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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)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL RESULTS

The Board of Directors of EVA Precision Industrial Holdings Limited (the “Company”) is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2017 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	<i>Note</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Revenue	4	3,157,089	3,209,290
Cost of sales	5	<u>(2,373,987)</u>	<u>(2,461,621)</u>
Gross profit		783,102	747,669
Other income		13,167	3,753
Other gains – net		2,335	3,871
Selling and marketing costs	5	(166,865)	(167,500)
General and administrative expenses	5	<u>(444,016)</u>	<u>(471,664)</u>
Operating profit		187,723	116,129
Finance income	6	7,315	5,378
Finance costs	6	(32,282)	(35,919)
Share of profits/(losses) of associates		<u>5,484</u>	<u>(1,465)</u>
Profit before income tax		168,240	84,123
Income tax expense	7	<u>(33,453)</u>	<u>(22,396)</u>

	<i>Note</i>	2017 HK\$'000	2016 HK\$'000
Profit for the year		134,787	61,727
Other comprehensive gain/(loss) for the year, net of tax			
Items that have been reclassified or may be reclassified subsequently to profit or loss			
– Revaluation gains on available-for-sale financial assets		10,187	20,189
– Currency translation differences		60,534	(54,923)
– Release of available-for-sale financial asset reserve upon disposal		(11,990)	(6,337)
– Release of exchange reserve upon disposal of subsidiaries		(419)	4,595
– Release of exchange reserve upon disposal of asset held for sale		866	–
Total comprehensive income for the year		<u>193,965</u>	<u>25,251</u>
Profit for the year attributable to:			
– Equity holders of the Company		133,699	53,486
– Non-controlling interests		<u>1,088</u>	<u>8,241</u>
		<u>134,787</u>	<u>61,727</u>
Total comprehensive income for the year attributable to:			
– Equity holders of the Company		192,758	10,452
– Non-controlling interests		<u>1,207</u>	<u>14,799</u>
		<u>193,965</u>	<u>25,251</u>
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK cents per share)			
– basic	8	<u>7.4</u>	<u>2.9</u>
– diluted	8	<u>7.1</u>	<u>2.8</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	<i>Note</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		1,742,601	1,692,626
Investment property under development		120,490	–
Leasehold land and land use rights		228,737	171,061
Goodwill		2,510	5,067
Investments in associates		65,441	56,208
Prepayments, deposits and other receivables		196,252	128,758
Available-for-sale financial assets		98,972	106,861
		<u>2,455,003</u>	<u>2,160,581</u>
Current assets			
Inventories		381,662	325,615
Trade receivables	<i>10</i>	854,917	787,367
Prepayments, deposits and other receivables		273,709	250,904
Amount due from a related company		–	1,587
Restricted bank deposits		82,295	60,569
Short-term bank deposits		196,382	123,996
Cash and cash equivalents		1,305,823	1,423,134
		<u>3,094,788</u>	<u>2,973,172</u>
Asset classified as held for sale		–	11,376
		<u>3,094,788</u>	<u>2,984,548</u>
LIABILITIES			
Current liabilities			
Trade payables	<i>11</i>	818,753	683,255
Accruals and other payables		310,197	219,100
Bank borrowings		1,297,507	1,011,083
Finance lease liabilities		5,210	12,365
Current income tax liabilities		13,263	6,799
		<u>2,444,930</u>	<u>1,932,602</u>

	<i>Note</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Net current assets		<u>649,858</u>	<u>1,051,946</u>
Total assets less current liabilities		<u>3,104,861</u>	<u>3,212,527</u>
LIABILITIES			
Non-current liabilities			
Bank borrowings		406,271	566,161
Finance lease liabilities		2,482	8,408
Deferred taxation		<u>23,798</u>	<u>20,537</u>
		<u>432,551</u>	<u>595,106</u>
Net assets		<u>2,672,310</u>	<u>2,617,421</u>
EQUITY			
Capital and reserves			
Share capital		179,384	186,138
Reserves		<u>2,492,926</u>	<u>2,399,800</u>
Equity attributable to equity holders of the Company		<u>2,672,310</u>	<u>2,585,938</u>
Non-controlling interests		<u>–</u>	<u>31,483</u>
Total equity		<u>2,672,310</u>	<u>2,617,421</u>

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. In 2017, the Group operates eight industrial parks in China (Shenzhen, Suzhou, Zhongshan, Chongqing and Wuhan) and Vietnam (Haiphong). In 2018, the Group extended its production business to Weihai, China through an entity newly acquired in December 2017. At the same time, the Group is in the process of constructing a new industrial park in Weihai to expand its business there. Another new industrial park located at San Luis Potosí, Mexico is also under construction.

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 consolidated financial statements are presented in Hong Kong dollars ("HK\$"), unless otherwise stated.

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") and disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and investment property under development which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2. ACCOUNTING POLICIES

(a) New and amended standards and interpretation adopted by the Group

The following new and amended standards are mandatory for the first time for the financial year beginning 1 January 2017, but have not had a significant impact to the preparation of the Group's financial statements.

		Effective for accounting periods beginning on or after
HKAS 7 (Amendments)	Disclosure Initiative	1 January 2017
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
HKFRS 12 (Amendments)	Disclosure of Interest in Other Entities	1 January 2017

(b) New standards and amendments to existing standards that have been issued and are relevant to the Group but not effective for the financial year beginning 1 January 2017 and have not been early adopted

		Effective for accounting periods beginning on or after
Annual Improvements Project HKFRS 1 and HKAS 28	Annual Improvements 2014-2016 Cycle	1 January 2018
HKFRS 1 (Amendments)	First Time Adoption of HKFRS	1 January 2018
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 15 (Amendments)	Clarifications to HKFRS 15	1 January 2018
HKAS 40 (Amendments)	Transfers of Investment Property	1 January 2018
HK(IFRIC) 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HK(IFRIC)23	Uncertainty over Income Tax Treatments	1 January 2019
HKFRS 17	Insurance contracts	1 January 2021
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associates or Joint Venture	To be determined

The Group's assessment of the impact of these new standards, amendments to existing standards and interpretations is set out below.

Impact of HKFRS 9, “Financial instruments”

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The Group’s equity instruments that are currently classified as available-for-sale (AFS) will satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.

The other financial assets held by the Group include:

- Debt instruments currently classified as loans and receivables and measured at amortised cost appear to meet the conditions for classification at amortised cost under HKFRS 9.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings. During the 2017 financial year, HK\$1,271,000 of such loss is recognised in profit or loss in relation to the disposal of available-for-sale financial assets.

There will be no impact on the Group’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group’s risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not have any hedge instruments. Therefore, the Group does not expect any impact on the new hedge account rules.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Group is still assessing the actual impact affected by the new model, it may result in an earlier recognition of credit losses for trade receivables. But according to the preliminary result, the financial impact is not expected to be material.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group’s disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by the Group

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

Impact of HKFRS 15, 'Revenue from contracts with customers'

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Management has assessed the effects of applying the new standard on the group's financial statements and has identified the following areas that will be affected:

- bundle sales – the application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue,
- accounting for costs incurred in fulfilling a contract – certain costs which are currently expensed may need to be recognised as an asset under HKFRS 15, and
- rights of return – HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and is not able to estimate the impact of the new rules on the Group's financial statements at this stage.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

Impact of HKFRS 16, 'Leases'

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK\$132,469,000.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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 31 December 2017, the Group is organised into two main business segments:

- (i) design and fabrication of metal stamping moulds and manufacturing of metal stamping components and lathing components ("Metal stamping"); and
- (ii) design and fabrication of plastic injection moulds and manufacturing of plastic injection components ("Plastic injection").

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

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:

	2017				2016			
	Metal stamping HK\$'000	Plastic injection HK\$'000	Mircocredit HK\$'000	Total HK\$'000	Metal stamping HK\$'000	Plastic injection HK\$'000	Mircocredit HK\$'000	Total HK\$'000
Total gross segment revenue	2,270,742	1,680,596	-	3,951,338	2,078,442	1,691,827	24,879	3,795,148
Inter-segment revenue	(493,369)	(300,880)	-	(794,249)	(309,686)	(276,172)	-	(585,858)
Revenue	<u>1,777,373</u>	<u>1,379,716</u>	<u>-</u>	<u>3,157,089</u>	<u>1,768,756</u>	<u>1,415,655</u>	<u>24,879</u>	<u>3,209,290</u>
Segment results	<u>108,456</u>	<u>86,296</u>	<u>5,470</u>	<u>200,222</u>	<u>56,819</u>	<u>48,292</u>	<u>15,499</u>	120,610
Unallocated expenses				(7,015)				(5,946)
Finance income				7,315				5,378
Finance costs				(32,282)				(35,919)
Profit before income tax				168,240				84,123
Income tax expense				(33,453)				(22,396)
Profit for the year				<u>134,787</u>				<u>61,727</u>
Share of profits/(losses) of associates	<u>14</u>	<u>-</u>	<u>5,470</u>	<u>5,484</u>	<u>401</u>	<u>(937)</u>	<u>(929)</u>	<u>(1,465)</u>
Depreciation	<u>179,096</u>	<u>52,476</u>	<u>-</u>	<u>231,572</u>	<u>175,224</u>	<u>58,898</u>	<u>506</u>	<u>234,628</u>
Amortisation	<u>4,347</u>	<u>284</u>	<u>-</u>	<u>4,631</u>	<u>3,969</u>	<u>270</u>	<u>-</u>	<u>4,239</u>

For the years ended 31 December 2016 and 2017, unallocated expenses represent corporate expenses.

The segment assets and liabilities are as follows:

	2017					2016				
	Metal stamping HK\$'000	Plastic injection HK\$'000	Microcredit HK\$'000	Un- allocated HK\$'000	Total HK\$'000	Metal stamping HK\$'000	Plastic injection HK\$'000	Microcredit HK\$'000	Un- allocated HK\$'000	Total HK\$'000
Assets	<u>4,289,925</u>	<u>1,178,802</u>	<u>61,057</u>	<u>20,007</u>	<u>5,549,791</u>	<u>3,543,867</u>	<u>1,538,750</u>	<u>55,587</u>	<u>6,925</u>	<u>5,145,129</u>
Liabilities	<u>563,792</u>	<u>537,073</u>	<u>-</u>	<u>1,776,616</u>	<u>2,877,481</u>	<u>93,349</u>	<u>796,689</u>	<u>-</u>	<u>1,637,670</u>	<u>2,527,708</u>
Capital expenditure	<u>339,876</u>	<u>111,678</u>	<u>-</u>	<u>-</u>	<u>451,554</u>	<u>168,666</u>	<u>9,382</u>	<u>-</u>	<u>-</u>	<u>178,048</u>

Segment assets consist primarily of certain property, plant and equipment, investment property under development, 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, asset classified as held for sale, inventories, trade 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, investment property under development, leasehold land and land use rights and acquisition of subsidiaries.

Revenue from external customers by country, based on the destination of the customer and non-current assets, other than financial instruments and deferred income tax assets are as follows:

	2017				2016			
	HK & PRC HK\$'000	Vietnam HK\$'000	Mexico HK\$'000	Total HK\$'000	HK & PRC HK\$'000	Vietnam HK\$'000	Mexico HK\$'000	Total HK\$'000
Revenue	<u>3,060,049</u>	<u>97,040</u>	<u>-</u>	<u>3,157,089</u>	<u>3,207,709</u>	<u>1,581</u>	<u>-</u>	<u>3,209,290</u>
Total non-current assets	<u>2,225,683</u>	<u>179,775</u>	<u>49,545</u>	<u>2,455,003</u>	<u>2,042,803</u>	<u>117,778</u>	<u>-</u>	<u>2,160,581</u>
Total assets	<u>5,237,385</u>	<u>246,800</u>	<u>65,606</u>	<u>5,549,791</u>	<u>4,985,015</u>	<u>160,114</u>	<u>-</u>	<u>5,145,129</u>

Segment assets and liabilities are reconciled to the Group's assets and liabilities as follows:

	As at 31 December			
	2017		2016	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Segment assets/liabilities	5,529,784	1,100,865	5,138,204	890,038
Unallocated:				
Cash and cash equivalents	16,574	-	5,936	-
Other receivables	3,433	-	989	-
Current income tax liabilities	-	13,263	-	6,799
Deferred taxation	-	23,308	-	20,047
Bank borrowings	-	1,703,778	-	1,577,244
Accruals and other payables	-	36,267	-	33,580
Total	<u>5,549,791</u>	<u>2,877,481</u>	<u>5,145,129</u>	<u>2,527,708</u>

An analysis of the Group's three (2016: three) major customers, each of which accounts for 10% or more of the Group's external revenue, is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Customer A	559,102	518,762
Customer B	393,644	402,083
Customer C	<u>360,886</u>	<u>366,463</u>

4. REVENUE

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Sales		
Design and fabrication of metal stamping moulds	231,326	303,246
Manufacturing of metal stamping components	1,417,489	1,312,068
Manufacturing of lathing components	99,660	126,151
Design and fabrication of plastic injection moulds	77,371	127,689
Manufacturing of plastic injection components	1,294,265	1,279,243
Income from micro lending business	-	24,879
Others (<i>Note</i>)	<u>36,978</u>	<u>36,014</u>
	<u>3,157,089</u>	<u>3,209,290</u>

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

5. OPERATING PROFIT

Expenses included in cost of sales, selling and marketing costs and general and administrative expenses are analysed as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Depreciation of property, plant and equipment		
– Owned assets	202,334	205,541
– Leased assets	29,238	29,087
	<u>231,572</u>	<u>234,628</u>
Amortisation of leasehold land and land use rights	4,631	4,239
Employment expenses	670,698	711,590
Auditor's remuneration		
– Audit services	3,540	3,540
– Non-audit services	320	320
Changes in inventories of finished goods and work-in-progress	(56,335)	141,118
Raw materials and consumables used	1,622,852	1,549,818
Provision for inventory obsolescence/(reversal of provision)	9,083	(6,905)
Subcontracting expenses	145,697	97,307
Utilities expenses	58,560	58,135
Transportation expenses	33,055	32,433
Packaging expenses	91,741	98,525
Marketing expenses	4,534	5,398
Office expenses	41,599	43,525
Operating lease payments for properties	9,346	10,423
Others	113,975	116,691
	<u>2,984,868</u>	<u>3,100,785</u>

6. FINANCE INCOME/COSTS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Finance income		
Interest income on bank deposits	<u>7,315</u>	<u>5,378</u>
Finance costs		
Interest expense on:		
Bank borrowings	34,258	36,655
Finance lease liabilities	356	1,121
Interest capitalised	<u>(2,332)</u>	<u>(1,857)</u>
	<u>32,282</u>	<u>35,919</u>

7. INCOME TAX EXPENSE

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current taxation		
– Hong Kong profits tax	–	99
– Mainland China corporate income tax	32,082	19,040
Over/(under)-provision in prior years	(1,890)	3,747
Deferred income tax	<u>3,261</u>	<u>(490)</u>
	<u>33,453</u>	<u>22,396</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the domestic tax rate applicable to profits in the respective countries/places of business of the group entities, as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Profit before income tax	<u>168,240</u>	<u>84,123</u>
Tax calculated at domestic rates applicable to profits in the respective countries/places of business	25,957	6,523
Income not subject to tax	(5,213)	(2,016)
Expenses not deductible for tax purpose	8,974	5,909
Tax losses for which no deferred income tax asset was recognised	5,625	8,233
(Over)/under-provision in prior years	<u>(1,890)</u>	<u>3,747</u>
Tax charge	<u>33,453</u>	<u>22,396</u>

The weighted average applicable tax rate for the year ended 31 December 2017 was approximately 15.4% (2016: 7.8%). The increase is primarily due to changes in the profitability of the subsidiaries in the respective jurisdictions of tax in current year.

(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 year (2016: 16.5%).

(b) Mainland China corporate income tax

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

- (i) Provision for Mainland China corporate income tax is calculated at the statutory rate of 25% (2016: 25%) on the assessable income of each of the group's entities, except that certain subsidiaries are eligible for certain tax exemptions and concessions including tax holiday and reduced income tax rate during the year.
- (ii) EVA Precision Industrial (Suzhou) Limited, Shenzhen EVA Mould Manufacturing Limited, Chongqing Digit Auto Body Ltd., Yihe Precision Hardware (Shenzhen) Co., Ltd., EVA Precision Industrial (Zhongshan) Limited, Yihe Plastic and Electronic Products (Shenzhen) Co., Ltd. and Digit Stamping Technology (Wuhan) Limited are each recognised by the Chinese Government as a "National High and New Technology Enterprise" and are therefore subject to a preferential tax rate of 15% during the years ended 31 December 2016 and 2017.

Under the Corporate Income Tax Law of Mainland China, dividend distributions out of profit of foreign invested enterprises earned after January 2008 are subject to corporate withholding income tax at 10%, or at a reduced rate of 5% for subsidiaries of Hong Kong incorporated holding companies.

(c) Other 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 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 British Virgin Islands income tax.

The subsidiary established and operating in Vietnam during the year is entitled to full exemption from corporate income tax for the first four years from the earlier of (i) the year when profit is generated for the first time or (ii) the fourth year of commencing operations; and a 50% reduction in corporate income tax for the next nine years. The Vietnam subsidiary of the Group did not have any taxable profit for the year ended 31 December 2017 after offsetting losses in prior years.

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 year.

Basic

	2017	2016
Profit attributable to equity holders of the Company (<i>HK\$'000</i>)	<u>133,699</u>	<u>53,486</u>
Weighted average number of ordinary shares in issue (<i>'000</i>)	<u>1,806,683</u>	<u>1,827,830</u>
Basic earnings per share (HK cents per share)	<u>7.4</u>	<u>2.9</u>

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 quoted 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.

	2017	2016
Profit attributable to equity holders of the Company (<i>HK\$'000</i>)	<u>133,699</u>	<u>53,486</u>
Weighted average number of ordinary shares in issue (<i>'000</i>)	1,806,683	1,827,830
Adjustment for share options (<i>'000</i>)	<u>79,568</u>	<u>64,816</u>
Weighted average number of ordinary shares for diluted earnings per share (<i>'000</i>)	<u>1,886,251</u>	<u>1,892,646</u>
Diluted earnings per share (HK cents per share)	<u>7.1</u>	<u>2.8</u>

9. DIVIDENDS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Interim dividend paid of HK1.27 cent (2016: HK0.37 cent) per share	22,973	6,952
Proposed final dividend of HK1.00 cent (2016: HK0.51 cent) per share	<u>17,578</u>	<u>9,140</u>
	<u>40,551</u>	<u>16,092</u>

A final dividend in respect of the year ended 31 December 2017 of HK\$1.00 cent per share, totaling of HK\$17,578,000 has been proposed for approval at the upcoming annual general meeting. These financial statements have not reflected this dividend payable.

10. TRADE RECEIVABLES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Trade receivables	856,105	788,555
Less: Provision for impairment	<u>(1,188)</u>	<u>(1,188)</u>
Trade receivables – net	<u>854,917</u>	<u>787,367</u>

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

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 90 days	775,066	655,370
91 to 180 days	81,039	133,185
	856,105	788,555
Less: Provision for impairment	(1,188)	(1,188)
Trade receivables – net	854,917	787,367

The carrying amounts of trade receivables approximate their fair values.

The top five customers and the largest customer accounted for 30.3% (2016: 55.7%) and 9.5% (2016: 17.3%), respectively, of the trade receivables balance as at 31 December 2017. 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.

As at 31 December 2017, no trade receivables (2016: Nil) were past due.

Trade receivables are denominated in the following currencies:

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong dollars (“HK\$”)	151,929	156,739
United States dollars (“US\$”)	375,346	314,181
Chinese Renminbi (“RMB”)	305,818	294,424
Others	23,012	23,211
	856,105	788,555

11. TRADE PAYABLES

The ageing of trade payables is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
0 to 90 days	561,260	428,324
91 to 180 days	<u>257,493</u>	<u>254,931</u>
	<u>818,753</u>	<u>683,255</u>

The carrying amounts of trade payables approximate their fair values and are denominated in the following currencies:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
HK\$	40,801	21,420
RMB	517,500	449,052
US\$	259,830	212,476
Others	<u>622</u>	<u>307</u>
	<u>818,753</u>	<u>683,255</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Significant Events and Development

The year 2017 saw a strong profit rebound for the Group, which was primarily driven by an enhancement in productivity. Since 2016, the Group has been implementing various cost control measures and streamlining its workforce with a view to coping with the rising wage level in China and improving efficiency. 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, and workers' schedules were more meticulously planned to minimise overtime hours. These efforts started to bring about positive outcomes during the year. Excluding the new headcount recruited by our new Vietnam industrial park, the Group's headcount in China and other regions (excluding Vietnam) continued to decrease from 7,734 employees as at 31 December 2016 to 7,235 employees as at 31 December 2017. Employment and various operating expenses decreased, which led to a strong improvement in the profit margin of the Group during the year.

Turnover of the Group also saw signs of improvement. At the start of the previous year, the Group's customers in the office automation ("OA") equipment sectors were affected by pessimism in the business community and experienced a slowdown in demand, which in turn had a negative impact on the sales orders received by the Group. Following a rejuvenation of business confidence in late 2016, the demand from these customers started to improve. However, in September 2016, the OA equipment division of Samsung Electronics ("Samsung Printing Solutions"), which had been a customer of our Suzhou industrial park since 2012, was acquired by Hewlett-Packard. Thereafter, Samsung Printing Solutions moved the production of its OA equipment products from Suzhou and consolidated such production in Weihai, Shandong Province, leading to a reduction in the sales to Samsung Printing Solutions by our Suzhou industrial park during the year. Accordingly, despite a general improvement in the demand from other customers, the Group witnessed a slight reduction in its turnover during the year ended 31 December 2017. At present, the Suzhou industrial park continues to serve other reputable office automation equipment brand names, which include Canon, Fuji Xerox, Konica Minolta and Ricoh.

Nonetheless, the Group remains confident about the future growth momentum of its OA equipment business despite the temporary reduction in turnover. In particular, the production demand from the combined company of Hewlett-Packard and Samsung Printing Solutions ("HP Printing"), which is much larger than that from Samsung Printing Solutions alone, presents the Group with a remarkable opportunity to largely expand its revenue from the OA equipment market. During the year, the Group has been informed by HP Printing that its production volume in Weihai increased significantly. Given the excellent track record of the Group in serving its predecessor entity in Suzhou, the Group was invited by HP Printing to set up a new industrial park in Weihai to serve its enlarged production demand there, which is a strong endorsement of our outstanding quality and production management expertise. The new Weihai industrial park has a land area of approximately 349,000 square metres. Phase one of the new Weihai industrial park is planned to have a floor area of 79,000 square metres, and is scheduled to start production in the second half of 2019. After taking into account the significantly larger production scale of HP Printing, we believe that the potential sales volume of the Group's future Weihai industrial park, when complete, will be significantly higher than that previously made by our Suzhou industrial park to Samsung Printing Solutions in Suzhou.

Further, as the growth in the production demand of HP Printing in Weihai is imminent, the Group has acquired Intops (Weihai) Electronics Co., Ltd., a component manufacturer, in December 2017 at a consideration of HK\$52,736,000 for the purpose of accelerating the Group's development in Weihai to serve HP Printing better. At the same time, the Group has also rented a temporary factory in Weihai to serve HP Printing before the new self-constructed Weihai industrial park is completed.

On the other hand, the Group continues to see great potentials for revenue growth from other OA equipment customers with Japanese background, which have long been our major customer group for years. In January 2018, Fuji Xerox, one of the Group's largest and longest standing customers, announced its acquisition of Xerox through a reverse takeover. The Group continued to be one of the important suppliers of Fuji Xerox after the acquisition.

Prior to this business combination, the operating regions of Fuji Xerox and Xerox were separated. Fuji Xerox sold mainly to Japan and the Asia Pacific Region, whilst the United States and European market were served by Xerox, and Xerox had not been our customer in the past. Through acquiring Xerox and consequently its United States and European markets, Fuji Xerox is significantly enlarged in its business scale and production demand, which is very likely to strongly drive the Group's revenue from 2018 onwards as the Group has been one of the key suppliers of Fuji Xerox with a business history of more than 15 years.

In early 2017, the Group's Vietnam industrial park, which was completed in late 2016, commenced commercial production. The Group's new Vietnam industrial park was built at the invitation of certain of the Group's major customers in the OA equipment market which 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 systems which require their suppliers to be located in their proximity. By entering into our customers' supply chains in Vietnam through the establishment of a new industrial park there, our addressable market within the OA equipment industry is enlarged. During the year, the majority of the turnover of the new Vietnam industrial park was generated from the OA equipment customers. However, the new Vietnam industrial park can also expand later into other sectors such as the high end consumer electronics sector, as Vietnam is also well known as one of the major manufacturing hubs for high end consumer electronics products.

Throughout the year of 2017, the Group's Vietnam industrial park had been ramping up its production. After the initial stage of commercial production, the Vietnam industrial park experienced a robust growth in sales which was driven by the OA equipment customers in the second half of 2017, a trend which we expect to continue into 2018 and onwards. In order to cope with the rapidly expanding production demand from our customers, the Group started to construct phase two of the Vietnam industrial park in 2017. The new phase two of the Vietnam industrial park has a planned floor area of approximately 46,000 square metres. We plan to complete the construction of the Vietnam industrial park in the second half of 2018, since the demand from our customers is imminent.

During the year, we continued to see significant progress in the automobile business line of the Group. Given the excellent track record of the Group in China, the Group was invited by existing automobile customers to establish a new industrial park in Mexico to serve their existing plants there. The new Mexico industrial park is planned to be located at San Luis Potosí, Mexico where a lot of famous automakers and multinational tier-one suppliers, such as BMW, Volkswagen, Audi, Fiat-Chrysler, Nissan, Brose and Faurecia, have production bases either locally or in the adjacent states. The new Mexico industrial park has a land area of approximately 83,000 square metres and its development is divided into phases. Phase one is planned to have a floor area of approximately 17,000 square metres, and is scheduled for completion in late 2018. Additional capacity can be added should our production capacity be unable to cope with the huge demand for high quality automobile moulds and components in Mexico, which is one of the major production hubs in the world for automobiles.

With a view to differentiating from the majority of domestic automobile suppliers in China whose products are small in size and do not form the core part of the automobiles, the Group's automobile business line focuses on the production of moulds and high tensile components used for auto bodies which require high safety and anti-collision standards. Since 2017, the Group has been making conscious effort to expand the customer base of its automobile business line in China by developing more in-depth business relationships with internationally renowned tier-one suppliers in the automobile industry like Faurecia, Brose and Yamada, who are recognised leaders in their respective product fields. Positive feedback and increasing sales orders have been received from these tier-one suppliers. During the year, we also continued to strengthen the business partnership with key automakers in China like Dongfeng in Wuhan and Changan Suzuki in Chongqing, and received the "Excellent Supplier" award from Dongfeng again, our fifth accolade from them since we became their supplier five years ago. As a result of our various efforts, our turnover from the automobile industry continued to increase during the year ended 31 December 2017.

In recent years, the Chinese government has made conscious efforts to transform China from a low cost processing centre into a high end manufacturing hub focusing on creativity, product quality and efficiency. As a result, a lot of local high technology companies emerged in China in recent years, which created many new business opportunities for the Group in the smart device and high end consumer electronics markets as product quality and engineering expertise are also essential for high technology products. In addition, for the purpose of focusing resources on our core manufacturing business, we reduced the shareholding interests in three subsidiary companies whose businesses or customers are not the development focus of the Group in July 2017, and thereafter these companies ceased to be the subsidiaries of the Group.

Despite a general improvement in the demand from most of our customers, the turnover of the Group decreased slightly by 1.6% to HK\$3,157,089,000 for the year, which was primarily caused by the relocation of the manufacturing facilities of Samsung Printing Solutions as mentioned above. Gross profit margin, however, increased to 24.8%, which was mainly caused by the various cost control measures adopted by the Group since 2016 which led to a decrease in employment and other production costs. Various other operating costs of the Group also decreased due to cost control. The new Vietnam industrial park, which incurred initial losses in 2016, started to generate profit in 2017. In addition, for the previous financial year, the Group's profit margin was lower and certain of its subsidiaries

incurred losses, which increased the overall effective tax rate of the Group in 2016 as such losses were not eligible for offsetting the taxable profits generated by other profitable subsidiaries. This situation changed as profit margin improved during the year ended 31 December 2017, leading to a reduction in the effective tax rate of the Group. As a result, the Group's net profit rebounded sharply and increased by 150% to HK\$133,699,000 for the year ended 31 December 2017.

During the year, we continued to devote substantial efforts on maintaining a healthy balance sheet. We took steps to streamline our working capital requirements, and accordingly our cash conversion cycle (defined as the total sum of inventory and debtors' turnover days less creditors' turnover days) reduced from 36 days in 2016 to 32 days in 2017. Our net debt-to-equity ratio was low at 4.8% as at 31 December 2017, 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 new business opportunities with high potentials 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 2017 is no exception. Further, with a view to enhancing earnings and net asset value per share for all existing shareholders of the Company, the Company repurchased its own 126,836,000 shares from the market in 2017 and early 2018. 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 maximising the returns to our shareholders.

FINANCIAL REVIEW

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

	2017 <i>HK\$'000</i>		2016 <i>HK\$'000</i>	
By business segment				
Turnover				
<i>Metal division</i>				
Design and fabrication of metal stamping moulds	231,326	7.3%	303,246	9.4%
Manufacturing of metal stamping components	1,417,489	44.9%	1,312,068	40.9%
Manufacturing of lathing components	99,660	3.2%	126,151	3.9%
Others (<i>Note 1</i>)	28,898	0.9%	27,291	0.8%
	<u>1,777,373</u>		<u>1,768,756</u>	
<i>Plastic division</i>				
Design and fabrication of plastic injection moulds	77,371	2.4%	127,689	4.0%
Manufacturing of plastic injection components	1,294,265	41.0%	1,279,243	39.9%
Others (<i>Note 1</i>)	8,080	0.3%	8,723	0.3%
	<u>1,379,716</u>		<u>1,415,655</u>	
Income from micro lending business	–	–	24,879	0.8%
Total	<u>3,157,089</u>		<u>3,209,290</u>	
Segment results				
Metal division	108,456		56,819	
Plastic division	86,296		48,292	
Micro lending business	5,470		15,499	
Operating profit	200,222		120,610	
Unallocated expenses	(7,015)		(5,946)	
Finance income	7,315		5,378	
Finance costs	(32,282)		(35,919)	
Income tax expense	(33,453)		(22,396)	
Non-controlling interests	(1,088)		(8,241)	
Profit attributable to equity holders of the Company	<u>133,699</u>		<u>53,486</u>	

Note 1: Others mainly represented sales of scrap materials.

Turnover

Samsung Printing Solutions, which had been a customer of the Group's Suzhou industrial park since 2012, was acquired by Hewlett-Packard in September 2016. Thereafter, Samsung Printing Solutions moved away from Suzhou and consolidated their production in Weihai, Shandong Province. Although our Suzhou industrial park continued to generate substantial revenue from other reputable customers, the loss of revenue from Samsung Printing Solutions unavoidably affected the Group's total turnover. Turnover of the Group decreased slightly by 1.6% to HK\$3,157,089,000 in 2017 despite a general improvement in demand from most of the other customers.

In August 2016, the Group reduced the shareholding interest in its micro lending company from 60% to 40%. Thereafter, the micro lending company ceased to be a subsidiary of the Group, and the Group ceased to recognise the income from micro lending business as its own turnover. Accordingly, there was no turnover from the micro lending business during the year ended 31 December 2017.

Gross profit

The Group has been implementing production automation and streamlining its workforce with a view to improving productivity, which led to a reduction in employment and other costs during the year ended 31 December 2017. As a result, gross profit margin increased to 24.8%.

Segment results

As mentioned above, the Group experienced an improvement in gross profit margin during the year. The Group's general and administrative expenses for the year ended 31 December 2017 also decreased as a result of cost control. Further, the new Vietnam industrial park, which incurred initial losses in 2016, started to generate profit in 2017. Accordingly, the operating profit margin of the Group's metal and plastic divisions increased to 6.1% and 6.3% respectively.

Operating profit from the micro lending business for the year ended 31 December 2017 represented the Group's share of 40% of the profit of the micro lending company through equity pick-up.

Finance income and costs

The majority of the Group's cash and bank deposits are denominated in Hong Kong and United States dollars. During the year ended 31 December 2017, finance income increased as the interest rates from bank deposits in Hong Kong and United States dollars increased. The Group's finance costs decreased to HK\$32,282,000, which was primarily caused by the reduction in bank borrowings and finance lease liabilities for most of 2017. Although the Group's bank borrowings as at 31 December 2017 increased as compared to last year, most of the new bank borrowings were drawn near year-end to prepare for the payment of capital expenditure in 2018 in relation to the Group's new industrial parks under construction.

Income tax expense

During the year, income tax expense amounted to HK\$33,453,000. Effective tax rate (defined as the percentage of income tax expense as compared to profit before income tax) for the year was 19.9%, which decreased as compared to that in 2016. In 2016, the Group paid additional taxes of HK\$3,747,000 to the tax authorities in China in relation to certain non-tax deductible expenses in prior years, whilst the Group received tax refunds of HK\$1,890,000 from the tax authorities in China in 2017. In addition, the Group's profit margin was lower and certain of its subsidiaries incurred losses in 2016, which increased the overall effective tax rate of the Group as such losses were not eligible for offsetting the taxable profits generated by other profitable subsidiaries. This situation changed as profit margin improved during the year ended 31 December 2017, which led to a reduction in the effective tax rate of the Group.

Profit attributable to equity holders of the Company

During the year, profit attributable to equity holders of the Company increased by 150% to HK\$133,699,000, which was primarily caused by the improvement in the Group's operating profit margin as mentioned above.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2017, the Group continued to devote substantial resources to controlling its working capital requirements. However, as the items affecting working capital such as inventories and trade receivables were already at low level by end of 2016, the operating cash inflow that can be generated through working capital management decreased as compared to that in the previous year. Accordingly, the Group's net cash inflow from operating activities for the year decreased to HK\$301,469,000 (2016: HK\$552,092,000). During the year, the Group was in the process of setting up new industrial parks in Weihai and Mexico, and was also constructing phase two of the Vietnam industrial park. Therefore, the Group paid deposits and prepayments relating to capital expenditure which led to an increase in cash outflow from investing activities from HK\$373,307,000 in 2016 to HK\$437,964,000 in 2017. By end of 2017, the Group drew new bank borrowings in preparation to continue paying for the capital expenditure in 2018 in relation to the Group's new industrial parks under construction. Accordingly, the Group recorded net cash inflow from financing activities of HK\$3,264,000 despite share repurchases in 2017 (2016: net cash outflow of HK\$352,877,000).

Bank loans as at 31 December 2017 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

	31 December 2017	31 December 2016
Inventory turnover days (<i>Note 1</i>)	59	48
Debtors' turnover days (<i>Note 2</i>)	99	90
Creditors' turnover days (<i>Note 3</i>)	126	102
Cash conversion cycle (<i>Note 4</i>)	32	36
Current ratio (<i>Note 5</i>)	1.27	1.54
Net debt-to-equity ratio (<i>Note 6</i>)	4.8%	-0.4%
		(Net cash)
Net profit margin (<i>Note 7</i>)	4.2%	1.7%
Return on shareholders' equity (<i>Note 8</i>)	5.0%	2.1%

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 year.
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 year.
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 year.
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 divided by shareholders' equity.

Inventory turnover days

As at 31 December 2017, the Group's inventory balance increased to HK\$381,662,000 (as at 31 December 2016: HK\$325,615,000), which was primarily caused by an increase in moulds and components under production as at year-end. These moulds and components were due for delivery in early 2018. As inventory balance increased, inventory turnover days for the year increased to 59 days.

Debtors' and creditors' turnover days

The Group experienced a reduction in sales at the start of 2017. The situation improved after mid 2017 and the sales orders have been progressively increasing since then. Trade receivables as at 31 December 2017 increased as a higher portion of sales in 2017 occurred in the last quarter, resulting in an increase in debtors' turnover days to 99 days for the year.

At the same time, for the purpose of streamlining working capital requirements, the Group arranged with its banks to increase the issue of discountable notes to the Group's suppliers for the settlement of raw material purchases, which led to an increase in creditors' turnover days to 126 days during the year.

Current ratio and net debt-to-equity ratio

In 2017, additional short-term bank loans were drawn to finance the Group's share repurchases. Further, certain long-term instalment loans drawn by the Group before 2017 were repayable in 2018, and were therefore reclassified from non-current liabilities to current liabilities on the balance sheet in 2017 in accordance with relevant accounting standards. As a result, current liabilities of the Group increased and the current ratio decreased to 1.27 as at 31 December 2017.

Net debt-to-equity ratio as at 31 December 2017 increased as a result of the increase in bank borrowings and share repurchases as mentioned above.

Net profit margin and return on shareholders' equity

The improvement in the Group's net profit margin and return on shareholders' equity was caused by the increase in profit attributable to equity holders of the Company, as explained in the section headed "Financial Review" above.

FOREIGN CURRENCY EXPOSURE

For the year ended 31 December 2017, the Group's sales and raw material purchases were denominated in the following currencies:

	Sales	Purchases
Hong Kong dollars	23.9%	5.3%
US dollars	48.2%	54.9%
Renminbi	26.2%	39.7%
Euro and Vietnamese Dong	<u>1.7%</u>	<u>0.1%</u>

A majority of the Group's customers in both China and Vietnam are reputable international brand owners with worldwide distribution networks. At the same time, a substantial portion of the Group's suppliers in both China and Vietnam are international metal and plastic material producers designated by the Group's customers. Accordingly, approximately 72.1% of the Group's sales and 60.2% of its raw material purchases were made in Hong Kong dollars and US dollars (which are pegged) during the year. The Group also has a policy of using Renminbi to settle the purchases of raw materials used for Renminbi denominated sales. Sales and raw material purchases denominated in Euro and Vietnamese Dong were mainly related to initial trial orders with new customers and suppliers, and therefore their percentages to our total turnover and purchases were small. Should these sales and raw material purchases increase in the future, we will take appropriate actions to safeguard ourselves from any potential exchange rate risk that may arise from dealing in Euro and Vietnamese Dong.

Further, it is the Group's policy to strictly prohibit any speculative foreign exchange transaction which is not related to business operations. Further, it is currently planned that the Group's new industrial parks in Weihai, China and Mexico will target at serving international OA equipment and automobile customers respectively, and will purchase raw materials from international suppliers designated by such customers. Accordingly, it is expected that the majority of sales and raw material purchases of the Group's new industrial parks in Weihai and Mexico will be denominated in US dollars.

At present, although the Group endeavours to transact sales and raw material purchases in matching currencies, the percentage of the Group's raw material purchases in Renminbi is still larger than the percentage of its sales in Renminbi due to the Group's substantial production operations in China. However, management is of the view that the exchange rate risk is not high because Renminbi is unlikely to resume a long-term 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

During the year, the total number of the Group's employees increased slightly from 7,855 employees as at 31 December 2016 to 8,015 employees as at 31 December 2017. This slight increase was primarily caused by the new headcount recruited by the new Vietnam industrial park which started commercial production in early 2017. Excluding the new headcount recruited by the Vietnam industrial park, the Group's headcount in China and other regions reduced from 7,734 employees as at 31 December 2016 to 7,235 employees as at 31 December 2017, which was mainly 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

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2017, 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\$5,570,000 for securing mortgage loan and (ii) mortgage of equipment under finance lease liabilities with net book amount of HK\$155,539,000 for securing finance lease liabilities.

OUTLOOK

Since mid 2017, we have been seeing business environment turn in our favour. Despite a temporary reduction in turnover caused by the acquisition of Samsung Printing Solutions by Hewlett-Packard, we turn out to be a beneficiary thereof as we continue to serve as a key supplier to the combined company i.e. HP Printing. Since HP Printing has a significantly larger business scale, we see enormous growth potentials for our new Weihai industrial park upon completion. The acquisition of Xerox by Fuji Xerox in early 2018 is also very likely to strongly drive the Group's revenue growth, as Fuji Xerox is one of our longest standing customers and its sales and production demand were considerably enlarged by this acquisition. We saw robust growth momentum for our Vietnam industrial park in the second half of 2017, a trend which we expect to continue into 2018 and onwards. At the same time, the foundation of our automobile business line became more solid as we expanded our customer base, and our entry into Mexico can also provide our automobile business line with an additional revenue stream from a new geographical market. As the platform for significant business growth has now been set, we are confident about a robust business performance ahead.

PURCHASES, SALE AND REDEMPTION OF THE SHARES

During the year ended 31 December 2017, the Company repurchased its 90,836,000 listed shares on The Stock Exchange of Hong Kong Limited. These shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Details of the repurchases during the year ended 31 December 2017 are summarised as follows:

Month of repurchases	Number of shares repurchased	Highest price per share <i>HK\$</i>	Lowest price per share <i>HK\$</i>	Aggregate consideration paid <i>HK\$'000</i>
January 2017	25,386,000	1.00	0.84	23,563
February 2017	43,946,000	1.20	1.00	50,081
December 2017	<u>21,504,000</u>	1.24	1.10	<u>25,596</u>
	<u>90,836,000</u>			<u>99,240</u>

Subsequent to 31 December 2017, the Company repurchased its 36,000,000 listed shares on The Stock Exchange of Hong Kong Limited from 1 January 2018 up to the date of this announcement. These shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Details of the repurchases subsequent to 31 December 2017 are summarised as follows:

Month of repurchases	Number of shares repurchased	Highest price per share <i>HK\$</i>	Lowest price per share <i>HK\$</i>	Aggregate consideration paid <i>HK\$'000</i>
January 2018	19,000,000	1.25	1.21	23,675
February 2018	<u>17,000,000</u>	1.20	1.17	<u>20,206</u>
	<u><u>36,000,000</u></u>			<u><u>43,881</u></u>

The directors considered that the repurchases were made for the benefit of the shareholders as a whole as they enhanced the earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2017 and up to the date of this announcement.

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.

DIVIDENDS

The Board recommends the payment of a final dividend of HK1 cent per ordinary share, totaling approximately HK\$17,578,000. Subject to the approval of the directors' recommendation by the shareholders at the annual general meeting to be held on 21 May 2018, the final dividend will be paid on 4 June 2018. Including the interim dividend of approximately HK\$22,973,000 paid on 21 September 2017 in respect of the six months ended 30 June 2017, the total dividends declared for the year ended 31 December 2017 will be approximately HK\$40,551,000.

CLOSURE OF REGISTER OF MEMBERS

To determine which shareholders will be eligible to attend and vote at the forthcoming annual general meeting to be held on Monday, 21 May 2018, the register of members of the Company will be closed from Wednesday, 16 May 2018 to Monday, 21 May 2018, both days inclusive, during which period no share transfers will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting, 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 Tuesday, 15 May 2018.

Subject to the shareholders' approval of the recommended final dividend at the annual general meeting of the Company, the final dividend will be payable on Monday, 4 June 2018 to shareholders whose names appear on the register of members on Tuesday, 29 May 2018. To determine eligibility for the final dividend, the register of members of the Company will be closed from Monday, 28 May 2018 to Tuesday, 29 May 2018, both days inclusive, during which period no shares will be registered. In order to qualify for the entitlement to the proposed final 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 Friday, 25 May 2018.

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 (the "Listing Rules"). Having made specific enquiry of all directors, the Company reported that all directors had complied with the required standards set out in the Model Code during the year ended 31 December 2017 and up to the date of this announcement.

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 Listing Rules during the year ended 31 December 2017.

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 Listing Rules, 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 audited consolidated financial statements for the year ended 31 December 2017.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, the directors confirm that the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31 December 2017 and up to the date of this announcement.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of the preliminary announcement of the Group's results for the year ended 31st December 2017 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

AUDITOR

The consolidated financial statements for the year ended 31 December 2017 have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

By order of the Board

Zhang Hwo Jie

Chairman

Hong Kong, 27 March 2018

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.