,328
Segment results	106,600	75,916	156,735	114,585	263,335	190,501
Other income and other (losses)/gains - net					(548)	10,918
Selling expenses					(41,334)	(34,282)
Administration expenses					(93,140)	(78,704)
Financial income - net					1,891	958
Profit before income tax					<u>130,204</u>	<u>89,391</u>

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

	30 June 2017	31 December 2016
PRC	392,040	378,826
Germany	9,740	6,763
	<u>401,780</u>	<u>385,589</u>

8. INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND PREPAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

	Intangible Assets	Property, plant and equipment	Prepayments for property, plant and equipment
Net book amount as at 1 January 2017	11,035	362,400	12,154
Additions	1,642	21,406	25,332
Disposals	–	(1,125)	–
Transfers	–	24,369	(24,369)
Currency translation differences	362	10,252	364
Amortisation/depreciation	(1,786)	(40,256)	–
Net book amount as at 30 June 2017	<u>11,253</u>	<u>377,046</u>	<u>13,481</u>
Net book amount as at 1 January 2016	10,785	344,151	20,970
Additions	2,772	26,957	14,099
Disposals	–	(1,909)	–
Transfers	–	24,884	(24,884)
Currency translation differences	(22)	(2,337)	(197)
Amortisation/depreciation	(1,666)	(33,831)	–
Net book amount as at 30 June 2016	<u>11,869</u>	<u>357,915</u>	<u>9,988</u>

9. INVENTORIES

	30 June 2017	31 December 2016
Raw materials	21,189	17,337
Work in progress	198,910	189,478
Finished goods	<u>63,121</u>	<u>64,071</u>
	283,220	270,886
Less: allowance for impairment	<u>(8,578)</u>	<u>(6,498)</u>
	<u>274,642</u>	<u>264,388</u>

10. TRADE AND OTHER RECEIVABLES

	30 June 2017	31 December 2016
Trade receivables	215,405	213,079
Less: allowance for impairment	(4,628)	(6,807)
	<hr/>	<hr/>
Trade receivables, net	210,777	206,272
Prepayments and deposits	15,395	17,632
Export tax refund receivables	21,082	16,883
Value-added tax recoverable	4,355	7,650
Advances to employees	3,764	4,127
Others	2,040	1,000
	<hr/>	<hr/>
	<u>257,413</u>	<u>253,564</u>

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:

	30 June 2017	31 December 2016
Less than 3 months	174,178	202,283
More than 3 months but not exceeding 1 year	40,162	10,220
More than 1 year	1,065	576
	<hr/>	<hr/>
	<u>215,405</u>	<u>213,079</u>

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.

As at 30 June 2017, no trade receivables (31 December 2016: Nil) were past due but not impaired.

11. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares (thousands)	Share capital (HK\$'000)	Share premium (HK\$'000)	Total (HK\$'000)
Balance at 1 January 2017	826,600	82,660	237,902	320,562
Proceeds from shares issued upon exercise of share options (a)	6,660	666	10,057	10,723
Transfer from other reserves upon exercise of share options (b)	<u>–</u>	<u>–</u>	3,334	3,334
Balance at 30 June 2017	<u>833,260</u>	<u>83,326</u>	<u>251,293</u>	<u>334,619</u>
As at 1 January 2016 and 30 June 2016	<u>826,600</u>	<u>82,660</u>	<u>237,902</u>	<u>320,562</u>

(a) Employee share option scheme: options exercised during the period to 30 June 2017 resulted in 6,660,000 shares being issued, with exercise proceeds of HK\$10,723,000. The related weighted average price at the time of exercise was HK\$3.17 per share.

(b) Upon exercise of share options, share option reserve amounting to HK\$3,334,000 was transferred to share premium.

12. TRADE AND OTHER PAYABLES

	30 June 2017	31 December 2016
Trade payables (a)	211,294	211,355
Deposits received from customers	170,964	163,446
Wages and staff welfare benefits payable	67,863	81,397
Accrual for expenses and other payables	24,366	30,897
Other taxes payable	<u>10,245</u>	<u>6,926</u>
	<u>484,732</u>	<u>494,021</u>

(a) The ageing analysis of the trade payables is as follows:

	30 June 2017	31 December 2016
Within 90 days	166,443	164,392
91 - 120 days	24,193	27,187
121 - 365 days	11,943	10,207
Over 365 days	<u>8,715</u>	<u>9,569</u>
	<u>211,294</u>	<u>211,355</u>

13. BORROWINGS

	30 June 2017	31 December 2016
Non-current		
Bank borrowings		
— unsecured	10,000	55,761
Less: current portion of non-current borrowings	<u>(3,275)</u>	<u>(21,451)</u>
	<u>6,725</u>	<u>34,310</u>
Current		
Bank borrowings		
— secured (a)	57,743	78,957
— unsecured	<u>62,581</u>	<u>64,576</u>
Total short-term bank borrowings	<u>120,324</u>	<u>143,533</u>
Current portion of non-current borrowings	<u>3,275</u>	<u>21,451</u>
	<u>123,599</u>	<u>164,984</u>
Total borrowings	<u>130,324</u>	<u>199,294</u>

Movement in borrowings is as follows:

	Six months ended 30 June	
	2017	2016
Opening balance as at 1 January	199,294	205,339
Proceeds from borrowings	10,000	122,280
Repayments of borrowings	(84,008)	(106,424)
Currency translation differences	<u>5,038</u>	<u>2,663</u>
Closing balance as at 30 June	<u>130,324</u>	<u>223,858</u>

- (a) As at 30 June 2017, bank borrowings amounting to HK\$57,743,000 (31 December 2016: HK\$78,957,000) were secured over the following:

	30 June 2017	31 December 2016
Bank deposits	<u>72,132</u>	<u>90,766</u>

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

	30 June 2017	31 December 2016
HK\$	72,581	120,337
EUR	<u>57,743</u>	<u>78,957</u>
	<u>130,324</u>	<u>199,294</u>

14. 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:

	Six months ended 30 June	
	2017	2016
Opening balance as at 1 January	7,516	–
Receipt of grants	7,036	9,821
Recognised in the profit or loss	(2,384)	(2,240)
Currency translation differences	<u>315</u>	<u>–</u>
Closing balance as at 30 June	<u>12,483</u>	<u>7,581</u>

15. DEFERRED INCOME TAX ASSETS AND LIABILITIES

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

	Six months ended 30 June	
	2017	2016
Deferred income tax assets		
Opening balance as at 1 January	3,532	4,036
Recognised in the profit or loss	795	(358)
Currency translation differences	121	(70)
	<u>4,448</u>	<u>3,608</u>
Closing balance as at 30 June	<u>4,448</u>	<u>3,608</u>
	Six months ended 30 June	
	2017	2016
Deferred income tax liabilities		
Opening balance as at 1 January	10,716	10,802
Recognised in the profit or loss	(211)	(40)
Under provisions in prior year	2,254	—
Payment during the period	(2,254)	—
	<u>10,505</u>	<u>10,762</u>
Closing balance as at 30 June	<u>10,505</u>	<u>10,762</u>

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 2017, deferred income tax assets and deferred income tax liabilities were offset to the extent of HK\$4,448,000 (31 December 2016: HK\$3,532,000).

16. OTHER INCOME AND OTHER (LOSSES)/GAINS – NET

	Six months ended 30 June	
	2017	2016
Other income		
Sales of scrap and surplus materials	4,831	3,884
Government subsidies	2,599	2,504
Others	268	1,125
	<u>7,698</u>	<u>7,513</u>
Other (losses)/gains - net		
Net foreign exchange (losses)/gains	(8,338)	2,822
Gains on disposal of property, plant and equipment	92	583
	<u>(8,246)</u>	<u>3,405</u>

17. EXPENSES BY NATURE

Six months ended 30 June

2017 2016

Changes in inventories of finished goods and work in progress	(8,482)	(21,552)
Raw materials and consumables used	279,762	260,558
Employee benefit expenses	219,210	207,672
Subcontracting expenses	61,823	73,165
Depreciation and amortisation	42,042	35,497
Water and electricity expenditures	15,939	15,755
Transportation and travelling expenses	21,295	22,582
Operating lease payments	20,444	22,522
Other taxes and levies	8,705	7,017
Maintenance expenses	3,561	4,039
Allowance/(reversal of allowance) for impairment of inventories	1,854	(2,217)
Reversal of allowance for receivables	(584)	(219)
Commission expenses	7,109	3,034
Auditors' remuneration	2,032	2,223
Advisory and legal service expenses	2,054	3,530
Advertising and promotion fees	1,709	1,670
Utilities and postage fees	2,271	1,857
Customs declaration charge	990	1,228
Security and estate management expenses	955	828
Donations	660	802
Bank charges and handling fees	530	544
Other expenses	3,528	3,278
	<u>687,407</u>	<u>643,813</u>

18. FINANCE INCOME - NET

Six months ended 30 June

2017 2016

Interest income:		
— Interest income on bank deposits	1,710	1,404
— Interest income on available-for-sale financial assets	1,074	1,117
	<u>2,784</u>	<u>2,521</u>
Finance expenses		
— Bank borrowings	(893)	(1,563)
Finance income — net	<u>1,891</u>	<u>958</u>

19. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the Period.

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	
	2017	2016
Current income tax		
— Hong Kong profit tax	1,821	—
— PRC corporate income tax	16,727	11,118
— PRC corporate income tax over-provided in prior year	(116)	(925)
Deferred income tax	1,248	318
	<u>19,680</u>	<u>10,511</u>

20. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the Period.

	Six months ended 30 June	
	2017	2016
Profit attributable to equity holders of the Company (HK\$'000)	110,524	78,880
Weighted average number of ordinary shares issued (thousand)	<u>826,637</u>	<u>826,600</u>
Basic earnings per share (HK cents)	<u>13.4</u>	<u>9.5</u>

Diluted earnings per share is the same as basic earnings per share due to the absence of dilutive ordinary shares at the period end (2016 Interim: the outstanding share options do not have any material dilutive impact, therefore, the diluted earnings per share of the Company approximated the basic earnings per share).

21. DIVIDENDS

On 14 August 2017, the board of directors resolved to declare an interim dividend of HK5.0 cents per share (2016 interim: HK4.0 cents per share). This interim dividend, amounting to HK\$41,663,000 (2016 interim: HK\$33,064,000), has not been recognised as a liability in this Interim Financial Information.

Dividends in respect of the year ended 31 December 2016 of HK10.0 cents per ordinary share, amounting to a total of HK\$82,660,000, were paid on 2 June 2017.

22. COMMITMENTS

(a) Capital commitments

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

	30 June 2017	31 December 2016
In respect of the acquisitions of plant and equipment, contracted but not provided for	<u>51,142</u>	<u>41,683</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:

	30 June 2017	31 December 2016
Not later than 1 year		
— to related companies	19,538	38,092
— to third parties	<u>3,426</u>	<u>1,537</u>
	<u>22,964</u>	<u>39,629</u>
Later than 1 year and not later than 5 years		
— to third parties	<u>6,901</u>	—
	<u>29,865</u>	<u>39,629</u>

23. RELATED-PARTY TRANSACTIONS

In addition to the related party information and transactions disclosed above, 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:

	Six months ended 30 June	
	2017	2016
Operating lease expenses paid (a)	<u>18,282</u>	<u>19,845</u>

- (a) The amount represented rental expenses for land and buildings for factory and office purposes paid to companies controlled by Ultimate Shareholders, which were determined with reference to independent property valuation.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Period under review, the global economy showed a recovery trend. The economic growth rate of the PRC in the first half of the year was above the official target. Under such positive consumer sentiment, together with the Group's excellent capabilities in mold fabrication and leading automation technologies, our competitiveness was constantly boosted and thereby increasing the market share, which directly resulting in an increase of 41.2% in revenue in the Group's mobile phones and wearable devices division compared to the same period last year. Meanwhile, with the Group's well-established philosophy of diversified customers and its development strategy of focusing on high-precision molds, the automobiles mold, medical and health care and commercial telecommunications markets attained a remarkable performance during the Period. In the first half of 2017, the revenue amounted to HK\$816.3 million (first half of 2016: HK\$721.3 million), representing an increase of 13.2% compared to the same period last year.

During the Period, the Group's gross profit increased to HK\$263.3 million (first half of 2016: HK\$190.5 million), with gross profit margin increased to 32.3% (first half of 2016: 26.4%). Such increase was attributable to the sufficient amount of orders, together with the Group's continuous development in automatic and smart production which kept enhancing production efficiency, and thereby effectively reducing the unit production cost. In the meantime, the depreciation of RMB also helped ease part of the Group's cost pressures.

The Group recorded a profit attributable to owners of the Company for the Period of HK\$110.5 million (first half of 2016: HK\$78.9 million), representing a significant year-on-year increase of 40.1%. The net profit margin for the Period was 13.5% (first half of 2016: 10.9%). The basic earnings per share for the Period was HK13.4 cents (first half of 2016: HK9.5 cents).

Furthermore, the Group's trade receivable turnover days remained steady at only 47 days due to our effective credit policies. In addition, such policies also resulted in an increase in the Group's net cash to HK\$324.8 million (HK\$198.6 million for the same period last year). The sound financial position enables the Group to engage in merger and acquisition activities in a more active manner and to adopt necessary measures to promote the growth of the Group. Moreover, the Group has considerable amount of orders on hand. As at 30 June 2017, the Group's orders on hand amounted to HK\$764.4 million, representing an increase of 18.4%, compared with HK\$645.5 million as at 31 December 2016.

Industry	Six months ended 30 June				Change	
	2017		2016			
	HK\$ million	%	HK\$ million	%	HK\$ million	%
Automobiles	186.6	22.9	156.1	21.6	30.5	19.5
Commercial telecommunications equipment	184.4	22.6	155.7	21.6	28.7	18.4
Mobile phones and wearable devices	159.0	19.5	112.6	15.6	46.4	41.2
Medical and health care	123.2	15.1	97.4	13.5	25.8	26.5
Smart home	44.8	5.5	49.7	6.9	-4.9	-9.9
Digital devices	34.3	4.2	40.7	5.6	-6.4	-15.7
Household electrical appliances	32.7	4.0	52.2	7.2	-19.5	-37.4
Others	51.3	6.2	56.9	8.0	-5.6	-9.8
	<u>816.3</u>	<u>100.0</u>	<u>721.3</u>	<u>100.0</u>	<u>95.0</u>	<u>13.2</u>

Business Segment Analysis

Mold Fabrication Business

In the first half of 2017, the revenue of the mold fabrication business division from external customers amounted to approximately HK\$306.1 million, representing a stable increase of approximately 5.5% when compared to approximately HK\$290.2 million in the same period last year, and accounting for approximately 37.5% of the Group's total revenue.

Since the Group's production of ultra-large standard molds commenced in 2014, the Group gradually developed new customers and has now become one of the designated suppliers of certain well-known automobile customers, which promoted a growth of 19.5% in the automobiles business in the first half of 2017. Supported by the increased amount of orders and enhanced utilization rate of plants, gross profit margin of the mold fabrication business division increased by 8.6 percentage points to 34.8% during the Period. Upon the continuous enhancement of the utilization rate of production lines, the Group expects that the gross profit margin will maintain a steady growth in the second half of 2017. The clients from automobiles mold business of the Group mainly includes tier one component suppliers engaging in production of automobile component for European automobile brands such as Mercedes-benz, BMW and Volkswagen.

In addition to the production line of ultra-large standard molds, the Group also has production lines of precision molds, covering a number of high-end electronics consumer product businesses, such as commercial telecommunications equipment, mobile phones and wearable devices, medical and health care. Coupled with the downstream plastic components manufacturing business, the Group provides one-stop services and also quality and convenient production solutions to our customers.

Plastic Components Manufacturing Business

In the first half of 2017, the revenue of the plastic components manufacturing business division from external customers amounted to approximately HK\$510.2 million (first half of 2016: HK\$431.1 million), representing an increase of 18.3% compared to the same period last year, and accounting for approximately 62.5% of the Group's total revenue. During the Period, the growth was benefited from the robust demand from the smartphone brand customers in 2017, together with the additional components ordered by the Group's customers as a result of the significantly enhanced competitiveness caused by the improving production efficiency; at the same time, the Group has successfully become the supplier of a mobile phone case brand in the US, which resulted in a significant increase of 41.2% in the revenue of the mobile phones and wearable devices sector compared to the same period last year. In addition, due to the impact of the change of economic cycle, more companies conduct international meetings by means of telephone/video conference in order to reduce travel expenses. This boosted the demand in the commercial telecommunication sector and resulted in a 18.4% growth in the revenue as compared to the same period last year. The Group's insight into the trend of consumer goods enables us to be the first to tap into the supply chain of smart home brands. However, since the industry was in the process of merger and integration during the Period, the progress of orders from this sector was slower than expected. However, the Group has secured an important project order from a major brand of smart home in the market, and has also entered the supply chain of an audio equipment brand under a smart phone client, which are expected to make considerable contribution to the results of the second half of the year and in the future.

The Group is committed to optimizing the highly automatic and smart production. During the Period, due to the significant improvement in production efficiency resulted from the increased production volume and the Group's efforts in automation, the gross profit margin for the plastic components manufacturing business division improved to 30.7% from approximately 26.6% in the same period last year, representing a significant increase of 4.1 percentage points.

FINANCIAL REVIEW

Revenue

Revenue for the six months ended 30 June 2017 was HK\$816.3 million, representing an increase of HK\$95.0 million or 13.2% as compared with the revenue of HK\$721.3 million for the corresponding period in 2016. Such increase was mainly attributable to the growth in sales of the customers from industries including mobile phones and wearable devices, medical and health care, commercial telecommunications equipment and automobiles.

Gross Profit

Gross profit for the first half of 2017 was HK\$263.3 million, representing an increase of HK\$72.8 million or 38.2% as compared with the gross profit of HK\$190.5 million for the corresponding period in 2016. Such increase was attributable to the sufficient amount of orders, together with the Group's continuous development in automatic and smart production which kept enhancing production efficiency, and thereby effectively reducing the unit production cost. In the meantime, the depreciation of RMB also helped ease part of the Group's cost pressures.

Segment gross profit margin for mold fabrication for the first half of 2017 was 34.8%, up 8.6 percentage points from 26.2% for the corresponding period in 2016, primarily due to the increased amount of orders and the continuous enhancement of the utilization rate of production lines.

Segment gross profit margin for plastic components manufacturing for the first half of 2017 was 30.7%, representing an increase of 4.1 percentage points from 26.6% for the first half of 2016. The increase in gross profit margin was primarily attributable to the significant improvement in production efficiency arising from the increased production volume and the Group's efforts in automation.

Other Income

Other income for the first half of 2017 was HK\$7.7 million, representing an increase of HK\$0.2 million or 2.7% as compared with HK\$7.5 million for the corresponding period in 2016. The increase was mainly due to the increase in the sales revenue of scrap during the Period.

Other (Losses)/Gains — Net

Other losses, net decreased by HK\$11.6 million from other gains, net of HK\$3.4 million for the corresponding period in 2016 to HK\$8.2 million for the first half of 2017. In order to minimise the effect of fluctuations of the Euro on 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 fluctuations of the Euro on the Group. Although the rise of exchange rate of Euro may cause a foreign exchange loss of Euro-denominated bank loan, the revenue of Euro-denominated business will also increase accordingly as the exchange rate increases.

Selling Expenses

Selling expenses for the first half of 2017 was HK\$41.3 million, representing an increase of HK\$7.0 million or 20.4% from the selling expenses of HK\$34.3 million for the corresponding period in 2016. The increase was primarily due to the corresponding increase in sales commission as a result of increased sales.

Administrative Expenses

Administrative expenses for the first half of 2017 was HK\$93.1 million, representing an increase of HK\$14.4 million or 18.3% as compared with the administrative expenses of HK\$78.7 million for the corresponding period in 2016. The main reasons of which were: 1) the increase in employee benefit expenses by HK\$6.0 million as a results of annual salary increment and the growth in sales during the Period; 2) the increase in depreciation by HK\$4.0 million due to renovation of the new office building and purchase of equipment during the Period; and 3) the increase in allowance for impairment of inventories by HK\$4.1 million.

Finance Income — Net

Net finance income for the first half of 2017 was HK\$1.9 million, representing a surge of HK\$0.9 million or 90.0% as compared with the net finance income of HK\$1.0 million for the corresponding period in 2016, which was primarily due to an increase in net finance income caused by the corresponding decline in interest expenditure as bank borrowings decreased.

Income Tax Expense

Income tax expense for the first half of 2017 was HK\$19.7 million, and the effective tax rate was 15.1%, which was higher than the effective tax rate of 11.8% for the corresponding period in 2016. The increase was mainly attributable to the increase in the PRC withholding income tax and Hong Kong profits tax.

Profit for the Period Attributable to Owners of the Company

Profit attributable to owners of the Company for the first half of 2017 was HK\$110.5 million, representing an increase of HK\$31.6 million or 40.1% from HK\$78.9 million for the corresponding period in 2016.

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 will be higher in the second half of the year than in the first half of the year.

LIQUIDITY, FINANCIAL RESOURCES AND RATIOS

As at 30 June 2017, the Group had net current assets of approximately HK\$368.1 million (31 December 2016: HK\$348.4 million). The Group had cash and cash equivalents of approximately HK\$358.0 million (31 December 2016: HK\$381.3 million). The current ratio of the Group as at 30 June 2017 was approximately 159.4% (31 December 2016: 152.2%).

Total equity of the Group as at 30 June 2017 was approximately HK\$744.6 million (31 December 2016: HK\$685.0 million). The gearing ratio as at 30 June 2017 was approximately 17.5% (31 December 2016: 29.1%). Such decrease was mainly due to the decrease in operating loans as a result of sufficient cash flows of the Group as well as the increase in equity caused by the profits earned during the Period.

DEBT MATURITY PROFILE

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

	30 June 2017	31 December 2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	123,599	164,984
Between 1 and 2 years	3,333	19,810
Between 2 and 5 years	3,392	14,500
	<u>130,324</u>	<u>199,294</u>

An analysis of the Group's key liquidity ratios as at 30 June 2017 is as follows:

	Six months ended 30 June	
	2017	2016
Inventory turnover days (<i>Note 1</i>)	90	93
Trade receivable turnover days (<i>Note 2</i>)	47	46
Trade payable turnover days (<i>Note 3</i>)	69	75
	30 June 2017	31 December 2016
Current ratio (<i>Note 4</i>)	159.4%	152.2%

Notes:

1. Inventory turnover days is calculated based on the average balance of inventory divided by the cost of sales for the relevant period 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 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 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 was 90 days, which was comparable to that of the same period ended 30 June 2016.

TRADE RECEIVABLE TURNOVER DAYS

During the Period, the Group's trade receivable turnover days was 47 days, which was comparable to that of the corresponding period ended 30 June 2016.

TRADE PAYABLE TURNOVER DAYS

During the Period, the Group's trade payable turnover days was 69 days, representing a decrease of 6 days as compared with that of the corresponding period in 2016. The decrease in trade payable turnover days, as compared to that of the same period last year, was mainly due to the reduction of average credit period of accounts payable and the expedited payment progress during the Period.

CURRENT RATIO

As at 30 June 2017, the Group's current ratio was 159.4%, which was comparable to that as at 31 December 2016.

PLEDGED ASSETS

Details of pledged assets as at 30 June 2017 are set out in Note 13(a) to the interim financial information.

FOREIGN EXCHANGE RISK MANAGEMENT

The Group mainly operated 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 a main concern 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 analyse 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 conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The Group's cash and bank balances were primarily denominated in US dollar, RMB 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 banking facilities 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. Therefore, the recent depreciation of RMB has a positive impact on the Company's operation. 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.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Company was listed on the Stock Exchange on 20 December 2013. Net proceeds from the initial public offering totaled approximately HK\$268.0 million (including the net proceeds from the exercise of the over-allotment option which took place on 15 January 2014).

The table below sets out the use of net proceeds from the initial public offering and the unutilised amounts as at 30 June 2017. All unutilised proceeds are placed with licensed banks in China and Hong Kong.

Use of proceeds

	% of total amount	Net proceeds (HK\$ million)	Till 30 June 2017	
			Utilised amounts (HK\$ million)	Unutilised amounts (HK\$ million)
Establishing a new business unit specialising in ultra-large standard molds	19%	51.9*	51.9	—
Upgrading mold fabrication capabilities	14%	37.1*	37.1	—
Expanding Shenzhen plastic components manufacturing capacity	22%	59.4*	59.4	—
Expanding Suzhou plastic components manufacturing capacity	17%	44.5*	44.5	—
Strategic acquisitions of other mold fabricators	11%	29.5*	16.4	13.1
Research and development	8%	21.5*	21.5	—
General working capital	9%	24.1*	24.1	—
	<u>100%</u>	<u>268.0*</u>	<u>254.9</u>	<u>13.1</u>

*Note: On 15 January 2014, China Merchants Securities (HK) Co., Limited, the sole global coordinator (on behalf of the international underwriters) of the global offering, partially exercised the over-allotment option, pursuant to which the Company issued 26,600,000 ordinary shares of HK\$0.1 each at the subscription price of HK\$1.25 per share. The allocation of the net proceeds of HK\$32.4 million was adjusted on a pro rata basis as set out in the section headed “Use of Proceeds” in the Company’s prospectus dated 11 December 2013 (the “**Prospectus**”). As a result, the net aggregate proceeds were increased from HK\$235.6 million to HK\$268.0 million.

The use of proceeds shown above is in line with the intended use as set out in the Prospectus.

PLANS FOR MATERIAL CAPITAL INVESTMENTS

The Group plans to invest in capacity expansion and pursue suitable investment projects to capitalize on 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. Such source of funding would be primarily from the internal resources.

STAFF POLICY

As at 30 June 2017, the Group had 3,427 full-time employees (31 December 2016: 3,286) and had 547 workers dispatched to us from third party staffing companies (31 December 2016: 621).

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 for its directors and employees in a bid to provide a competitive package 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 benefit 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 2017, the Group has made no material acquisitions or disposals of subsidiaries.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any significant contingent liabilities.

PROSPECT

In the first half of 2017, the global economy experienced a moderate recovery; along with the positive overall consumer sentiment, the Group took such advantages to further develop its business. The Group has now become the one-stop plastic solution provider of the major technology companies in the US, and has also long been recognized as a trustworthy business partner of various internationally-known brands of high-tech consumer goods, the Group's business development is in good progress. The Group is fully confident in its development in the second half of this year, and committed to further expanding the sales with the current customer base. Currently, the existing orders are adequate and have high visibility. As at 30 June 2017, the value of the Group's order on hand was HK\$764.4 million, representing an increase of 18.4%, compared with that of HK\$645.5 million as at 31 December 2016. The Group will continue to make efforts to upgrade its smart and automatic production equipment, implement expansion plan, and optimize operating procedures as well as production efficiency in order to satisfy the increasing orders, thereby improving the Group's profitability. For the production technology and product quality, in particular, those of the mold fabrication, the Group will pursue continuous improvement and keep seeking breakthrough and innovation to lay a sound foundation for its long-term development.

Besides, the sound financial position supports the Group to explore strategic acquisition target. The Group is actively seeking target companies which can complement and bring synergy to the existing businesses. Such strategic cooperation will effectively make use of the leading technique and industry experience of the Group. In addition, the Group also continues to explore new ventures with development potential, especially in the health and medical related sectors, and provides one-stop plastic solution for their products, which could give new impetus to the Group's business development.

To steadily step towards a global leading position, the Group embraces the philosophy of “recruiting based on merit and unleashing employees’ potential”. In 2017, the Group has fully implemented capacity and leadership promotion programs for staffs in all levels, which include: Leadership Assessment and Promotion Program for the senior management above director-level (cooperating with the world’s leading consultant companies); Outstanding Manager Promotion Program; Sparkling Program for management level staffs; One-to-One Mentoring Development Program for talents with high potential; TK Emerging Leader (TKEL) Program, with an aim to reserve future management talents for the Group by recruiting certain management trainees from major education institutions and universities at home and abroad; Gold Team Leader Program to enhance the management level of the top management; and a series of systematic talent development programs to promote the capacity of employees in key positions. While putting more efforts into the talent development programs, the Group has recruited a number of management talents and technical experts with global perspectives from the Mainland and overseas, aiming to build a comprehensive ladder for talents in marketing, technology and management as well as strengthen the succession program for key positions. With such long-term talent strategies and systematic talent development programs, the Group was honoured with the “Top Human Resources Management Awards in China” (中國人力資源傑出管理獎) in 2017.

The Group considers that, along with the technology development, the diversity and upgrade and replacement of high-end technology consumer products will become the mainstream. With the years of relationships with internationally-known technology consumer brands, its extensive experience in mold fabrication and plastic injection, as well as its mature technology level, the Group will attract more brand customers who value the quality of plastic injection of their products. The Group also strives to approach domestic high-end technology brand customers for various cooperation opportunities to explore new market. Looking forward, the Group will continue to build its foundation by grasping industry opportunities, further improve its production technology, as well as widen the application and research and development of new technique, in order to promote a sustainable and steady development of the Group.

Developments as to defects to land title with respect to the Shenzhen Tangjia Plants

Reference is made to the Prospectus and the announcement of the Company dated 20 March 2014. Unless otherwise defined herein, capitalized terms used in this sub-section shall have the same meanings as those defined in the Prospectus. As the Bureau of Urban Planning and Land Commission of the Shenzhen Municipality (深圳市規劃國土委) is still examining policy proposals regarding the conversion of land use from high-technology project to commercial use by payment of land premium for submission for the approval of the municipal government, pursuant to the instructions of the Land Bureau, TK Technology (Shenzhen) Ltd. (“**TK Technology (Shenzhen)**”) will submit the written application to convert the green-type property ownership certificate into the red-type property ownership certificate after the promulgation of the relevant policy.

As disclosed in the section headed “Business — Properties — Plans to Resolve Risks Related to Certain of Our Leased Properties” of the Prospectus, the Company has contingency arrangements in place and will adopt such measures when it is necessary. Such contingency arrangements include relocating to the Backup Plants by exercising the Company’s right to request the Backup Plants Landlord to enter into the formal lease agreement with the Company within 15 days from the Company’s notice to the Backup Plants Landlord for one or more of the Backup Plants pursuant to the Pre-lease Agreements. Towards the expiry of the Pre-lease Agreements, in the event that TK Technology (Shenzhen) has yet to convert the green-type property ownership certificate into red-type property ownership certificate, the Company shall seek to either renew the Pre-lease Agreements or engage another party for a similar arrangement. The Company has renewed the Pre-lease Agreements until 31 December 2019.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed listed securities of the Company during the six months ended 30 June 2017.

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 is 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 six months ended 30 June 2017.

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 Mr. Ho Kenneth Kai Chung.

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 six months ended 30 June 2017.

DIVIDEND

On 14 August 2017, the Board resolved to declare an interim dividend of HK5.0 cents per share for the six months ended 30 June 2017, amounting to a total of approximately HK\$41,663,000. The interim dividend is expected to be paid on 15 September 2017 to all shareholders whose name appear on the register of members of the Company at the close of business on 4 September 2017.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to the aforesaid proposed interim dividend, the register of members of the Company will be closed from 31 August 2017 to 4 September 2017, both dates inclusive, during which period no transfer of shares will be registered. In order to be qualified for the proposed 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 30 August 2017.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at 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, 14 August 2017

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, Mr. Ho Kenneth Kai Chung and Mr. Tsang Wah Kwong.