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EVA Precision Industrial Holdings Limited

億和精密工業控股有限公司

(Incorporated with limited liability in the Cayman Islands)

(Stock Code: 838)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

FINANCIAL RESULTS

The Board of Directors of EVA Precision Industrial Holdings Limited (the “Company”) are pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2013 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

		Unaudited	
		Six months ended 30 June	
		2013	2012
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	4	1,184,071	1,168,036
Cost of sales		<u>(897,225)</u>	<u>(928,134)</u>
Gross profit		286,846	239,902
Other income		28	19
Other gains – net		7,510	1,914
Selling and marketing costs		(55,899)	(48,376)
General and administrative expenses		<u>(197,796)</u>	<u>(137,455)</u>
Operating profit	5	40,689	56,004
Finance income	6	4,498	489
Finance costs	6	(12,122)	(8,703)
Share of loss of a jointly controlled entity		<u>(1,330)</u>	<u>–</u>
Profit before income tax		31,735	47,790
Income tax expense	7	<u>(3,600)</u>	<u>(8,066)</u>
Profit for the period		28,135	39,724

		Unaudited	
		Six months ended 30 June	
		2013	2012
<i>Note</i>		HK\$'000	HK\$'000
Other comprehensive income/(loss) for the period, net of tax Item that may be reclassified subsequently to profit or loss			
Currency translation differences		<u>6,620</u>	<u>(836)</u>
Total comprehensive income for the period		<u>34,755</u>	<u>38,888</u>
Profit attributable to:			
– Owners of the Company		<u>27,005</u>	40,201
– Non-controlling interests		<u>1,130</u>	<u>(477)</u>
		<u>28,135</u>	<u>39,724</u>
Total comprehensive income attributable to:			
– Owners of the Company		<u>32,721</u>	39,365
– Non-controlling interests		<u>2,034</u>	<u>(477)</u>
		<u>34,755</u>	<u>38,888</u>
Earnings per share for profit attributable to the owners of the Company, expressed in HK cents per share			
– basic	8	<u>HK1.6 cents</u>	<u>HK2.3 cents</u>
– diluted		<u>HK1.6 cents</u>	<u>HK2.3 cents</u>
Dividend	9	<u>8,063</u>	<u>12,227</u>

The notes are an integral part of these condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

		Unaudited 30 June 2013 HK\$'000	Audited 31 December 2012 HK\$'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		1,715,300	1,702,098
Leasehold land and land use rights		169,153	176,296
Goodwill		2,545	2,545
Investment in a jointly controlled entity		10,012	9,538
Prepayments, deposits and other receivables		184,011	142,518
Other assets		1,607	1,607
		<u>2,082,628</u>	<u>2,034,602</u>
Current assets			
Inventories		272,396	270,185
Trade receivables	10	423,841	422,990
Loan and interest receivables	11	102,685	6,166
Prepayments, deposits and other receivables		100,502	78,246
Financial assets at fair value through profit or loss		20,073	17,277
Short-term bank deposits		–	102,362
Restricted cash		1,456	2,913
Cash and cash equivalents		1,195,596	888,994
		<u>2,116,549</u>	<u>1,789,133</u>
Current liabilities			
Trade payables	12	391,551	392,158
Accruals and other payables		127,798	154,278
Bank borrowings		678,110	530,150
Finance lease liabilities		52,216	27,435
Current income tax liabilities		26,707	25,654
		<u>1,276,382</u>	<u>1,129,675</u>
Net current assets		<u>840,167</u>	<u>659,458</u>
Total assets less current liabilities		<u>2,922,795</u>	<u>2,694,060</u>

	Unaudited	Audited
	30 June	31 December
	2013	2012
	HK\$'000	HK\$'000
Non-current liabilities		
Bank borrowings	659,697	539,804
Finance lease liabilities	121,738	56,082
Deferred taxation	22,253	22,498
	<u>803,688</u>	<u>618,384</u>
Net assets	<u>2,119,107</u>	<u>2,075,676</u>
EQUITY		
Capital and reserves		
Share capital	167,977	167,947
Reserves	1,887,070	1,845,703
	<u>2,055,047</u>	<u>2,013,650</u>
Equity attributable to owners of the Company		
Non-controlling interests	64,060	62,026
	<u>2,119,107</u>	<u>2,075,676</u>

The notes are an integral part of these condensed consolidated interim financial information.

Note:

1. BASIS OF PRESENTATION

The Group is principally engaged in the design and fabrication of metal stamping and plastic injection moulds, and the manufacturing of metal stamping and plastic injection components and lathing components. The Group also has a 60% subsidiary which engages in micro lending business in China.

The Company was incorporated in the Cayman Islands on 12 July 2004 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 11 May 2005.

The condensed consolidated interim financial statements for the six months ended 30 June 2013 have been prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34, "Interim financial reporting". The condensed consolidated interim financial statements should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The condensed consolidated interim financial information is presented in Hong Kong dollars ("HK\$"), unless otherwise stated, and was approved for issue on 28 August 2013. The condensed consolidated interim financial information has not been audited.

2. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2012, as described in those annual financial statements. Taxes on income in the interim period are accrued using the tax rates that would be applicable to expected total annual earnings.

(a) New standards, amendments and interpretations to existing standards effective for the financial year beginning 1 January 2013.

HKAS 1 (Amendment)	Financial statements presentation
HKAS 19 (Revised)	Employee benefits
HKAS 27 (Revised 2011)	Separate financial statements
HKAS 28 (Revised 2011)	Associates and joint ventures
HKFRS 1 (Amendment)	First time adoption – Government loans
HKFRS7	Financial instruments: Disclosures – Offsetting financial assets and financial liabilities
HKFRS 10	Consolidated financial statements
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendment)	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurements
Annual improvement projects	Annual improvements 2009-2011 cycle

The adoption of these new standards, amendments and interpretations has not had any significant financial impact on the results of operation and financial position of the Group. However, certain additional disclosure have been included, including in respect of the comparative period.

- (b) **The following new standards, amendments and interpretations to existing standards have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted**

		Effective for accounting periods beginning on or after
HKAS 32 (Amendment)	Financial instruments: Presentation – Offsetting financial assets and financial liabilities	1 January 2014
HKFRS 10, HKFRS 12 and HKFRS 27 (Revised 2011)	Investment entities	1 January 2014
HKAS 36 (Amendment)	Recoverable amount disclosures for non-financial assets	1 January 2014
HK (IFRIC) – Int 21	Levies	1 January 2014
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory effective date and transition disclosures	1 January 2015
HKFRS 9	Financial instruments	1 January 2015

The directors anticipate that the adoption of the above new standards, amendments and interpretations to existing standards in Note 2(b) will not result in a significant impact on the results or financial position of the Group. The Group plans to adopt these standards, amendments and interpretations to existing standards when they become effective.

3. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the executive directors and senior management collectively. They review the Group’s internal reporting in order to assess performance and allocate resources. They consider the business from a product perspective.

At 30 June 2013, the Group is organised into three (30 June 2012: two) main business segments:

- (i) design and fabrication of metal stamping moulds and manufacturing of metal stamping components and lathing components (“Metal stamping”);
- (ii) design and fabrication of plastic injection moulds and manufacturing of plastic injection components (“Plastic injection”); and
- (iii) micro lending business in China (“Microcredit”) (being a new segment in second half of 2012 and commencing operation in 2013).

The chief operating decision-maker assesses the performance of the operating segments based on a measure of adjusted earnings before interest and tax. Information provided to the chief operating decision-maker is measured in a manner consistent with that in the financial statements.

Sales between segments are carried out on terms equivalent to those that prevail in arm’s length transactions. The revenue from external parties reported to the management is measured in a manner consistent with that in the condensed consolidated interim statement of comprehensive income.

The segment results and other segment items are as follows:

	Six months ended 30 June 2013				Six months ended 30 June 2012		
	Metal stamping HK\$'000	Plastic Injection HK\$'000	Microcredit HK\$'000	Total HK\$'000	Metal stamping HK\$'000	Plastic injection HK\$'000	Total HK\$'000
Total gross segment sales	811,840	593,271	8,800	1,413,911	802,018	456,408	1,258,426
Inter-segment sales	<u>(124,742)</u>	<u>(105,098)</u>	<u>-</u>	<u>(229,840)</u>	<u>(67,829)</u>	<u>(22,561)</u>	<u>(90,390)</u>
Sales	<u>687,098</u>	<u>488,173</u>	<u>8,800</u>	<u>1,184,071</u>	<u>734,189</u>	<u>433,847</u>	<u>1,168,036</u>
Segment results	<u>14,469</u>	<u>18,983</u>	<u>6,366</u>	<u>39,818</u>	<u>24,115</u>	<u>32,244</u>	56,359
Unallocated expenses				(459)			(355)
Finance income				4,498			489
Finance costs				<u>(12,122)</u>			<u>(8,703)</u>
Profit before income tax				31,735			47,790
Income tax expense				<u>(3,600)</u>			<u>(8,066)</u>
Profit for the period				<u>28,135</u>			<u>39,724</u>
Depreciation	<u>64,101</u>	<u>31,099</u>	<u>10</u>	<u>95,210</u>	<u>46,752</u>	<u>19,316</u>	<u>66,068</u>
Amortisation	<u>1,267</u>	<u>110</u>	<u>-</u>	<u>1,377</u>	<u>1,308</u>	<u>67</u>	<u>1,375</u>

The segment assets and liabilities are as follows:

	As at 30 June 2013					As at 31 December 2012			
	Metal stamping HK\$'000	Plastic injection HK\$'000	Microcredit HK\$'000	Unallocated HK\$'000	Total HK\$'000	Metal stamping HK\$'000	Plastic injection HK\$'000	Unallocated HK\$'000	Total HK\$'000
Assets	<u>2,792,091</u>	<u>1,269,812</u>	<u>133,911</u>	<u>3,363</u>	<u>4,199,177</u>	<u>2,842,479</u>	<u>852,290</u>	<u>128,966</u>	<u>3,823,735</u>
Liabilities	<u>352,945</u>	<u>136,459</u>	<u>517</u>	<u>1,590,149</u>	<u>2,080,070</u>	<u>102,091</u>	<u>414,912</u>	<u>1,231,056</u>	<u>1,748,059</u>
Capital expenditure	<u>64,349</u>	<u>40,939</u>	<u>23</u>	<u>-</u>	<u>105,311</u>	<u>425,286</u>	<u>102,378</u>	<u>89</u>	<u>527,753</u>

Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, goodwill, certain prepayments, deposits and other receivables, other assets, inventories, trade receivables, loan and interest receivables, financial assets at fair value through profit or loss and operating cash.

Segment liabilities comprise operating liabilities but exclude bank borrowings, finance lease liabilities, current income tax liabilities, deferred taxation and certain accruals and other payables related to neither segments.

Capital expenditure comprises additions to property, plant and equipment, leasehold land and land use rights.

Segment assets and liabilities are reconciled to entity assets and liabilities at 30 June 2013 as follows:

	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>
Segment assets/liabilities	4,195,814	489,921
Unallocated:		
Cash and cash equivalents	3,363	–
Current income tax liabilities	–	26,707
Deferred taxation	–	22,253
Current borrowings	–	678,110
Non-current borrowings	–	659,697
Current finance lease liabilities	–	52,216
Non-current finance lease liabilities	–	121,378
Accruals and other payables	–	29,788
	<hr/>	<hr/>
Total	<u>4,199,177</u>	<u>2,080,070</u>

Segment assets and liabilities are reconciled to entity assets and liabilities at 31 December 2012 as follows:

	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>
Segment assets/liabilities	3,694,769	517,003
Unallocated:		
Cash and cash equivalents	121,939	–
Prepayments, deposits and other receivables	6,938	–
Property, plant and equipment	89	–
Current income tax liabilities	–	25,654
Deferred taxation	–	22,498
Current borrowings	–	530,150
Non-current borrowings	–	539,804
Current finance lease liabilities	–	27,435
Non-current finance lease liabilities	–	56,082
Accruals and other payables	–	29,433
	<hr/>	<hr/>
Total	<u>3,823,735</u>	<u>1,748,059</u>

4 REVENUE

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
Revenue		
Design and fabrication of metal stamping moulds	119,403	50,757
Manufacturing of metal stamping components	488,977	571,656
Manufacturing of lathing components	64,962	95,090
Design and fabrication of plastic injection moulds	67,835	32,284
Manufacturing of plastic injection components	413,904	396,908
Income from micro lending business	8,800	–
Others ¹	20,190	21,341
	<u>1,184,071</u>	<u>1,168,036</u>

¹ Others mainly represent sales of scrap materials.

Substantially all of the Group's operations and assets are located in Mainland China and the Group's sales are primarily made in Mainland China.

Revenues for the six months ended 30 June 2013 of approximately HK\$286,720,000 (2012: HK\$270,202,000), HK\$179,915,000 (2012: HK\$164,605,000), HK\$139,567,000 (2012: HK\$139,408,000) and HK\$83,876,000 (2012: HK\$140,296,000) were derived from the top four external customers respectively.

5 OPERATING PROFIT

Operating profit is stated after charging/(crediting) the followings:

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
Raw materials and consumables used	600,648	671,653
Production overhead costs (excluding labour and depreciation expenses)	65,915	53,475
Staff costs, including directors' emoluments and share option costs		
– Research and development	15,634	6,890
– Share options granted	17,708	–
– Others	253,640	220,050
Depreciation of property, plant and equipment	95,210	66,068
Amortisation of leasehold land and land use rights	1,377	1,375
Research and development	6,526	20,269
Provision for/(reversal of) inventories to net realisable value	3,328	(125)

6 FINANCE INCOME/COSTS

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
Finance income		
Interest income from bank deposits	<u>4,498</u>	<u>489</u>
Finance costs		
Interest on:		
Bank borrowings wholly repayable within five years	11,992	8,132
Bank borrowings not wholly repayable within five years	47	16
Finance lease liabilities	<u>1,056</u>	<u>555</u>
	13,095	8,703
Less: amounts capitalised on qualifying assets	<u>(973)</u>	<u>–</u>
	<u>12,122</u>	<u>8,703</u>

7 INCOME TAX EXPENSE

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
Current taxation		
– Hong Kong profits tax	–	276
– Mainland China enterprise income tax	6,810	8,526
– Deferred income tax credited for the period	(245)	(245)
– Over-provision in prior years	<u>(2,965)</u>	<u>(491)</u>
	<u>3,600</u>	<u>8,066</u>

(a) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the six months ended 30 June 2013 (2012: 16.5%).

(b) Mainland China corporate income tax

Income tax in the subsidiaries of the Group established in Mainland China has been provided at the following tax rates:

- (i) Provision for China corporate income tax was calculated on the statutory rate of 25% (2012: 25%) on the assessable income of each of the Group's entities except that certain subsidiaries of the Group operating in Mainland China are eligible for certain tax exemptions and concessions including tax holiday and reduced income tax rate during the period. Accordingly, the China corporate income tax for such subsidiaries has been provided for after taking into account of their tax exemptions and concessions.
- (ii) During the year ended 31 December 2011, Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd., was recognised by the Chinese Government as a "National High and New Technology Enterprise" and was therefore subject to a preferential tax rate of 15% during the six months ended 30 June 2012 and 2013.
- (iii) During the six months ended 30 June 2012, EVA Precision Industrial (Suzhou) Limited was recognised by the Chinese Government as a "National High and New Technology Enterprise" and was therefore subject to a preferential tax rate of 15% during the six months ended 30 June 2012 and 2013.
- (iv) During the year ended 31 December 2012, Shenzhen EVA Mould Manufacturing Limited and Chongqing Digidie Auto Body Ltd. were recognised by the Chinese Government as a "National High and New Technology Enterprise" and were therefore subject to a preferential tax rate of 15% during the six months ended 30 June 2013 (30 June 2012: 25%).

(c) Overseas income taxes

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and, accordingly, is exempted from the Cayman Islands income tax. The Company's subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from the British Virgin Islands income tax.

8 EARNINGS PER SHARE

Basic

	Six months ended 30 June	
	2013	2012
Profit attributable to owners of the Company (HK\$'000)	<u>27,005</u>	<u>40,201</u>
Weighted average number of ordinary shares in issue ('000)	<u>1,679,747</u>	<u>1,759,050</u>
Basic earnings per share (HK cents per share)	<u>1.6</u>	<u>2.3</u>

Diluted

	Six months ended 30 June	
	2013	2012
Profit attributable to owners of the Company (HK\$'000)	<u>27,005</u>	<u>40,201</u>
Weighted average number of ordinary shares in issue ('000)	<u>1,679,747</u>	<u>1,759,050</u>
Adjustment for share options ('000)	<u>52,421</u>	<u>7,060</u>
Weighted average number of ordinary shares for diluted earnings per share ('000)	<u>1,732,168</u>	<u>1,766,110</u>
Diluted earnings per share (HK cents per share)	<u>1.6</u>	<u>2.3</u>

9 DIVIDEND

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
Proposed interim dividend of HK0.48 cents (2012: HK0.7 cents) per ordinary share	<u>8,063</u>	<u>12,227</u>

10 TRADE RECEIVABLES

The credit period granted by the Group to its customers is generally 30 to 180 days. The aging of the trade receivables is as follows:

	As at	
	30 June 2013 HK\$'000	31 December 2012 HK\$'000
0 to 90 days	382,719	393,961
91 to 180 days	35,542	24,378
181 to 360 days	6,768	5,647
Over 360 days	—	192
	<u>425,029</u>	<u>424,178</u>
Less: Provision for impairment of trade receivables	<u>(1,188)</u>	<u>(1,188)</u>
Trade receivables - net	<u><u>423,841</u></u>	<u><u>422,990</u></u>

The carrying amounts of trade receivables approximate their fair values.

11 LOAN AND INTEREST RECEIVABLE

Loan period analysis

The small and micro loans to customers arising under the Group's micro credit business have loan periods ranging from 3 days to 7 months. Loans and interest receivables in respect of loans by repayment period were set as follows:

	As at	
	30 June 2013 HK\$'000	31 December 2012 HK\$'000
Within one year	102,685	6,166
Less: provision for impairment	<u>—</u>	<u>—</u>
	<u><u>102,685</u></u>	<u><u>6,166</u></u>

The loans provided to customers bore fixed interest rates ranging from 7.2% to 24% per annum (2012: 24%), and were repayable according to the loan agreements.

As at 30 June 2013, loan and interest receivable of HK\$102,685,000 (2012: HK\$6,166,000) are neither past due nor considered impaired and relate to a wide range of customers for whom there was no history of default.

The loan and interest receivables are denominated in Chinese Renminbi.

12 TRADE PAYABLES

The aging of trade payables is as follows:

	As at	
	30 June 2013 <i>HK\$'000</i>	31 December 2012 <i>HK\$'000</i>
0 to 90 days	332,526	327,603
91 to 180 days	41,191	52,041
181 to 360 days	11,565	6,063
Over 360 days	<u>6,269</u>	<u>6,451</u>
	<u>391,551</u>	<u>392,158</u>

The carrying amounts of trade payables approximate their fair values and they have maturity periods within 180 days.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT EVENTS AND DEVELOPMENT

During the period, the Group continued to make progresses in its strategic expansion from previously focusing on just office automation (“OA”) equipment to also serving a diversity of products for the Chinese consumption market, particularly the huge automobile sector. The Group’s new automobile component production base in Wuhan, which started construction in 2012, is now near completion and is planned for commercial production before the end of 2013. The new Wuhan production base, which has land area of approximately 166,000 square metres and construction area (phase one) of approximately 49,000 square metres, is targeted at providing component production and welding services to automobile brand names located in Wuhan and adjacent cities. Since the Group’s business in automobile sector was only confined to the production of moulds in the past, the forthcoming completion of the new Wuhan production base signifies the Group’s expansion into supplying automobile components on a large scale basis, a business which is much more voluminous than just supplying moulds, and underscores our next step forward into the automobile market.

Currently, Wuhan is one of the major production hubs in China for automobiles. A number of international automobile brand names have established or are planning to establish production bases in Wuhan or its adjacent cities, which includes Dongfeng, Honda, Nissan, Citroen, Peugeot and General Motors. We are confident that by establishing the new Wuhan production base, and by utilising our precision engineering and production management expertise obtained through 20 years of experience in serving Japanese brand owners in the OA industry who are well known for their demanding quality requirements, our new Wuhan production base can stand out in the domestic automobile supply chain and open up a new phase of development for the benefit of the Group.

Further, by the end of 2012, the Group had established Shenzhen Jingong Microcredit Limited, a micro lending company in Shenzhen in which the Group has a 60% stake. This company is a non-deposit taking institution and therefore its fund available for lending is currently confined to its registered capital of RMB101,000,000. To control credit risk, loans are only made to individuals or companies whose backgrounds are well known to the Group. In the future, we expect the new micro lending company to provide an auxiliary source of income but the Group will nonetheless remain focused on our manufacturing business, which is well established and currently undergoing rapid development.

In 1H2013, turnover of the Group increased to HK\$1,184,071,000. The percentage of turnover growth, however, was only 1.4%, which was low as compared to our historical level and was primarily caused by the product replacement cycle of our customers. Last year, cautious about the economic conditions of developed countries, the Group’s customers in OA equipment business increased the production volume of relatively low end products for sales to emerging countries instead. Fortunately, the economy started to show stronger signs of recovery since late 2012. Driven by the revival in business confidence, our customers developed new product models. Under the Group’s business model, our customers would normally require us to jointly co-develop the relevant moulds with them during their product development stages. The completed moulds would then be consigned in our production bases for future mass production of components and semi-finished products when new OA equipment models

are launched to the market. Accordingly, the product development activities of our customers drove our mould revenue to HK\$187,238,000 in 1H2013, another historical high. However, as these new models have yet to be launched to the market, component revenue decreased as existing models were gradually phased out, which offset the increase in mould revenue.

Since moulds are high margin products, our gross profit margin increased to 24.2% for the period (1H2012: 20.5%). However, we had completed a new production base in Tianliao, Shenzhen in 2012, which commenced operations only after 1H2012. The Group's new management headquarter which is located at Shenzhen (Shiyan) production base was also put into use in early 2013. Therefore, depreciation and other operating costs in 1H2013 increased on a year-on-year basis. Further, the Group incurred share option costs of HK\$17,708,000 in relation to stock options granted in 2H2012 and 1H2013 (but recognition of such costs will end on 31 December 2013). At the same time, finance costs increased as the Group obtained new borrowings for its future capital expenditure and working capital requirements. Coupled with a general increase in employment and other costs in China's manufacturing industry, the Group's net profit declined by approximately 32.8% to HK\$27,005,000.

Despite the aforesaid, our revenue from the manufacture of moulds went up by as much as 125.5% as compared to 1H2012. As these moulds will be used for the production of components and semi-finished products when new OA equipment models are launched to the market, it is very likely to lead to a substantial increase in our component revenue in later periods, which can outweigh the above-mentioned costs, being either semi-fixed or non-recurring in nature, and enable us to revitalise profit growth.

As always, the Group is committed to maximising shareholders' value. Since our listing in 2005, we have always been adhering to a dividend payout at approximately 30% of net profit, and 1H2013 is no exception. In the future, we will adhere to our philosophy of continuous technological improvement, whilst maximising returns to our shareholders.

FINANCIAL REVIEW

An analysis of the Group's turnover and results by segment is as follows:

	Six months ended 30 June			
	2013		2012	
	HK\$'000		HK\$'000	
By business segment				
Turnover				
<i>Metal division</i>				
Design and fabrication of metal stamping moulds	119,403	10.1%	50,757	4.3%
Manufacturing of metal stamping components	488,977	41.3%	571,656	49.0%
Manufacturing of lathing components	64,962	5.5%	95,090	8.1%
Others (Note 1)	13,756	1.2%	16,686	1.4%
	<u>687,098</u>		<u>734,189</u>	
<i>Plastic division</i>				
Design and fabrication of plastic injection moulds	67,835	5.7%	32,284	2.8%
Manufacturing of plastic injection components	413,904	35.0%	396,908	34.0%
Others (Note 1)	6,434	0.5%	4,655	0.4%
	<u>488,173</u>		<u>433,847</u>	
Income from micro lending business	<u>8,800</u>	0.7%	<u>–</u>	–
Total	<u>1,184,071</u>		<u>1,168,036</u>	
Segment results				
Metal division	14,469		24,115	
Plastic division	18,983		32,244	
Micro lending business	<u>6,366</u>		<u>–</u>	
Operating profit	39,818		56,359	
Unallocated expenses	(459)		(355)	
Finance income	4,498		489	
Finance costs	(12,122)		(8,703)	
Income tax expense	(3,600)		(8,066)	
Non-controlling interests	<u>(1,130)</u>		<u>477</u>	
Profit attributable to owners of the Company	<u>27,005</u>		<u>40,201</u>	

Note 1: Others mainly represented sales of scrap materials

Turnover

During the six months ended 30 June 2013, our customers were developing new office automation equipment models and required us to jointly co-develop the relevant moulds for them. Accordingly, mould revenue from metal and plastic divisions increased by approximately 125.5% to HK\$187,238,000, another historical high. However, as these new models have yet to be launched to the market, component revenue decreased as existing models were gradually phased out, which offset the increase in mould revenue. Therefore, our total turnover in 1H2013 was stable as compared to 1H2012.

Gross profit

As mentioned above, our mould revenue was strong in 1H2013 and its percentage to our total turnover increased to 15.8%. Since the profit margin from mould production is generally higher than that from component production, our gross profit margin increased to 24.2% (1H2012: 20.5%).

Segment results

We had completed a new production base in Tianliao, Shenzhen in 2012, which commenced operations only after 1H2012. The Group's new management headquarter which is located at Shenzhen (Shiyan) production base was also put into use in early 2013. Therefore, depreciation and other operating costs in 1H2013 increased on a year-on-year basis. Further, the Group incurred share option costs of HK\$17,708,000 in relation to stock options granted in 2H2012 and 1H2013. Coupled with a general increase in employment and other costs in China's manufacturing industry, the Group's operating profit margin decreased in 1H2013.

Same as last year, the Group continued to incur initial costs for its new automobile component business, which included salaries for additional engineers and materials used for technology development and testing. As such initial costs were mainly incurred by the Group's metal division, the operating profit margin of the Group's metal division was lower than that of the plastic division, which were 2.1% and 3.9% respectively.

The operating profit margin of the Group's newly established micro lending company was 72.3%. Since its loans made to customers were solely funded by its own capital, this business had no significant cost and therefore its operating profit margin was high.

Finance costs

The Group's finance costs for the six months ended 30 June 2013 increased to approximately HK\$12,122,000, which was primarily caused by an increase in bank borrowings and finance lease liabilities during the period.

Income tax expense

During the six months ended 30 June 2013, income tax expense amounted to approximately HK\$3,600,000. Effective tax rate (defined as the percentage of income tax expense as compared to profit before income tax) for the period was 11.3%, which decreased as compared to 1H2012 because the Group received tax refund of HK\$2,965,000 from tax authority in China for over-payment of tax in prior years. Excluding such refund, effective tax rate in 1H2013 was 20.7% and increased as compared to 1H2012. This was mainly because the Group's new micro lending company, Shenzhen Jinggong Microcredit Limited, was subject to China income tax at statutory tax rate of 25% and is higher than most other major subsidiaries of the Group in China, which are entitled to preferential tax rate of 15% under the "National High and New Technology Enterprise" status.

Profit attributable to owners of the Company

During the period, profit attributable to owners of the Company decreased by approximately 32.8% to HK\$27,005,000, which was primarily attributable to the reduction in the Group's operating profit margin as mentioned above.

LIQUIDITY, FINANCIAL RESOURCES AND RATIOS

During the period, the Group recorded net cash outflow from operating activities of HK\$5,695,000. This was primarily caused by the increase in loans advanced to independent third parties from HK\$6,166,000 as at 31 December 2012 to HK\$102,685,000 as at 30 June 2013 under the Group's new micro lending business which was established by end of 2012. Excluding this, the Group had net operating cash inflow from its traditional manufacturing business of HK\$90,824,000, which decreased as compared to 1H2012 due to the reduction in profit in 1H2013. During the period, the Group's fixed deposits of HK\$102,362,000, which was placed in banks as at 31 December 2012, became mature and therefore the Group recorded a cash inflow from investing activities of the same amount. At the same time, although the construction of the Group's new production base in Wuhan was still on-going in the first half of 2013, the majority of the related capital expenditure such as land and construction costs had already been paid before 2013. Accordingly, the Group recorded net cash generated from investing activities of HK\$64,606,000 despite the on-going development of the Group. Since capital expenditure decreased, less new bank borrowings were drawn by the Group during the six months ended 30 June 2013, which resulted in a reduction in net cash generated from financing activities to HK\$246,034,000 during the period.

Bank loans as at 30 June 2013 were denominated in Hong Kong and United States dollars with floating interest rates and were used for financing the Group's operations and expansion. Treasury activities are controlled by senior management members with an objective of achieving a balance between the Group's expansion needs and its financial stability. An analysis of the Group's key liquidity and capital adequacy ratios as at 30 June 2013 is as follows:

	30 June 2013	31 December 2012
Inventory turnover days (<i>Note 1</i>)	55	53
Debtors' turnover days (<i>Note 2</i>)	65	66
Creditors' turnover days (<i>Note 3</i>)	79	77
Cash conversion cycle (<i>Note 4</i>)	41	42
Current ratio (<i>Note 5</i>)	1.66	1.58
Net debt-to-equity ratio (<i>Note 6</i>)	<u>15.3%</u>	<u>7.9%</u>

Notes:

1. Calculation of inventory turnover days is based on the ending inventories divided by cost of sales and multiplied by the number of days during the period.
2. Calculation of debtors' turnover days is based on the ending balance of trade receivables divided by turnover and multiplied by the number of days during the period.
3. Calculation of creditors' turnover days is based on the ending balance of trade payables divided by cost of sales and multiplied by the number of days during the period.
4. Cash conversion cycle is defined as the total sum of inventory and debtors' turnover days less creditors' turnover days.
5. Current ratio is calculated based on the Group's total current assets divided by total current liabilities.
6. Net debt-to-equity ratio is calculated based on the total balance of bank borrowings and finance lease liabilities less cash and bank balances divided by shareholders' equity.

Inventory, debtors' and creditors' turnover days

During the period, the Group's inventory, debtors' and creditors' turnover days remained stable.

Current ratio and net debt-to-equity ratio

During the period, the Group obtained additional bank borrowings for future capital expenditure and working capital requirements, which resulted in an increase in the Group's net debt-to-equity ratio as at 30 June 2013. At the same time, most of these new bank borrowings are long-term bank loans with repayment periods of more than one year, and accordingly was classified as non-current liabilities on the Group's statement of financial position. As a majority of the proceeds from these new bank borrowings remained unused as at 30 June 2013, cash and current assets increased which resulted in an improvement in the Group's current ratio as at 30 June 2013.

HUMAN RESOURCES

As at 30 June 2013, the total number of employees of the Group was 7,709 employees, which was comparable to 7,595 employees as at 31 December 2012.

The Group considers its employees, in particular the skilled technicians and production management members, as its core assets since the Group's future success relies on the strengthening of its product quality and management on a continuing basis. Remuneration policy is reviewed regularly, making reference to the prevailing legal framework, market conditions and performance of the Group and individual staff. Share option schemes were adopted to attract and retain talents to contribute to the Group. However, apart from providing attractive remuneration packages, management believes that the creation of a harmonious working environment suitable for the development of employees' potential is also important for attracting and retaining qualified staff for its future success. Training programmes are offered to employees for their continuous development. Besides, various employee activities were organised to inspire the team spirit of the Group's staff, which includes the organisation of company outings and sport activities in which the Group's employees, top management (including executive directors) and customers participated. Substantial resources were also devoted to improve the factory and dormitory environment of the Group with a view to providing an attractive working and living environment for the Group's employees.

FOREIGN CURRENCY EXPOSURE

A substantial portion of the Group's customers are reputable international brand owners with worldwide distribution networks. At the same time, a majority of the Group's suppliers are international metal and plastic producers designated by the Group's customers. Accordingly, most of the Group's sales and cost of sales are currently made in HK dollars and US dollars. During the six months ended 30 June 2013, approximately 35%, 50% and 15% (For the six months ended 30 June 2012: 32%, 53% and 15%) of the Group's sales and approximately 14%, 67% and 19% (For the six months ended 30 June 2012: 13%, 66% and 21%) of the Group's purchases were denominated in Hong Kong dollars, US dollars and Renminbi, respectively.

Although the settlement currencies between the Group's revenue and expenditure are basically matched, management evaluates the Group's foreign currency exposure on a continuing basis and takes actions to minimise the Group's exposure whenever necessary. In particular, despite the Group's substantial business operations in Mainland China, all of the Group's borrowings were denominated in Hong Kong and United States dollars instead of Renminbi to match repayment currency with operating cash inflows. Management will continue to closely monitor the Group's foreign currency exposure to safeguard the Group from any potential risks that may arise from the fluctuation in exchange rates.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2013, the charges on the Group's assets included (i) pledge of leasehold land and buildings located in Hong Kong with net book amounts of approximately HK\$6,751,000 for securing bank borrowings and (ii) mortgage of equipment under finance lease liabilities with net book amount of HK\$186,674,000 for securing finance lease liabilities.

DIVIDEND

The Board declared an interim dividend of HK0.48 cents per ordinary share, totaling HK\$8,063,000 for the six months ended 30 June 2013 to eligible shareholders whose names appear on the register of members of the Company on Tuesday, 17 September 2013. The interim dividends will be payable in cash on or about Tuesday, 24 September 2013.

OUTLOOK

Despite a general expectation for slower growth as compared to the past, China's automobile market is still in its ascending channel and far from saturation. With an increasing demand for higher end and sophisticated products from Chinese customers, China's automobile market is most likely to face a structural adjustment from previously focusing on low cost vehicles to vehicles with higher quality and better performance. Whilst our engineering expertise accumulated through 20 years of experience in precision equipment industry may be better than required for low cost vehicles, the shift in demand to higher quality vehicles opened up a doorway for the Group to enter into this huge but still expanding market. Going forward, we expect our investment in automobile business today will translate into a quantum leap in our future profitability.

In addition, our traditional OA business is still on a growth track, which is evidenced by a 125.5% growth in mould revenue as compared to 1H2012. These moulds will be used for producing components and semi-finished products in later periods, and therefore we expect to see a resurgence in our component revenue.

PURCHASE, SALE AND REDEMPTION OF THE SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the six months ended 30 June 2013.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands where the Company is incorporated.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 12 September 2013 to Tuesday, 17 September 2013, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed interim dividend for the six months ended 30 June 2013, all transfers of shares of the Company accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar in Hong Kong, namely Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 11 September 2013.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Having made specific enquiry of all directors, all directors confirm that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2013.

CORPORATE GOVERNANCE

The Company and the directors confirm, to the best of their knowledge, that the Company has complied with the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the six months ended 30 June 2013.

AUDIT COMMITTEE

The Company has set up an audit committee, in accordance with the requirements of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for the purpose of reviewing and providing supervision on the financial reporting process and internal control system of the Group. Prior to 11 January 2013, the audit committee was chaired by Dr. Lui Sun Wing and its members comprised Dr. Lui Sun Wing, Mr. Choy Tak Ho and Mr. Leung Tai Chiu, the three independent non-executive directors of the Company. On 11 January 2013, Dr. Lui Sun Wing ceased to be the Company's independent non-executive director and a member and the chairman of the audit committee. With effect from 11 January 2013, Mr. Leung Tai Chiu replaced Dr. Lui Sun Wing as the chairman of the audit committee and the vacancy left by Dr. Lui Sun Wing in the audit committee was filled by Mr. Lam Hiu Lo, who was appointed

as an independent non-executive director of the Company on the same day. The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters with management including a review of the interim report for the six months ended 30 June 2013.

By order of the Board

Zhang Hwo Jie

Chairman

Hong Kong, 28 August 2013

As at the date of this announcement, the Board comprises three executive directors, being Mr. Zhang Hwo Jie (Chairman), Mr. Zhang Jian Hua (Vice Chairman) and Mr. Zhang Yaohua (Chief Executive Officer) and three independent non-executive directors, being Mr. Choy Tak Ho, Mr. Leung Tai Chiu and Mr. Lam Hiu Lo.