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 2016

FINANCIAL RESULTS

The Board of Directors of EVA Precision Industrial Holdings Limited (the "Company") is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2016 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2016

		Unaudited	
		Six months ended 30 June	
		2016	2015
	Note	***HK$'000***	*HK$'000*
Revenue	*4*	**1,581,110**	1,761,504
Cost of sales	*5*	**(1,194,105)**	(1,279,151)
Gross profit		**387,005**	482,353
Other income		**2,805**	4,383
Other gains – net		**2,583**	14,787
Selling and marketing costs	*5*	**(84,747)**	(88,370)
General and administrative expenses	*5*	**(253,616)**	(261,545)
Operating profit		**54,030**	151,608
Finance income	*6*	**1,917**	8,681
Finance costs	*6*	**(18,353)**	(18,468)
Share of loss of an associate		**(451)**	(1,194)

		Unaudited	
		Six months ended 30 June	
		2016	2015
	Note	***HK$'000***	*HK$'000*
Profit before income tax		**37,143**	140,627
Income tax expense	*7*	**(12,554)**	(17,085)
Profit for the period		**24,589**	123,542
Other comprehensive income/(loss) for the period, net of tax			
Item that may be reclassified subsequently to profit or loss			
– Revaluation gain on available-for-sale financial assets		**14,658**	–
– Currency translation differences		**(11,858)**	211
Total comprehensive income for the period		**27,389**	123,753
Profit for the period attributable to:			
– Equity holders of the Company		**22,998**	118,135
– Non-controlling interests		**1,591**	5,407
		24,589	123,542
Total comprehensive income for the period attributable to:			
– Equity holders of the Company		**18,953**	118,320
– Non-controlling interests		**8,436**	5,433
		27,389	123,753
Earnings per share for profit attributable to equity holders of the Company during the period (expressed in HK cents per share)			
– basic	*8*	**1.2**	6.6
– diluted	*8*	**1.2**	6.3

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Note	**Unaudited 30 June 2016** *HK$'000*	Audited 31 December 2015 *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**1,899,309**	1,920,739
Leasehold land and land use rights		**175,738**	179,046
Goodwill		**5,067**	5,067
Investment in an associate		**12,185**	12,720
Available-for-sale financial assets		**88,953**	56,461
Amount due from a related company	*12*	**1,587**	1,587
Prepayments, deposits and other receivables		**102,981**	80,419
Loan and interest receivables	*11*	**2,322**	4,804
		2,288,142	2,260,843
Current assets			
Inventories		**434,449**	465,854
Trade receivables	*10*	**765,553**	793,166
Loan and interest receivables	*11*	**132,021**	128,481
Amount due from a related company	*12*	**1,587**	1,587
Prepayments, deposits and other receivables		**121,817**	147,824
Restricted bank deposits		**42,961**	42,097
Short-term bank deposits		**–**	42,971
Cash and cash equivalents		**1,548,303**	1,607,660
		3,046,691	3,229,640
LIABILITIES			
Current liabilities			
Trade payables	*13*	**608,474**	602,704
Accruals and other payables		**193,766**	198,121
Bank borrowings		**1,000,684**	1,118,303
Finance lease liabilities		**18,769**	40,440
Current income tax liabilities		**2,264**	6,535
		1,823,957	1,966,103

	Note	Unaudited 30 June 2016 HK$'000	Audited 31 December 2015 HK$'000
Net current assets		**1,222,734**	1,263,537
Total assets less current liabilities		**3,510,876**	3,524,380
Non-current liabilities			
Bank borrowings		**726,925**	729,688
Finance lease liabilities		**11,887**	25,822
Deferred taxation		**20,782**	21,027
		759,594	776,537
Net assets		**2,751,282**	2,747,843
EQUITY			
Capital and reserves			
Share capital		**187,905**	187,905
Reserves		**2,425,077**	2,430,551
Equity attributable to equity holders of the Company		**2,612,982**	2,618,456
Non-controlling interests		**138,300**	129,387
Total equity		**2,751,282**	2,747,843

Note:

1. BASIS OF PRESENTATION

The Company is an investment holding company, and its subsidiaries are principally engaged in the provision of precision manufacturing services, focusing on the production of moulds and components with high quality standard and dimensional accuracy. The Group also has a 60% owned 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 information has been prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34, "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2015, 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 by the Board of Directors on 30 August 2016. The condensed consolidated interim financial information has not been audited.

2. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements except for the adoption of amendments to HKFRS effective for the financial year ending 31 December 2016.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) Relevant new standards and amendments to existing standards effective for the financial year beginning 1 January 2016

		Effective for accounting periods beginning on or after
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
Annual improvements 2012 to 2014	Improvements to HKASs and HKFRSs	1 January 2016
HKFRS 10, HKFRS 12 and HKAS 28 (Amendment)	Investment entities: Applying the consolidation exception	1 January 2016
HKFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operations	1 January 2016
HKAS 1 (Amendment)	Disclosure initiative	1 January 2016
HKAS 16 and HKAS 38 (Amendment)	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
HKAS 27 (Amendment)	Equity method in separate financial statements	1 January 2016

The adoption of these new standards and amendments to existing standards does not have any significant financial impact on the reported results and financial position of the Group.

(b) The following new standards and amendments to existing standards have been issued but are not effective for the financial year beginning 1 January 2016 and have not been early adopted.

		Effective for accounting periods beginning on or after
Amendments to HKAS 12	Income taxes	1 January 2017
Amendments to HKAS 7	Statement of cash flows	1 January 2017
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 9	Financial instruments	1 January 2018
HKFRS 16	Leases	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The directors anticipate that the adoption of the above new standards and amendments to existing standards will not result in a significant impact on the reported results and financial position of the Group. The Group plans to adopt these new standards and amendments to existing standards when they become effective.

3. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. 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.

At 30 June 2016, the Group is organised into three 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 Mainland China ("Microcredit").

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 condensed consolidated interim financial information.

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

The segment results and other segment items are as follows:

	Six months ended 30 June 2016				Six months ended 30 June 2015			
	Metal stamping	**Plastic injection**	**Microcredit**	**Total**	Metal stamping	Plastic injection	Microcredit	Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total gross segment revenue	**918,958**	**1,017,322**	**18,664**	**1,954,944**	1,004,011	812,518	16,800	1,833,329
Inter-segment revenue	**(70,477)**	**(303,357)**	**–**	**(373,834)**	(65,029)	(6,796)	–	(71,825)
Revenue	**848,481**	**713,965**	**18,664**	**1,581,110**	938,982	805,722	16,800	1,761,504
Segment results	**24,148**	**21,132**	**10,910**	**56,190**	78,151	69,277	7,194	154,622
Unallocated expenses				**(2,160)**				(3,014)
Finance income				**1,917**				8,681
Finance costs				**(18,353)**				(18,468)
Share of loss of an associate				**(451)**				(1,194)
Profit before income tax				**37,143**				140,627
Income tax expense				**(12,554)**				(17,085)
Profit for the period				**24,589**				123,542
Depreciation	**91,474**	**30,328**	**377**	**122,179**	83,244	36,859	382	120,485
Amortisation	**1,990**	**134**	**–**	**2,124**	1,792	121	–	1,913

For the periods ended 30 June 2015 and 2016, unallocated expenses represent corporate expenses.

The segment assets and liabilities are as follows:

	As at 30 June 2016					As at 31 December 2015				
	Metal stamping	**Plastic injection**	**Microcredit**	**Un-allocated**	**Total**	Metal stamping	Plastic injection	Microcredit	Un-allocated	Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets	**3,714,337**	**1,454,244**	**160,570**	**5,682**	**5,334,833**	3,462,970	1,787,175	142,069	98,269	5,490,483
Liabilities	**167,309**	**617,303**	**13,910**	**1,785,029**	**2,583,551**	83,949	741,699	1,576	1,915,416	2,742,640

The segment capital expenditure is as follows:

	Six months ended 30 June 2016					Six months ended 30 June 2015				
	Metal stamping	**Plastic injection**	**Microcredit**	**Un-allocated**	**Total**	Metal stamping	Plastic injection	Microcredit	Un-allocated	Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure	**101,704**	**6,079**	**–**	**–**	**107,783**	104,555	36,363	341	–	141,259

Segment assets consist primarily of certain property, plant and equipment, leasehold land and land use rights, goodwill, investment in an associate, prepayments, deposits, certain other receivables, amount due from a related company, available-for-sale financial assets, inventories, trade receivables, loan and interest receivables and operating cash.

Segment liabilities comprise operating liabilities but exclude bank borrowings, current income tax liabilities, deferred taxation and certain accruals and other payables.

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

Segment assets and liabilities are reconciled to Group's assets and liabilities at 30 June 2016 as follows:

	Assets	**Liabilities**
	HK$'000	***HK$'000***
Segment assets/liabilities	**5,329,151**	**798,522**
Unallocated:		
Cash and cash equivalents	**5,530**	**–**
Other receivables	**152**	**–**
Current income tax liabilities	**–**	**2,264**
Deferred taxation	**–**	**20,782**
Bank borrowings	**–**	**1,727,609**
Accruals and other payables	**–**	**34,374**
Total	**5,334,833**	**2,583,551**

Segment assets and liabilities are reconciled to Group's assets and liabilities at 31 December 2015 as follows:

	Assets	Liabilities
	HK$'000	*HK$'000*
Segment assets/liabilities	5,392,214	827,224
Unallocated:		
Cash and cash equivalents	98,117	–
Other receivables	152	–
Current income tax liabilities	–	6,535
Deferred taxation	–	21,027
Bank borrowings	–	1,847,991
Accruals and other payables	–	39,863
Total	5,490,483	2,742,640

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

During the period ended 30 June 2016, the aggregated revenue from the top three customers, which each individually contributed more than 10% of the Group's revenue, amounted to approximately HK$645,133,000 (For the six months ended 30 June 2015: Three customers; HK$748,434,000).

4 REVENUE

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Sales		
Design and fabrication of metal stamping moulds	**147,296**	192,056
Manufacturing of metal stamping components	**624,024**	659,533
Manufacturing of lathing components	**65,881**	73,997
Design and fabrication of plastic injection moulds	**73,486**	89,135
Manufacturing of plastic injection components	**636,228**	710,964
Income from micro lending business	**18,664**	16,800
Others *(Note)*	**15,531**	19,019
	1,581,110	1,761,504

Note: Others mainly represent proceeds from sales of scrap materials.

5 OPERATING PROFIT

Statement of comprehensive income items included in cost of sales, selling and marketing costs and general and administrative expenses are analysed as follows:

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Raw material and consumables used	**844,988**	847,889
Production overhead costs (excluding labour and depreciation expenses)	**109,018**	152,368
Staff costs, including directors' emoluments and share option costs		
– Retirement benefit – defined contribution plans	**20,696**	21,553
– Others	**349,026**	391,342
Depreciation of property, plant and equipment	**122,179**	120,485
Amortisation of leasehold land and land use rights	**2,124**	1,913
Provision for loan receivables	**–**	2,577
(Reversal of provision for)/provision for inventory obsolescence	**(1,662)**	2,830

6 FINANCE INCOME/COSTS

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Finance income		
Interest income from bank deposits	**1,917**	8,681
Finance costs		
Interest expense on:		
Bank borrowings	**20,034**	18,023
Finance lease liabilities	**718**	2,065
	20,752	20,088
Less: interest expenses capitalised	**(2,399)**	(1,620)
	18,353	18,468

7 INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Current taxation		
– Hong Kong profits tax	**–**	337
– Mainland China enterprise income tax	**9,054**	21,771
Under/(Over)-provision in prior years	**3,745**	(4,778)
Deferred income tax	**(245)**	(245)
	12,554	17,085

(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 2016 (2015: 16.5%).

(b) Mainland China corporate income tax

Income tax for 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% (2015: 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.

(ii) EVA Precision Industrial (Suzhou) Limited, Shenzhen EVA Mould Manufacturing Limited, Shenzhen Yineng Network Communication Equipment Limited, Yihe Precision Hardware (Shenzhen) Co., Ltd., Chongqing Digidie Auto Body Ltd., and Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. were each 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 periods ended 30 June 2015 and 2016.

(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.

Provision for income taxes in other jurisdiction is based on the assessable profit of the relevant subsidiaries and the applicable tax rates.

8 EARNINGS PER SHARE

Basic earnings per share is 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.

Basic

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company *(HK$'000)*	**22,998**	118,135
Weighted average number of ordinary shares in issue *('000)*	**1,879,052**	1,796,007
Basic earnings per share *(HK cents per share)*	**1.2**	6.6

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares (i.e. share options). A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company *(HK$'000)*	**22,998**	118,135
Weighted average number of ordinary shares in issue *('000)*	**1,879,052**	1,796,007
Adjustment for share options *('000)*	**10,726**	71,161
Weighted average number of ordinary shares for diluted earnings per share *('000)*	**1,889,778**	1,867,168
Diluted earnings per share *(HK cents per share)*	**1.2**	6.3

9 DIVIDENDS

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Proposed interim dividend of HK0.37 cent (2015: HK2.0 cents) per ordinary share	**6,952**	37,281

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 2016	31 December 2015
	HK$'000	*HK$'000*
0 to 90 days	**653,603**	750,347
91 to 180 days	**113,138**	44,007
	766,741	794,354
Less: Provision for impairment	**(1,188)**	(1,188)
Trade receivables – net	**765,553**	793,166

The top five customers and the largest customer accounted for 40.2% (31 December 2015: 47.8%) and 11.3% (31 December 2015: 13.2%), respectively, of the trade receivables balance as at 30 June 2016. Other than these major customers, there is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

During the six months ended 30 June 2016, the Group recorded no additional provision for its trade receivables (30 June 2015: nil).

11 LOAN AND INTEREST RECEIVABLES

Loans to customers relate to the Group's micro lending business and have loan periods ranging from 30 days to 36 months (31 December 2015: 30 days to 36 months).

The repayment period upon inception of loan and interest receivables was set as follows:

	As at	
	30 June 2016	31 December 2015
	HK$'000	*HK$'000*
0 to 90 days	**48,156**	52,255
91 to 180 days	**24,278**	25,585
181 to 365 days	**59,211**	39,993
Over 365 days	**20,483**	33,452
	152,128	151,285
Less: Provision for impairment	**(17,785)**	(18,000)
Total loan and interest receivables	**134,343**	133,285
Less: Amount included in non-current assets	**(2,322)**	(4,804)
Current	**132,021**	128,481

The loan and interest receivables are denominated in RMB.

As at 30 June 2016, the loans bore fixed interest rates ranging from 14.4% to 36.0% per annum (31 December 2015: 14.4% to 36.0%).

There is no concentration of credit risk with respect to the loan and interest receivables as the Group has a large number of customers with no individual amount for principal of more than RMB5,000,000 (31 December 2015: RMB5,000,000).

As at 30 June 2016, loan and interest receivables of approximately HK$11,226,000 (31 December 2015: HK$11,459,000) were considered impaired and had been fully provided for. The aging analysis of these receivables by due date is as follows:

	As at	
	30 June 2016	31 December 2015
	HK$'000	*HK$'000*
0 to 90 days	**–**	11,459
91 to 180 days	**–**	–
181 to 365 days	**11,226**	–
	11,226	11,459

12 AMOUNT DUE FROM A RELATED COMPANY

Amount due from a related company is unsecured, non-interest bearing, denominated in Hong Kong dollars, and repayable by two instalments in two years from December 2016 to December 2017. The balance was arisen from the tax indemnity provided by the related company.

The carrying amount of amount due from a related company approximates its fair value.

The maximum outstanding balance during the period was HK$3,174,000 (2015: HK$4,760,000)

13 TRADE PAYABLES

The aging of trade payables is as follows:

	As at	
	30 June 2016	31 December 2015
	HK$'000	*HK$'000*
0 to 90 days	**411,547**	438,252
91 to 180 days	**196,927**	163,113
181 to 365 days	**–**	1,339
	608,474	602,704

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT EVENTS AND DEVELOPMENT

The year 2016 saw a very challenging start for the Group. During the first half of 2016, the global and Chinese economies were clouded by uncertainties in recovery and sluggish growth. In particular, our customers in the office automation ("OA") equipment and high end consumer electronic sectors experienced a slowdown in market demand, as many corporations delayed their equipment replacement and consumption sentiment weakened. Although these customers had actively developed new products in 2015 which were launched to the market at the beginning of 2016, the sale volume of these new products was less than expected and therefore fewer orders were placed to the Group. At the same time, operating costs in China such as salaries continued to increase as the standard of living improves.

These difficulties had a negative impact on the business performance of the Group in 1H2016. However, we remained committed to developing our businesses and a number of initiatives were taken with a view to revitalising growth. In particular, by the invitation of certain of our major customers in the OA equipment market, we had established a new industrial park in Haiphong, Vietnam. The construction of the new Vietnam industrial park, which has a land area of approximately 37,000 square metres and floor area of approximately 12,000 square metres, is now nearly completed and is scheduled for production in late 2016.

Our customers in the OA equipment sector have already set up assembly plants in Vietnam for a long time. However, in the past, we only had production facilities in China and were therefore unable to serve the assembly plants of our OA equipment customers in Vietnam, as these customers adopts just-in-time production system which requires their suppliers to be located in their proximity. By entering into our customers' supply chain in Vietnam through the establishment of a new industrial park there, our addressable market within the OA equipment industry has been enlarged. Therefore, after production commences, the new Vietnam industrial park will generate a new stream of revenue from the OA equipment sector for the Group. In addition, although the new Vietnam industrial park will initially focus on tapping businesses from the OA equipment customers, it can also expand into other sectors such as the high end consumer electronic sector at a later stage, as Vietnam is also well known as one of the major manufacturing hubs for high end consumer electronic products.

In recent years, the Chinese government has taken conscious efforts to transform China from a low cost processing centre into a high end manufacturing hub focusing on creativity, product quality and efficiency. Although such efforts have brought about a continuous increase in wage level, the technological expertise and productivity of the labour force in China have also progressed to an unprecedented level. Accordingly, despite the trend for low end manufacturers to migrate from China to other developing countries, China remains very attractive to companies whose products are of high quality and sophistication such as our customers in the OA equipment sector, and China is very likely to become their major production hub for high value models. At the same time, a lot of local high technology companies emerged in China in recent years, which created many new opportunities for our high end consumer electronics business line as the Group is reputed for its outstanding quality and engineering expertise which are essential for high technology products. With a view to benefiting from China's increasing concentration on higher value products, conscious steps were also taken by the Group to reinforce its technology edge during the period, which included production automation and increasing the proportion of engineers to its total work force.

At present, the Chinese government is encouraging brand owners in the automobile industry to enlist higher end local manufacturers like the Group into their supply chains as part of its plan to gradually reduce the reliance on foreign suppliers for sophisticated automobile moulds and components. At the same time, with the improvements in living standards, the Chinese customers are increasingly looking for higher quality vehicles, which require higher quality moulds and components for their production and thereby creates a growing demand for the precision manufacturing services offered by the Group in the automobile industry. Accordingly, we continued to see significant progress in the automobile business line of the Group which is primarily operated by our automobile industrial parks in Chongqing, Wuhan and Zhongshan. During the period, our automobile business has received the "Excellent Supplier" award from a leading automaker in China again, our fourth accolade from them since we became their supplier four years ago. This has not only strengthened our business partnership with them, but also provided us with the valuable credentials for sourcing other new orders in the automobile industry. Therefore, the automobile business line of the Group has been actively sourcing new customers to widen its customer base during the period. New customers included another leading automaker in China which had established a new production plant in Chongqing and a number of multinational tier-one suppliers in the automobile industry. These new customers are expected to contribute revenue to the Group from 2017 onwards.

During the period, the Group continued to implement various cost control measures and streamline its workforce with a view to coping with the rising wage level in China and improving productivity. The roles of various departments were carefully revisited, and administrative responsibilities were reassigned to optimise performance. At the same time, innovative automation solutions and new robotic equipment were brought into our production lines. Accordingly, the total headcount of the Group was reduced from 8,804 employees as at 31 December 2015 to 8,658 employees as at 30 June 2016 despite the construction of a new industrial park in Vietnam. In addition, for the purpose of focusing resources on our core manufacturing business, we reduced the shareholding interest in the Group's micro lending company in Shenzhen from 60% to 40% in August 2016.

During the period, the total turnover of the Group decreased by 10.2% to HK$1,581,110,000, which was primarily caused by the reduction in orders from customers in the OA equipment and high end consumer electronics sectors as mentioned above. Gross profit margin decreased to 24.5%, which was mainly attributable to the slowdown in new product development activities of the customers which resulted in a decrease in the revenue contribution from the production of moulds (higher margin products manufactured during new product development stages) to the Group's total turnover and declining economies of scale brought by the reduction in turnover. Further, with a view to minimising Renminbi exchange rate risks, the Group converted a significant portion of its bank deposits in Renminbi into bank deposits in Hong Kong and United States dollars in the second half of 2015. Although such action safeguards the Group from the instability caused by Renminbi exchange rate fluctuation, it led to a reduction in the Group's net exchange gain to HK$3,266,000 during the period (1H2015: HK$14,788,000). Finance income also decreased to HK$1,917,000 (1H2015: HK$8,681,000) as the interest rates from bank deposits in Hong Kong and United States dollars were lower than those from bank deposits in Renminbi. Coupled with the initial costs of HK$4,083,000 incurred by the Group's new industrial park in Vietnam, the Group's net profit decreased by 80.5% to HK$22,998,000 despite the various cost control measures implemented by the Group.

During the period, we continued to devote substantial efforts on maintaining a healthy balance sheet. Despite the decrease in profit, the Group continued to generate operating cash inflows to reduce the level of debts. Our net debt-to-equity ratio decreased to 6.4%, which has a strong appeal to existing and target customers looking for manufacturing partners as financial stability has become one of their key criteria for supplier selection to ensure a reliable supply chain.

The Group is committed to generating positive returns through sustainable operations, and has a corporate governance objective of emphasising long-term financial performance, as opposed to short-term rewards. We will seek growth and higher returns by sharpening our competitive edge, and will also implement more stringent cost control and manage our resources as effectively as possible. In the longer run, we aim to enhance the value of the Group by identifying and selecting high potential new business opportunities which can add to our existing portfolio. We have a philosophy of creating value to shareholders. Therefore, since our listing in 2005, we have always been adhering to a dividend payout at approximately 30% of net profit, and the first half of 2016 is no exception. In the future, we will adhere to our philosophy of continuous technological improvement, and take appropriate steps to expand our income sources with a view to maximise the 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			
	2016		2015	
	HK$'000		*HK$'000*	
By business segment				
Turnover				
Metal division				
Design and fabrication of metal stamping moulds	**147,296**	**9.3%**	192,056	10.9%
Manufacturing of metal stamping components	**624,024**	**39.5%**	659,533	37.4%
Manufacturing of lathing components	**65,881**	**4.2%**	73,997	4.2%
Others *(Note 1)*	**11,280**	**0.7%**	13,396	0.8%
	848,481		938,982	
Plastic division				
Design and fabrication of plastic injection moulds	**73,486**	**4.6%**	89,135	5.1%
Manufacturing of plastic injection components	**636,228**	**40.2%**	710,964	40.4%
Others *(Note 1)*	**4,251**	**0.3%**	5,623	0.3%
	713,965		805,722	
Income from micro lending business	**18,664**	**1.2%**	16,800	0.9%
Total	**1,581,110**		1,761,504	
Segment results				
Metal division	**24,148**		78,151	
Plastic division	**21,132**		69,277	
Micro lending business	**10,910**		7,194	
Operating profit	**56,190**		154,622	
Unallocated expenses	**(2,160)**		(3,014)	
Finance income	**1,917**		8,681	
Finance costs	**(18,353)**		(18,468)	
Share of loss of an associate	**(451)**		(1,194)	
Income tax expense	**(12,554)**		(17,085)	
Non-controlling interests	**(1,591)**		(5,407)	
Profit attributable to equity holders of the Company	**22,998**		118,135	

Note 1: Others mainly represented sales of scrap materials.

Turnover

During the period, our customers in the office automation equipment and high end consumer electronics sectors experienced a slowdown in market demand, and therefore fewer orders were placed to the Group. Accordingly, the total turnover of the Group reduced by approximately 10.2% to HK$1,581,110,000.

Income from micro lending business in 1H2016 increased to HK$18,664,000, which was primarily caused by an increase in the average interest rates charged to the customers.

Gross profit

Affected by the lacklustre global and Chinese economies, the new product development activities of our customers slowed down. As we produced moulds for our customers during their product development stages, the Group experienced a reduction in the revenue contribution from mould production to total turnover which had a negative impact on the overall gross profit margin since moulds are products of higher profit margin. In addition, the decrease in the Group's total turnover led to declining economies of scale since certain costs such as depreciation were fixed. Accordingly, the gross profit margin for the period reduced to 24.5%.

Segment results

As mentioned above, the Group experienced a reduction in turnover and gross profit during the period. Further, with a view to minimising exchange rate risks, the Group had significantly reduced its assets denominated in foreign currencies (primarily bank deposits in Renminbi) in the second half of 2015. Although such action safeguards the Group from the instability caused by foreign exchange rate fluctuations, it led to a reduction in the Group's net exchange gain to HK$3,266,000 during the period (1H2015: HK$14,788,000). In addition, the Group's new industrial park in Vietnam incurred initial costs of HK$4,083,000 during the period. Accordingly, despite the various cost control measures implemented by the Group, the operating profit margin of the Group's metal and plastic divisions decreased to 2.8% and 3.0% respectively.

The operating profit margin of the Group's micro lending business was 58.5%, which increased as compared to that for 1H2015 due to the higher average interest rates charged to the customers as mentioned above.

Finance income and costs

As mentioned above, the Group converted a significant portion of its bank deposits in Renminbi into bank deposits in Hong Kong and United States dollars in the second half of 2015. As the interest rates from bank deposits in Hong Kong and United States dollars were lower than those from bank deposits in Renminbi, finance income decreased to HK$1,917,000 during the period.

The Group's finance costs in 1H2016 was HK$18,353,000, which was comparable to that in 1H2015.

Income tax expense

During the period, income tax expense amounted to HK$12,554,000. Effective tax rate (defined as the percentage of income tax expense as compared to profit before income tax) for the period was 33.8%, which increased as compared to that in 1H2015. It was because (1) the profit contribution from the micro lending company to the Group's total profit before income tax increased as a result of the reduction in the Group's profit from the manufacturing business as mentioned above, which increased the Group's overall effective tax rate as the micro lending company is subject to the highest income tax rate among our subsidiaries; (2) the Group paid additional taxes of HK$3,745,000 to the tax authorities in China in relation to certain non-tax deductible expenses in prior years; and (3) certain subsidiaries such as the new industrial park in Vietnam incurred losses during the period, and such losses were not eligible for offsetting the taxable profits generated by other profitable subsidiaries.

Profit attributable to equity holders of the Company

During the period, profit attributable to equity holders of the Company decreased by 80.5% to HK$22,998,000, which was primarily caused by the reduction of the Group's operating profit margin as mentioned above.

LIQUIDITY AND FINANCIAL RESOURCES

During the six months ended 30 June 2016, the Group continued to devote substantial resources to control its working capital requirements. Accordingly, despite the reduction in profit, the Group's net cash inflow from operating activities increased by 78.7% to HK$229,072,000 (1H2015: HK$128,170,000). During the period, the Group reduced its short-term bank deposits with maturities of more than three months by HK$42,971,000 and therefore recorded a cash inflow item from investing activities of the same amount, whereas the Group recorded an increase in short-term bank deposits of HK$141,106,000 in 1H2015. Coupled with the decrease in the purchases of fixed assets, the Group's net cash outflow from investing activities decreased from HK$355,088,000 in 1H2015 to HK$103,292,000 in 1H2016. Besides, the Group received net proceeds from a share placement and the exercises of share options by directors and employees amounting to HK$131,269,000 and HK$79,040,000 respectively in 1H2015, and there was no such item in 1H2016. Further, new bank borrowings also decreased in 1H2016. Accordingly, the Group recorded a net cash outflow from financing activities amounting to HK$180,415,000 during the period (1H2015: net cash inflow of HK$328,002,000).

Bank loans as at 30 June 2016 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. Looking ahead, the Group will adhere to conservative financial management policies and remain committed to maintaining a healthy balance sheet.

KEY FINANCIAL PERFORMANCE INDICATORS

(a) Liquidity and capital adequacy ratio

	30 June 2016	31 December 2015
Inventory turnover days *(Note 1)*	**66**	65
Debtors' turnover days *(Note 2)*	**89**	83
Creditors' turnover days *(Note 3)*	**93**	85
Cash conversion cycle *(Note 4)*	**62**	63
Current ratio *(Note 5)*	**1.67**	1.64
Net debt-to-equity ratio *(Note 6)*	**6.4%**	8.5%

(b) Profitability ratio

	Six months ended 30 June	
	2016	2015
Net profit margin *(Note 7)*	**1.5%**	6.7%
Return on shareholders' equity *(Note 8)*	**0.9%**	4.5%

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.

7. Net profit margin is based on profit attributable to equity holders of the Company divided by turnover.

8. Return on shareholders' equity is based on profit attributable to equity holders of the Company for the period divided by shareholders' equity. The above figures represent half-year return rates.

Inventory turnover days

Inventory turnover days for the period was 66 days, which were comparable to that for the year ended 31 December 2015.

Debtors' and creditors' turnover days

The Group's credit periods with its customers and suppliers in the automobile sector are longer than those in the OA equipment and high end consumer electronics sectors. As the Group's businesses from the OA equipment and high end consumer electronics sectors decreased during the period, the debtors' and creditors' turnover days of the Group increased slightly to 89 days and 93 days respectively.

Current ratio and net debt-to-equity ratio

The Group's current ratio and net debt-to-equity ratio as at 30 June 2016 improved to 1.67 and 6.4% respectively, as the Group had utilised its operating cash inflows to reduce the level of debts during the period.

Net profit margin and return on shareholders' equity

The reduction of the Group's net profit margin and return on shareholders' equity was caused by the decrease in profit attributable to equity holders of the Company during the period, as explained in the section headed "Financial Review" of the Management Discussion and Analysis.

FOREIGN CURRENCY EXPOSURE

For the six months ended 30 June 2016, the Group's sales and raw material purchases were denominated in the following currencies:

	Sales	**Purchases**
Hong Kong dollars	24.6%	6.0%
US dollars	46.8%	55.9%
Renminbi	28.0%	38.1%
Euro and British Pounds	0.6%	–

A majority of the Group's customers are reputable international brand owners with worldwide distribution networks. At the same time, a substantial portion of the Group's suppliers are international metal and plastic material producers designated by the Group's customers. Accordingly, approximately 71.4% of the Group's sales and 61.9% of its raw material purchases were made in Hong Kong dollars and US dollars (which are pegged) during the period. The Group also has a policy of using Renminbi to settle the purchases of raw materials used for Renminbi denominated sales. Sales denominated in Euro and British Pounds were mainly related to initial trial orders from new customers, and therefore their percentage to our total turnover was small. Should the sales to these customers increase in the future, we will take appropriate actions to safeguard ourselves from any potential exchange rate risk that may arise from selling to these customers. Further, it is the Group's policy to strictly prohibit any speculative foreign exchange transaction which is not related to business operations.

At present, the Group's sales and raw material purchases are basically transacted in matching currencies, except that the percentage of the Group's raw material purchases in Renminbi was larger than the percentage of its sales in Renminbi due to the Group's substantial production operations in Mainland China. However, management is of the view that the exchange rate risk is not high because Renminbi is unlikely to resume an appreciation trend in a foreseeable future. Going forward, management will continue to evaluate the Group's foreign currency exposure on a continuing basis and takes actions to minimise the Group's exposure whenever necessary.

HUMAN RESOURCES

Despite the construction of the new Vietnam industrial park, the total number of the Group's employees reduced from 8,804 employees as at 31 December 2015 to 8,658 employees as at 30 June 2016, which was primarily caused by production automation and management improvement measures to streamline the headcount and internal structures of the Group.

The Group considers its employees, in particular the skilled engineers 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' potentials 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 are 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 participate. 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.

OUTLOOK

Looking ahead, China's economic growth is expected to be more moderate and global economic recovery will remain uncertain. Therefore, there is no denying that the second half of 2016 will continue to be challenging for the manufacturing industry. However, the market does not lack opportunities. Over the years, we have been devoting resources for technology improvement and strengthening our engineering teams. Such investments have given us the reputation as a leader in precision engineering and innovative production solutions in China. Accordingly, the Group sees ample business opportunities arising from the rapid development of high technology industries in China, as product quality and engineering expertise are essential for high technology products. Further, after production commences, the new Vietnam industrial park will provide us with an additional stream of revenue from a new geographical market. We also expect to see significant development in the Group's automobile business, as our outstanding production services have been acknowledged by leading automakers, which provides us with the valuable credentials for actively widening our customer base in the automobile industry.

At the same time, the Group's leading position in the OA equipment industry remains unparalleled despite the temporary slowdown in market demand, and our customer base covers all major brand owners which together dominates the market. Accordingly, the Group is poised to be a major beneficiary should market demand show any sign of recovery. Last but not least, we will continue to implement cost control measures and production automation with a view to improving productivity and are committed to maintaining a healthy balance sheet. Therefore, despite the challenges ahead, we remain confident about the Group's prospects.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2016, the charges on the Group's assets included (i) pledge of leasehold land and buildings located in Hong Kong with net book amounts of HK$5,964,000 for securing mortgage loan and (ii) mortgage of equipment under finance lease liabilities with net book amount of HK$221,661,000 for securing finance lease liabilities.

PURCHASES, 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 2016.

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.

DIVIDEND

The Board declared an interim dividend of HK0.37 cent per ordinary share, totaling HK$6,952,000 for the six months ended 30 June 2016 to eligible shareholders whose names appear on the register of members of the Company on Tuesday, 13 September 2016. The interim dividend will be payable in cash on or about Wednesday, 21 September 2016.

CLOSURE OF REGISTER OF MEMBERS

To determine eligibility for the interim dividend, the register of members of the Company will be closed from Thursday, 8 September 2016 to Tuesday, 13 September 2016, both days inclusive, during which period no shares will be registered. In order to qualify for the entitlement to the interim dividend, 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, 7 September 2016.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company had 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 2016.

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 2016.

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. The audit committee comprises the three independent non-executive directors with Mr. Leung Tai Chiu as the chairman. The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed risk management, internal control and financial reporting matters with management including a review of the unaudited interim financial statements and the interim report for the six months ended 30 June 2016.

By order of the Board
Zhang Hwo Jie
Chairman

Hong Kong, 30 August 2016

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.