



EVA Precision Industrial Holdings Limited 億和精密工業控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立之有限公司)

(Stock Code 股份代號: 838)



中期報告 Interim Report 2016

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Zhang Hwo Jie (*Chairman*)
 Mr. Zhang Jian Hua (*Vice Chairman*)
 Mr. Zhang Yaohua (*Chief Executive Officer*)

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

Mr. Leung Tai Chiu (*Chairman*)
 Mr. Choy Tak Ho
 Mr. Lam Hiu Lo

NOMINATION COMMITTEE

Mr. Zhang Hwo Jie (*Chairman*)
 Mr. Choy Tak Ho
 Mr. Lam Hiu Lo

REMUNERATION COMMITTEE

Mr. Choy Tak Ho (*Chairman*)
 Mr. Zhang Hwo Jie
 Mr. Lam Hiu Lo

HEAD OFFICE

Unit 8, 6th Floor, Greenfield Tower, Concordia Plaza
 No.1 Science Museum Road, Kowloon, Hong Kong

REGISTERED OFFICE

Codan Trust Company (Cayman) Limited
 Cricket Square, Hutchins Drive
 P.O. Box 2681
 Grand Cayman KY1-1111
 Cayman Islands

COMPANY SECRETARY

Mr. Wong Hoi Chu Francis *FCCA CPA*

AUTHORISED REPRESENTATIVES

Mr. Zhang Hwo Jie
 Mr. Wong Hoi Chu Francis *FCCA CPA*

STOCK CODE

838

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
 Hang Seng Bank Limited
 Bank of China (Hong Kong) Limited
 The Bank of Tokyo-Mitsubishi UFJ, Ltd.
 Sumitomo Mitsui Banking Corporation
 Citibank, N.A., Hong Kong Branch
 DBS Bank (Hong Kong) Limited
 China CITIC Bank International Limited
 Chong Hing Bank Limited
 KBC Bank N.V. Hong Kong Branch
 Fubon Bank (Hong Kong) Limited

LEGAL ADVISOR

Minter Ellison

AUDITOR

PricewaterhouseCoopers
 Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
 Cricket Square, Hutchins Drive
 P.O. Box 2681
 Grand Cayman KY1-1111
 Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
 Shops 1712-1716, 17th Floor
 Hopewell Centre, 183 Queen's Road East
 Wanchai, Hong Kong

WEBSITE

www.eva-group.com
www.irasia.com/listco/hk/evaholdings

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	7	1,899,309	1,920,739
Leasehold land and land use rights	7	175,738	179,046
Goodwill	8	5,067	5,067
Investment in an associate	9	12,185	12,720
Available-for-sale financial assets	12	88,953	56,461
Amount due from a related company	11	1,587	1,587
Prepayments, deposits and other receivables	10	102,981	80,419
Loan and interest receivables	14	2,322	4,804
		2,288,142	2,260,843
Current assets			
Inventories		434,449	465,854
Trade receivables	13	765,553	793,166
Loan and interest receivables	14	132,021	128,481
Amount due from a related company	11	1,587	1,587
Prepayments, deposits and other receivables	10	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	15	608,474	602,704
Accruals and other payables	16	193,766	198,121
Bank borrowings	17	1,000,684	1,118,303
Finance lease liabilities	18	18,769	40,440
Current income tax liabilities		2,264	6,535
		1,823,957	1,966,103

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
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	17	726,925	729,688
Finance lease liabilities	18	11,887	25,822
Deferred taxation	19	20,782	21,027
		759,594	776,537
Net assets		2,751,282	2,747,843
EQUITY			
Capital and reserves			
Share capital	20	187,905	187,905
Reserves	22	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

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

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	6	1,581,110	1,761,504
Cost of sales	24	(1,194,105)	(1,279,151)
Gross profit		387,005	482,353
Other income	23	2,805	4,383
Other gains – net	23	2,583	14,787
Selling and marketing costs	24	(84,747)	(88,370)
General and administrative expenses	24	(253,616)	(261,545)
Operating profit		54,030	151,608
Finance income	25	1,917	8,681
Finance costs	25	(18,353)	(18,468)
Share of loss of an associate	9	(451)	(1,194)
Profit before income tax		37,143	140,627
Income tax expense	26	(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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2016

		Unaudited	
		Six months ended 30 June	
	Note	2016 HK\$'000	2015 HK\$'000
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	27	1.2	6.6
– diluted	27	1.2	6.3

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Unaudited			
	Attributable to equity holders of the Company			Non-controlling interests
	Share capital	Reserves	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2016	187,905	2,430,551	129,387	2,747,843
Comprehensive income				
Profit for the period	-	22,998	1,591	24,589
Other comprehensive income/(loss)				
Revaluation gain on available-for-sale financial assets	-	7,007	7,651	14,658
Currency translation differences	-	(11,052)	(806)	(11,858)
Total comprehensive income for the period	-	18,953	8,436	27,389
Transactions with owners				
Non-controlling interest arising on business combination	-	-	477	477
Dividend paid	-	(24,427)	-	(24,427)
	-	(24,427)	477	(23,950)
Balance at 30 June 2016	187,905	2,425,077	138,300	2,751,282

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Unaudited			
	Attributable to equity holders of the Company			
	Share capital	Reserves	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2015	168,334	2,166,821	75,711	2,410,866
Comprehensive income				
Profit for the period	–	118,135	5,407	123,542
Other comprehensive income				
Currency translation differences	–	185	26	211
Total comprehensive income for the period	–	118,320	5,433	123,753
Transactions with owners				
Proceeds from issuance of shares upon exercise of employee share options	11,071	67,969	–	79,040
Proceeds from issuance of shares upon placing, net of share issuance expenses	7,000	124,269	–	131,269
Dividend paid	–	(50,328)	–	(50,328)
	18,071	141,910	–	159,981
Balance at 30 June 2015	186,405	2,427,051	81,144	2,694,600

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Cash flows from operating activities		
Cash generated from operations	262,593	163,756
Interest received	1,917	8,681
Interest paid	(18,353)	(18,468)
Income tax paid	(17,085)	(25,799)
	229,072	128,170
Net cash generated from operating activities	229,072	128,170
Cash flows from investing activities		
Purchases of property, plant and equipment	(128,718)	(162,651)
Purchases of land use rights	-	(22,098)
Proceeds from sales of property, plant and equipment	1,153	2,339
Addition of an available-for-sale financial asset	(17,834)	(24,077)
Increase in restricted bank deposits	(864)	(7,495)
Decrease/(increase) in short-term bank deposits	42,971	(141,106)
	(103,292)	(355,088)
Net cash used in investing activities	(103,292)	(355,088)
Cash flows from financing activities		
Proceeds from borrowings	384,800	412,792
Repayments of borrowings	(505,182)	(219,984)
Repayments of capital element of finance lease liabilities	(35,606)	(24,787)
Proceeds from issuance of shares upon placing, net of share issuance expenses	-	131,269
Proceeds from issuance of shares upon exercise of share option	-	79,040
Dividends paid	(24,427)	(50,328)
	(180,415)	328,002
Net cash (used in)/generated from financing activities	(180,415)	328,002

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Net (decrease)/increase in cash and cash equivalents	(54,635)	101,084
Cash and cash equivalents at the beginning of the period	1,607,660	989,428
Exchange (losses)/gains on cash and cash equivalents	(4,722)	13
Cash and cash equivalents at the end of the period	<u>1,548,303</u>	<u>1,090,525</u>

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

EVA Precision Industrial Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) are principally engaged in (1) the design and fabrication of metal stamping and plastic injection moulds, (2) the manufacturing of metal stamping and plastic injection components and lathing components, and (3) the micro lending business in Mainland China (through a 60% owned subsidiary).

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 is presented in Hong Kong dollars (“HK\$”), unless otherwise stated, and was approved for issue on 30 August 2016.

The condensed consolidated interim financial information has not been audited.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2016 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”).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 ACCOUNTING POLICIES (CONTINUED)

- (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 Sale or contribution of assets between and HKAS 28 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.

4 ESTIMATES

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimating uncertainty were the same as those that applied to the consolidated financial information for the year ended 31 December 2015.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

The condensed consolidated interim financial information does not include all the financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2015.

There have been no changes in any risk management policies since 31 December 2015.

(b) Liquidity risk

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Total HK\$'000
At 30 June 2016				
Bank borrowings	1,000,684	328,527	398,398	1,727,609
Finance lease liabilities	18,769	6,750	5,137	30,656
Interest payable	21,924	9,397	8,312	39,633
Trade payables	608,474	-	-	608,474
Other payables	67,345	-	-	67,345
At 31 December 2015				
Bank borrowings	1,118,303	330,527	399,161	1,847,991
Finance lease liabilities	40,440	17,414	8,408	66,262
Interest payable	26,278	13,776	7,673	47,727
Trade payables	602,704	-	-	602,704
Other payables	76,523	-	-	76,523

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 REVENUE AND SEGMENT INFORMATION

(a) 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.

(b) 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

The segment results and other segment items are as follows:

	Six months ended 30 June 2016				Six months ended 30 June 2015			
	Metal	Plastic		Total	Metal	Plastic		Total
	stamping	injection	Microcredit		stamping	injection	Microcredit	
	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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

The segment assets and liabilities are as follows:

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

The segment capital expenditure is as follows:

	Six months ended 30 June 2016					Six months ended 30 June 2015				
	Metal	Plastic		Unallocated	Total	Metal	Plastic		Unallocated	Total
	stamping	injection	Microcredit			stamping	injection	Microcredit		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditure	<u>101,704</u>	<u>6,079</u>	<u>-</u>	<u>-</u>	<u>107,783</u>	<u>104,555</u>	<u>36,363</u>	<u>341</u>	<u>-</u>	<u>141,259</u>

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

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

	Assets HK\$'000	Liabilities 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 HK\$'000	Liabilities 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).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7 CAPITAL EXPENDITURE

	Property, plant and equipment	Leasehold land and land use rights
	HK\$'000	HK\$'000
Opening net book amount at 1 January 2016	1,920,739	179,046
Additions	107,783	–
Disposals	(1,181)	–
Depreciation/amortisation charge	(122,179)	(2,124)
Exchange difference	(5,853)	(1,184)
	1,899,309	175,738
Closing net book amount at 30 June 2016	1,899,309	175,738
Opening net book amount at 1 January 2015	1,913,652	163,940
Additions	119,161	22,098
Disposals	(2,340)	–
Depreciation/amortisation charge	(120,485)	(1,913)
Exchange difference	187	18
	1,910,175	184,143
Closing net book amount at 30 June 2015	1,910,175	184,143

Depreciation and amortisation expenses are analysed as follows:

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Cost of sales	77,909	76,848
Selling and marketing costs	783	785
General and administrative expenses	45,611	44,765
	124,303	122,398

Land and buildings with a net book amount of HK\$5,964,000 (31 December 2015: HK\$6,095,000) were pledged as collateral for the Group's borrowing (Note 17).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8 GOODWILL

	Goodwill
	HK\$'000
At 1 January 2016 and 30 June 2016	5,067
At 1 January 2015 and 30 June 2015	2,545

9 INVESTMENT IN AN ASSOCIATE

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Beginning of the period	12,720	14,927
Share of loss	(451)	(1,194)
Exchange difference	(84)	2
End of the period	12,185	13,735

The assets, liabilities and results of Shenzhen KK Technology Co., Ltd., the associate, are shown below:

	Six months ended 30 June 2016 HK\$'000
Assets	86,539
Liabilities	45,922
Revenue	9,658
Loss	(1,503)
Percentage held	30%

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at	
	30 June	31 December
	2016	2015
	HK\$'000	HK\$'000
Non-current		
Deposits for purchases of property, plant and equipment	99,313	76,726
Others	3,668	3,693
	102,981	80,419
Current		
Loan to the other shareholder of the associate (Note)	11,794	11,936
Prepayments for purchases of raw materials	15,372	13,055
VAT recoverable	44,539	59,558
Prepayment of utilities expenses	1,610	1,572
Receivables from employees and staff advances (Note)	14,101	22,546
Others	34,401	39,157
	121,817	147,824

Note: Loan to the other shareholder of the associate, receivables from employees and staff advances are unsecured, non-interest bearing and denominated in Renminbi (RMB).

11 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)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at	
	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Unlisted:		
Equity securities – Mainland China, at fair value	63,624	56,461
Listed:		
Equity securities – Mainland China, at fair value	25,329	–
	88,953	56,461

The fair value of the equity securities were determined by reference to recent transaction prices in arm's length transactions or valuation determined by an independent firm of professional valuers. The fair values are within level 3 of the fair value hierarchy.

The available-for-sale financial assets are denominated in RMB.

Movement of the available-for-sale financial assets is as follows:

	Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Beginning of the period	56,461	25,197
Addition	17,834	24,077
Revaluation gain transferred to other comprehensive income	14,658	–
End of the period	88,953	49,274

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13 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 HK\$'000	31 December 2015 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).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14 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 HK\$'000	31 December 2015 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).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14 LOAN AND INTEREST RECEIVABLES (CONTINUED)

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 HK\$'000	31 December 2015 HK\$'000
0 to 90 days	–	11,459
91 to 180 days	–	–
181 to 365 days	11,226	–
	11,226	11,459

15 TRADE PAYABLES

The aging of trade payables is as follows:

	As at	
	30 June 2016 HK\$'000	31 December 2015 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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16 ACCRUALS AND OTHER PAYABLES

	As at	
	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Payables for purchase of property, plant and equipment	17,520	23,060
Deposits from customers	60,464	32,704
Accrued wages, salaries and welfare	54,760	78,948
Accrued utilities expenses	5,410	4,562
Accrued operating expenses	5,787	5,384
Other payables	49,825	53,463
	193,766	198,121

17 BANK BORROWINGS

	As at	
	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Current		
Short-term bank loans	585,990	668,681
Portion of long-term loans from banks due for repayment within one year	414,274	449,202
Mortgage loan, current portion	420	420
	1,000,684	1,118,303
Non-current		
Portion of long-term loans from banks due for repayment after one year	725,857	728,410
Mortgage loan, non-current portion	1,068	1,278
	726,925	729,688
Total bank borrowings	1,727,609	1,847,991

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 BANK BORROWINGS (CONTINUED)

All bank borrowings are interest-bearing and carried at amortised cost.

As at 31 December 2015 and 30 June 2016, all bank borrowings bore floating interest rates.

The Group's bank borrowings are repayable as follows:

	As at	
	30 June 2016	31 December 2015
	HK\$'000	HK\$'000
Within 1 year	1,000,684	1,118,303
Between 1 and 2 years	328,527	330,527
Between 2 and 5 years	398,398	399,161
	1,727,609	1,847,991

Bank borrowings were denominated in Hong Kong dollars and United States dollars.

As at 31 December 2015 and 30 June 2016, the effective interest rates (per annum) of the Group's bank borrowings were as follows:

	Short-term bank loans		Long-term bank loans		Mortgage loan	
	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015
HK\$	2.3%	2.2%	2.3%	2.4%	2.3%	2.4%
United States dollars	3.2%	2.3%	3.2%	2.3%	-	-

As at 30 June 2016, the Group has undrawn floating rate borrowing facilities of approximately HK\$197,000,000 (31 December 2015: HK\$162,385,000).

As at 30 June 2015, land and buildings with a carrying amount of HK\$5,964,000 (31 December 2015: HK\$6,095,000) were pledged as collateral for the Group's borrowing.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

18 FINANCE LEASE LIABILITIES

The Group's finance lease liabilities have maturity dates within five years and are repayable as follows:

	As at	
	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Within one year	19,408	41,916
In the second year	6,959	17,836
In the third to fifth year	5,199	8,546
	31,566	68,298
Less: Future finance charges on finance lease	(910)	(2,036)
Present value of finance lease liabilities	30,656	66,262

The present value of finance lease liabilities is as follows:

	As at	
	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Within one year	18,769	40,440
In the second year	6,750	17,414
In the third to fifth year	5,137	8,408
Total finance lease liabilities	30,656	66,262
Less: Amount included in current liabilities	(18,769)	(40,440)
	11,887	25,822

Finance lease liabilities are denominated in HK\$.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

18 FINANCE LEASE LIABILITIES (CONTINUED)

As at 30 June 2016, the effective interest rate of the Group's finance lease liabilities was 3.5% per annum (31 December 2015: 3.1% per annum).

Finance lease liabilities are effectively secured as the rights to the leased assets revert to the lessors in the event of default. As at 30 June 2016, the net book amount of the leased assets was approximately HK\$221,661,000 (31 December 2015: HK\$235,691,000).

19 DEFERRED TAXATION

The analysis of deferred tax liabilities is as follows:

	As at	
	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Deferred income tax liabilities:		
Deferred income tax liability to be recovered after more than 12 months	20,537	20,536
Deferred income tax liability to be recovered within 12 months	245	491
	20,782	21,027

The movements on the deferred income tax liabilities are as follows:

	Fair value gains HK\$'000	Withholding tax HK\$'000	Total HK\$'000
At 1 January 2016	15,898	5,129	21,027
Credited to profit or loss	(245)	-	(245)
At 30 June 2016	15,653	5,129	20,782
At 1 January 2015	16,389	5,129	21,518
Credited to profit or loss	(245)	-	(245)
At 30 June 2015	16,144	5,129	21,273

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

20 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares (thousand)	Share capital HK\$'000
At 1 January 2016 and 30 June 2016	<u>1,879,052</u>	<u>187,905</u>
At 1 January 2015	1,683,348	168,334
Issue of shares	70,000	7,000
Issue of shares pursuant to share option scheme	<u>110,704</u>	<u>11,071</u>
At 30 June 2015	<u>1,864,052</u>	<u>186,405</u>

21 SHARE OPTION SCHEME

In 2005, the Company adopted a share option scheme ("Share Option Scheme"). Under the Share Option Scheme, the Company's directors may, at their sole discretion, grant to any director or employee of the Group the right to take up options to subscribe for shares of the Company at the highest of (i) the closing price of shares of the Company as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on the day of the offer of grant; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the day of the offer of the grant; and (iii) the nominal value of shares. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option. The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Company must not, in aggregate, exceed 30% of the relevant shares or securities of the Company in issue from time to time.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

21 SHARE OPTION SCHEME (CONTINUED)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2016		2015	
	Average exercise price per share HK\$	Number of options '000	Average exercise price per share HK\$	Number of options '000
At 1 January		38,676		164,380
Exercised	-	-	1.172	(300)
Exercised	-	-	1.16	(9,140)
Exercised	-	-	0.69	(97,374)
Exercised	-	-	0.41	(920)
Exercised	-	-	0.175	(2,970)
At 30 June		38,676		53,676

Share options outstanding at 30 June 2016 have the following expiry dates and exercise prices:

Expiry date	Exercise price per share HK\$	Share options '000
6 November 2017	1.16	12,250
6 November 2017	0.69	23,296
1 October 2019	0.41	200
19 November 2018	0.175	2,930
		38,676

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

22 RESERVES

	Share premium	Capital reserve(i)	Statutory reserves(ii)	Capital redemption reserve	Share options equity reserve	Exchange reserve	Available-for-sale financial assets reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2016	1,232,848	(735)	138,941	20,329	11,397	(41,126)	(2,527)	1,071,424	2,430,551
Profit for the period	-	-	-	-	-	-	-	22,998	22,998
Dividend paid	-	-	-	-	-	-	-	(24,427)	(24,427)
Other comprehensive income(loss)									
– Translation differences	-	-	-	-	-	(11,052)	-	-	(11,052)
– Revaluation gain on available-for-sale financial assets	-	-	-	-	-	-	7,007	-	7,007
Balance at 30 June 2016	1,232,848	(735)	138,941	20,329	11,397	(52,178)	4,480	1,069,995	2,425,077
Balance at 1 January 2015	999,147	(735)	121,473	20,329	43,814	11,763	-	971,030	2,166,821
Profit for the period	-	-	-	-	-	-	-	118,135	118,135
Dividend paid	-	-	-	-	-	-	-	(50,328)	(50,328)
Other comprehensive income									
– Translation differences	-	-	-	-	-	185	-	-	185
Proceeds from issuance of shares upon exercise of employee share options	67,969	-	-	-	-	-	-	-	67,969
Proceeds from issuance of shares upon placing, net of share issuance expenses	124,269	-	-	-	-	-	-	-	124,269
Transfer to share premium upon exercise of share options	28,560	-	-	-	(28,560)	-	-	-	-
Balance at 30 June 2015	1,219,945	(735)	121,473	20,329	15,254	11,948	-	1,038,837	2,427,051

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

22 RESERVES (CONTINUED)

Notes:

- (i) Capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to a reorganisation (the reorganisation took place in April 2005 in contemplation of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited) over the nominal value of the share capital of the Company issued in exchange therefor.
- (ii) In accordance with the articles of association of the relevant subsidiaries established in Mainland China and the Mainland China rules and regulations, the Mainland China subsidiaries are required to transfer not less than 10% of their net profit as stated in the financial statements prepared under Mainland China accounting regulations to statutory reserves before the corresponding Mainland China subsidiaries can distribute any dividend. Such a transfer is not required when the amount of statutory reserves reach 50% of the corresponding subsidiaries' registered capital. The statutory reserve shall only be used to make up losses of the corresponding subsidiaries, to expand the corresponding subsidiaries' production operations, or to increase the capital of the corresponding subsidiaries.

Upon approval by resolutions of the corresponding subsidiaries' shareholders in general meetings, the corresponding subsidiaries may convert their statutory reserves into registered capital and issue bonus capital to existing equity holders in proportion to their existing ownership structure.

During the six months ended 30 June 2016, no transfer of statutory reserves has been made from the Group's profit for the period (for the period ended 30 June 2015: nil). The Mainland China subsidiaries of the Group, however, have retained sufficient funds for such purpose and these transfers will be made at the end of the year in accordance with the articles of association of these Mainland China subsidiaries.

23 OTHER INCOME AND OTHER GAINS – NET

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Other income		
Government grants	746	3,239
Others	2,059	1,144
	2,805	4,383
Other gains – net		
Losses on disposal of property, plant and equipment	(683)	(1)
Net exchange gains	3,266	14,788
	2,583	14,787

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

24 STATEMENT OF COMPREHENSIVE INCOME ITEMS BY NATURE

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 HK\$'000	2015 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

25 FINANCE INCOME/COSTS

	Six months ended 30 June	
	2016 HK\$'000	2015 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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

26 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 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. EVA Precision Industrial (Zhongshan) Limited was recognised by the Chinese Government as a "National High and New Technology Enterprise" and was therefore subject to a preferential tax rate of 15% during the period ended 30 June 2016.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

26 INCOME TAX EXPENSE (CONTINUED)

(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.

27 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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

27 EARNINGS PER SHARE (CONTINUED)

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

28 DIVIDEND

	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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

29 COMMITMENTS

(a) Capital Commitments

Capital expenditure at the statement of financial position date committed but not yet incurred is as follows:

	As at	
	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Contracted but not provided for		
– Construction of buildings	42,060	51,617
– Purchase of plant and machinery	68,113	26,984
	110,173	78,601

(b) Operating lease commitments

The future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases are as follows:

	As at	
	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Not later than one year	19,807	13,468
Later than one year but not later than five years	38,333	38,882
Later than five years	97,830	103,529
	155,970	155,879

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 RELATED-PARTY TRANSACTIONS

Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua, the Company's executive directors, have beneficial interests in Prosper Empire Limited, which owns 35.75% of the Company's shares as at 30 June 2016 (31 December 2015: 35.75%).

(a) Key management compensation

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Salaries and allowances	12,120	17,880
Retirement benefits – defined contribution plan	36	39
	12,156	17,919

31 SUBSEQUENT EVENT

On 23 August 2016, the Group entered into two sale and purchase agreements, pursuant to which the Company agreed to sell 20% of shareholding in Shenzhen Jinggong Microcredit Limited, a 60% owned subsidiary, at an aggregate cash consideration of approximately RMB25,182,000 (equivalent to approximately HK\$29,323,000).

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, manufacturers faced increasing difficulties since 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 adopt just-in-time production system which requires their suppliers to be located in the proximity of their assembly plants. 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

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

	Six months ended 30 June			
	2016 HK\$'000		2015 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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:

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

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

CONNECTED TRANSACTIONS

Deeds of tax indemnity provided by the directors and shareholders in favour of the Group

As disclosed in the Company's prospectus dated 29 April 2005, on 28 April 2005, the Company entered into a deed of tax indemnity with Prosper Empire Limited which is a 35.75% shareholder of the Company as at 30 June 2016 and Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua who are directors and beneficial shareholders of the Company (together the "Indemnifiers"). Under this deed of tax indemnity, each of the Indemnifiers has jointly and severally undertaken to indemnify the Group for any taxation falling on any member of the Group (other than those established or acquired subsequent to the listing of the Company) attributable to periods before the listing date of the Company which had not been provided for in the annual financial statements of the relevant members of the Group before the listing date. This deed of tax indemnity was approved by the board of directors on 20 April 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2014, EVA Limited and EVA Plastic Mould Products (HK) Limited settled with The Hong Kong Inland Revenue Department (the “HKIRD”) regarding their offshore claims which had been queried by the HKIRD since 2005 by an amount of HK\$33,612,000. This was settled by the Group through cash payment of HK\$7,211,000 and utilisation of tax reserve certificates and other advance payments previously made to the HKIRD. The tax amount attributable to the periods prior to 11 May 2005 (the listing date of the Company) which had not been provided for in the annual financial statements of EVA Limited and EVA Plastic Mould Products (HK) Limited before the listing date was HK\$8,798,000, of which HK\$4,038,000 had been indemnified by the Indemnifiers. The remaining balance of HK\$4,760,000 will also be indemnified by the Indemnifiers by instalments in three years from December 2015 to December 2017. The first instalment of approximately HK\$1,586,000 had been paid by the Indemnifiers in 2015, and the remaining balance payable by the Indemnifiers amounted to HK\$3,174,000 as at 30 June 2016.

The above transaction constitutes a connected transaction in accordance with Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, which requires disclosure in the interim report of the Company.

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.

SPECIFIC PERFORMANCE OBLIGATIONS OF THE CONTROLLING SHAREHOLDERS

A subsidiary of the Company is a party to a loan agreement with DBS Bank (Hong Kong) Limited in respect of a finance lease facility up to HK\$140,000,000 with a repayment term of four years after the date of advance of the loan (“DBS Facility Agreement”). The outstanding loan balance was approximately HK\$11,991,000 as at 30 June 2016.

The following specific performance obligations are imposed on the controlling shareholders of the Company under the DBS Facility Agreement:

- (i) Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua shall collectively maintain not less than 35% of the issued shares of the Company and shall remain as the single largest shareholder of the Company; and
- (ii) Mr. Zhang Hwo Jie shall remain as the chairman of the board of directors of the Company.

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Further, a subsidiary of the Company is a party to loan agreements with Bank of China (Hong Kong) Limited in respect of the following banking facilities (“BOC Facilities Agreements”):

- (i) a term loan facility up to HK\$50,000,000 with a repayment term of three years after the date of advance of the loan (the outstanding loan balance was HK\$12,500,000 as at 30 June 2016);
- (ii) another term loan facility up to HK\$100,000,000 with a repayment term of four years from the date of first drawdown of the loan (the outstanding loan balance was HK\$91,667,000 as at 30 June 2016);
- (iii) another term loan facility up to HK\$200,000,000 with a repayment term of four years from the date of first drawdown of the loan (the outstanding loan balance was HK\$200,000,000 as at 30 June 2016); and
- (iv) a revolving loan for an amount up to HK\$40,000,000 (there was no outstanding loan balance as at 30 June 2016).

The following specific performance obligations are imposed on the controlling shareholders of the Company under the BOC Facilities Agreements:

- (i) Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua shall maintain to hold not less than 35% of the issued share capital of the Company and shall remain as the largest shareholder of the Company; and
- (ii) Mr. Zhang Hwo Jie shall remain as the chairman of the board of directors and the executive director of the Company.

In addition, a subsidiary of the Company is a party to loan agreements with Hang Seng Bank Limited in respect of the following facilities (“HSB Facilities Agreements”):

- (i) a term loan facility in the principal amount of HK\$250,000,000, which is repayable by instalments over 4 years from the date of drawdown (the outstanding loan balance was HK\$84,000,000 as at 30 June 2016);
- (ii) another term loan facility up to HK\$150,000,000 for a term of four years from the date of drawdown of the loan (the outstanding loan balance was HK\$114,000,000 as at 30 June 2016);
- (iii) another term loan facility up to HK\$250,000,000 for a term of four years from the date of drawdown of the loan (the outstanding loan balance was HK\$250,000,000 as at 30 June 2016);

MANAGEMENT DISCUSSION AND ANALYSIS

- (iv) revolving loan of HK\$150,000,000 (the outstanding loan balance was HK\$130,000,000 as at 30 June 2016);
- (v) combined documentary credits in the amount of HK\$25,000,000 (there was no outstanding balance as at 30 June 2016); and
- (vi) treasury products facility with a notional amount of HK\$52,631,579 (there was no outstanding balance as at 30 June 2016).

Under the HSB Facilities Agreements, Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua together shall maintain not less than 35% of the issued share capital of the Company, and Mr. Zhang Hwo Jie shall remain as the chairman of the board of directors of the Company.

The Company is a party to a loan agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd. in respect of a four years term loan facility of up to HK\$250,000,000 ("BTMU Facility Agreement"), and the total outstanding balance of the loan was HK\$218,750,000 as at 30 June 2016.

The following specific performance obligations are imposed on the controlling shareholders of the Company under the BTMU Facility Agreement:

- (i) Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua shall hold not less than 35% of the entire issued share capital of the Company; and
- (ii) Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua shall collectively remain as single largest shareholder of the Company.

A subsidiary of the Company is also a party to loan agreements with The Hongkong and Shanghai Banking Corporation Limited in respect of the following facilities ("HSBC Facilities Agreements"):

- (i) a term loan facility for an amount up to HK\$30,000,000 with a repayment period of five years after drawdown (the outstanding loan balance was HK\$3,500,000 as at 30 June 2016);
- (ii) another term loan facility for an amount up to HK\$250,000,000 with a repayment period of five years from the date of acceptance of the relevant facility letter (the outstanding loan balance was HK\$61,500,000 as at 30 June 2016);

MANAGEMENT DISCUSSION AND ANALYSIS

- (iii) another term loan facility for an amount up to HK\$150,000,000 with a repayment period of four years after drawdown (the outstanding loan balance was HK\$80,000,000 as at 30 June 2016); and
- (iv) revolving loan of HK\$200,000,000 (the outstanding loan balance was HK\$200,000,000 as at 30 June 2016).

The following specific performance obligations are imposed on the controlling shareholders of the Company under the HSBC Facilities Agreements:

- (i) Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua shall maintain not less than 35% of the issued share capital of the Company; and
- (ii) Mr. Zhang Hwo Jie shall remain as the chairman of the board of directors of the Company.

Besides, a subsidiary of the Company had entered into a banking facility agreement with Fubon Bank (Hong Kong) Limited in respect of the following banking facilities ("Fubon Facilities Agreement"):

- (i) short term advance facility on a revolving basis of up to US\$7,000,000 (the outstanding loan balance was US\$7,000,000 as at 30 June 2016); and
- (ii) a term loan facility for an amount up to US\$4,000,000 with a repayment period of 3 years after drawdown (the outstanding loan balance was US\$2,909,000 as at 30 June 2016).

Pursuant to the Fubon Facilities Agreement, Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua together shall maintain not less than 35% of the issued share capital of the Company.

A breach of any of the aforesaid obligations will constitute an event of default under the relevant facilities agreements which may result in, inter alia, the cancellation of all or any part of the commitments under the relevant facilities agreements and all borrowed amounts outstanding becoming immediately due and payable.

SHARE OPTIONS

(a) The 2005 Share Option Scheme

The Company conditionally adopted a share option scheme on 20 April 2005 (the "2005 Share Option Scheme") which became unconditional on 11 May 2005. The 2005 Share Option Scheme was effective for a period of 10 years commencing on 20 April 2005, and it expired on 19 April 2015.

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The share options which were previously issued under the 2005 Share Option Scheme and remain outstanding after the 2005 Share Option Scheme had expired will continue to be valid and exercisable during their respective prescribed exercisable periods. There was no movement in these share options during the six months ended 30 June 2016, and details of these share options as at 30 June 2016 are as follows:

	As at 31 December 2015 and 30 June 2016	Share price immediately before offer date	Exercise price
		HK\$	HK\$
Executive directors			
Mr. Zhang Hwo Jie			
– Granted on 7 November 2012	5,100,000	0.69	0.69
Independent non-executive directors			
Mr. Leung Tai Chiu			
– Granted on 26 April 2013	300,000	1.20	1.16
Mr. Lam Hiu Lo			
– Granted on 26 April 2013	300,000	1.20	1.16
Employees of the Group			
In aggregate			
– Granted on 10 December 2008	2,930,200	0.165	0.175
– Granted on 2 October 2009	200,000	0.405	0.41
– Granted on 7 November 2012	18,196,000	0.69	0.69
– Granted on 26 April 2013	<u>11,650,000</u>	1.20	1.16
	<u>38,676,200</u>		

MANAGEMENT DISCUSSION AND ANALYSIS

All options referred to the above are subject to vesting schedules and exercise periods as follows:

% of the options granted	Vesting date	Exercise period
With respect to the options granted on 10 December 2008 with exercise price of HK\$0.175		
100%	10 December 2008	10 December 2008 to 19 November 2018
With respect to the options granted on 2 October 2009 with exercise price of HK\$0.41		
100%	5 October 2009	5 October 2009 to 1 October 2019
With respect to the options granted on 7 November 2012 and 26 April 2013 with exercise prices of HK\$0.69 and HK\$1.16 respectively		
100%	2 January 2014	2 January 2014 to 6 November 2017

(b) The 2015 Share Option Scheme

As the 2005 Share Option Scheme expired on 19 April 2015, the Board proposed to adopt a new share option scheme (the "2015 Share Option Scheme") to replace the 2005 Share Option Scheme. The 2015 Share Option Scheme became effective on 21 May 2015, the date on which it was approved by the shareholders at the annual general meeting of the Company that was held on the same day.

MANAGEMENT DISCUSSION AND ANALYSIS

No share option was granted under the 2015 Share Option Scheme up to 30 June 2016. On 8 July 2016, 67,050,000 options were granted to the eligible participants under the 2015 Share Option Scheme, and details of these share options are as follows:

	Granted on 8 July 2016 and as at the date of this report	Share price immediately before offer date	Exercise price
		HK\$	HK\$
Executive directors			
Mr. Zhang Hwo Jie			
– Granted on 8 July 2016	18,000,000	0.64	0.692
Mr. Zhang Jian Hua			
– Granted on 8 July 2016	18,000,000	0.64	0.692
Mr. Zhang Yaohua			
– Granted on 8 July 2016	18,000,000	0.64	0.692
Independent non-executive directors			
Mr. Choy Tak Ho			
– Granted on 8 July 2016	400,000	0.64	0.692
Mr. Leung Tai Chiu			
– Granted on 8 July 2016	400,000	0.64	0.692
Mr. Lam Hiu Lo			
– Granted on 8 July 2016	400,000	0.64	0.692
Employees of the Group			
In aggregate			
– Granted on 8 July 2016	<u>11,850,000</u>	0.64	0.692
	<u>67,050,000</u>		

All options referred to the above are subject to vesting schedule and exercise period as follows:

% of the options granted	Vesting date	Exercise period
With respect to the options granted on 8 July 2016 with exercise price of HK\$0.692		
100%	2 January 2018	2 January 2018 to 7 July 2021

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(c) Valuation

The fair value of the options granted on 10 December 2008, 2 October 2009, 7 November 2012 and 26 April 2013 under the 2005 Share Option Scheme with outstanding balances as at 30 June 2016 of 2,930,200 options, 200,000 options and 23,296,000 options and 12,250,000 options were HK\$140,000, HK\$17,000, HK\$5,905,000 and HK\$4,745,000 respectively. The fair value of the 67,050,000 options granted on 8 July 2016 under the 2015 Share Option Scheme was HK\$10,236,000. These fair values were calculated using the Black-Scholes valuation model and the significant inputs into the model were as follows:

	<u>Exercise price</u>	<u>Expected volatility</u>	<u>Expected life</u>	<u>Risk-free rate</u>	<u>Dividend paid-out rate</u>
	HK\$				
Granted on 10 December 2008	0.175	51.99%	3 years	0.922%	3.00%
Granted on 2 October 2009	0.41	56.65%	1 year	0.16%	3.68%
Granted on 7 November 2012	0.69	64.19%	2.2 years	0.241%	3.3333%
Granted on 26 April 2013	1.16	66.349%	1.74 years	0.184%	1.087%
Granted on 8 July 2016	0.692	45.98%	3.2416 years	0.52%	2.33%

The expected volatility is based on historic volatility adjusted for any expected changes to future volatility based on publicly available information. Dividend paid-out rate is based on historical dividend paid-out rate. Changes in these subjective input assumptions could affect the fair value estimate. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

MANAGEMENT DISCUSSION AND ANALYSIS

DISCLOSURE OF INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 30 June 2016, the interests and/or short positions of the directors or chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have taken under such provisions of the SFO), and/or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, to be notified to the Company and The Stock Exchange of Hong Kong Limited were as follows:

(i) Long position in shares of the Company

Name of director	Corporate interests	Personal interests	Interest of spouse	Personal interests in underlying shares held under equity derivatives	Total interests	Approximate percentage of interest in the Company as at 30 June 2016
				(Note 1)		
Mr. Zhang Hwo Jie	671,750,000 (Note 2)	15,692,000	–	5,100,000	692,542,000	36.86%
Mr. Zhang Jian Hua	–	664,000	–	–	664,000	0.04%
Mr. Zhang Yaohua	–	15,780,000	156,000	–	15,936,000	0.85%
Mr. Leung Tai Chiu	–	2,200,000	–	300,000	2,500,000	0.13%
Mr. Lam Hiu Lo	–	–	–	300,000	300,000	0.02%

Notes:

- These interests represent the directors' beneficial interests in the underlying shares in respect of share options granted by the Company to the directors as beneficial owners, details of which are set out in the section headed "Share Options" above.
- Mr. Zhang Hwo Jie holds 38% of the entire issued capital of Prosper Empire Limited, which was interested in 35.75% of the entire issued capital of the Company as at 30 June 2016. Under the SFO, Mr. Zhang Hwo Jie is deemed to be interested in the shares held by Prosper Empire Limited.

MANAGEMENT DISCUSSION AND ANALYSIS

(ii) Long position in shares of Prosper Empire Limited, an associated corporation of the Company

Name of director	Capacity	Approximate percentage of interest in Prosper Empire Limited as at 30 June 2016
Mr. Zhang Hwo Jie	Personal interests	38%
Mr. Zhang Jian Hua	Personal interests	29%
Mr. Zhang Yaohua	Personal interests	33%

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2016, the interests or short positions of the persons (other than a director or chief executive of the Company) in the shares or underlying shares of the Company as recorded in the register of interests kept by the Company under section 336 of the SFO were as follows:

Name	Capacity	Number of shares	Number of underlying shares held under equity derivatives	Total interests	Approximate percentage of interest
Prosper Empire Limited	Beneficial owner	671,750,000	–	671,750,000	35.75%
Ms. Shen Chan Jie Lin	Interest of spouse (Note 1)	687,442,000	5,100,000	692,542,000	36.86%
Templeton Investment Counsel, LLC	Investment manager	151,797,000	–	151,797,000	8.08%
The Capital Group Companies, Inc.	Investment manager (Note 2)	128,528,000	–	128,528,000	6.84%
Capital Research and Management Company	Investment manager (Note 2)	128,528,000	–	128,528,000	6.84%
Capital Group International, Inc.	Investment manager (Note 2)	128,528,000	–	128,528,000	6.84%
Invesco Asset Management Limited	Investment manager	94,820,000	–	94,820,000	5.05%

Note:

1. Under the SFO, Ms. Shen Chan Jie Lin is deemed to be interested in the shares held by Mr. Zhang Hwo Jie, who is interested in 38% of the issued share capital of Prosper Empire Limited. The interests disclosed by Ms. Shen Chan Jie Lin included the 671,750,000 shares of the Company held by Prosper Empire Limited.
2. The corporate substantial shareholder notice filed by The Capital Group Companies, Inc. indicated that:
 - (i) 28,330,000 shares of the Company were held by Capital Guardian Trust Company (“Capital Guardian”);
 - (ii) 43,944,000 shares of the Company were held by Capital International, Inc. (“Capital Inc.”);

MANAGEMENT DISCUSSION AND ANALYSIS

- (iii) 560,000 shares of the Company were held by Capital International Limited (“Capital Limited”); and
- (iv) 55,694,000 shares of the Company were held by Capital International Sarl (“Capital Sarl”).

Each of Capital Guardian, Capital Inc., Capital Limited and Capital Sarl was wholly-owned by Capital Group International, Inc. (“Capital Group”), which was in turn wholly-owned by Capital Research and Management Company (“Capital Research”). Capital Research was wholly-owned by The Capital Group Companies, Inc..

Accordingly, each of Capital Group, Capital Research and The Capital Group Companies, Inc. was deemed to be interested in the shares held by Capital Guardian, Capital Inc., Capital Limited and Capital Sarl.

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 Monday, 19 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 Wednesday, 14 September 2016 to Monday, 19 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 Tuesday, 13 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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



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