



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 2020

Interim Report



聚力以億和  
齊之以和

Gather and  
Harmonise Billions of Strengths

# 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

Mr. Lam Hiu Lo  
 Dr. Chai Ngai Chiu Sunny  
*(appointed on 15 June 2020)*  
 Ms. Ling Kit Sum  
*(appointed on 1 July 2020)*  
 Mr. Choy Tak Ho  
*(retired on 15 June 2020)*  
 Mr. Leung Tai Chiu  
*(resigned on 1 July 2020)*

## AUDIT COMMITTEE

Ms. Ling Kit Sum (*Chairman*)  
*(appointed on 1 July 2020)*  
 Mr. Leung Tai Chiu (*Chairman*)  
*(ceased on 1 July 2020)*  
 Mr. Lam Hiu Lo  
 Dr. Chai Ngai Chiu Sunny  
*(appointed on 15 June 2020)*  
 Mr. Choy Tak Ho  
*(ceased on 15 June 2020)*

## NOMINATION COMMITTEE

Mr. Zhang Hwo Jie (*Chairman*)  
 Mr. Lam Hiu Lo  
 Dr. Chai Ngai Chiu Sunny  
*(appointed on 15 June 2020)*  
 Mr. Choy Tak Ho  
*(ceased on 15 June 2020)*

## REMUNERATION COMMITTEE

Mr. Lam Hiu Lo (*Chairman*)  
*(appointed as Chairman on 15 June 2020)*  
 Mr. Choy Tak Ho (*Chairman*)  
*(ceased on 15 June 2020)*  
 Mr. Zhang Hwo Jie  
 Dr. Chai Ngai Chiu Sunny  
*(appointed on 15 June 2020)*

## 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

## CORPORATE INFORMATION

### PRINCIPAL BANKERS

#### Hong Kong

The Hongkong and Shanghai Banking Corporation Limited  
Hang Seng Bank Limited  
Bank of China (Hong Kong) Limited  
MUFG Bank, Ltd.  
Sumitomo Mitsui Banking Corporation  
Chong Hing Bank Limited  
KBC Bank N.V. Hong Kong Branch  
Fubon Bank (Hong Kong) Limited  
China Construction Bank Corporation Limited Hong Kong Branch  
Bank of Communications Co., Ltd. Hong Kong Branch

### VLEGAL ADVISOR

MinterEllison LLP

### 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 Ltd.  
Shops 1712-1716, 17/F  
Hopewell Centre, 183 Queen's Road East  
Wan Chai, Hong Kong

### WEBSITE

[www.eva-group.com](http://www.eva-group.com)  
[www.irasia.com/listco/hk/evaholdings](http://www.irasia.com/listco/hk/evaholdings)

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Note	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	2,040,405	2,082,318
Right-of-use assets	15	355,371	371,454
Investment property under development	7	175,564	176,521
Intangible assets	7	8,116	8,524
Investments in associates	8	35,484	55,165
Financial assets at fair value through other comprehensive income	10	81,897	81,247
Prepayments, deposits and other receivables	9	26,428	44,831
		<b>2,723,265</b>	2,820,060
<b>Current assets</b>			
Inventories		568,032	607,705
Trade receivables	11	817,673	914,511
Prepayments, deposits and other receivables	9	221,231	232,562
Restricted bank deposits		64,679	84,460
Short-term bank deposits		151,184	218,060
Cash and cash equivalents		1,094,419	1,070,738
		<b>2,917,218</b>	3,128,036
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables	12	835,961	977,855
Contract liabilities		80,434	59,284
Accruals and other payables	13	192,703	253,970
Bank borrowings	14	620,893	1,125,744
Lease liabilities	15	18,222	18,223
Current income tax liabilities		1,796	11,193
		<b>1,750,009</b>	2,446,269
<b>Net current assets</b>		<b>1,167,209</b>	681,767
<b>Total assets less current liabilities</b>		<b>3,890,474</b>	3,501,827

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Note	<b>Unaudited</b> <b>30 June 2020</b> <b>HK\$'000</b>	Audited 31 December 2019 HK\$'000
		<u>                    </u>	<u>                    </u>
<b>Non-current liabilities</b>			
Bank borrowings	14	<b>1,337,223</b>	787,073
Lease liabilities	15	<b>76,155</b>	86,919
Deferred taxation	16	<b>22,274</b>	32,586
		<u>                    </u>	<u>                    </u>
		<b>1,435,652</b>	906,578
		-----	-----
<b>Net assets</b>		<b>2,454,822</b>	2,595,249
		<u>                    </u>	<u>                    </u>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	17	<b>171,658</b>	171,713
Reserves	19	<b>2,283,164</b>	2,423,536
		<u>                    </u>	<u>                    </u>
<b>Total equity</b>		<b>2,454,822</b>	2,595,249
		<u>                    </u>	<u>                    </u>

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 2020

	Note	Unaudited Six months ended 30 June	
		2020 HK\$'000	2019 HK\$'000
<b>Revenue</b>	6	<b>1,700,320</b>	1,782,589
Cost of sales	21	<b>(1,403,822)</b>	(1,365,953)
<b>Gross profit</b>		<b>296,498</b>	416,636
Other income	20	<b>17,087</b>	32,750
Other losses – net	20	<b>(20,880)</b>	(7,615)
Selling and marketing costs	21	<b>(96,499)</b>	(107,203)
General and administrative expenses	21	<b>(242,024)</b>	(266,767)
<b>Operating (loss)/profit</b>		<b>(45,818)</b>	67,801
Finance income	22	<b>5,993</b>	13,241
Finance costs	22	<b>(26,429)</b>	(35,619)
Share of losses of associates	8	<b>(2,973)</b>	(4,301)
<b>(Loss)/profit before income tax</b>		<b>(69,227)</b>	41,122
Income tax credit/(expense)	23	<b>3,473</b>	(6,064)
<b>(Loss)/profit for the period</b>		<b>(65,754)</b>	35,058
Other comprehensive income/(loss) for the period, net of tax			
Items that may be reclassified subsequently to profit or loss			
– Currency translation differences		<b>(29,942)</b>	(1,084)
– Release of exchange reserve upon partial disposal of an associate	8	<b>677</b>	–
Items that will not be reclassified subsequently to profit or loss			
– Revaluation gain on financial assets at fair value through other comprehensive income	10	<b>650</b>	212
<b>Total comprehensive (loss)/income for the period</b>		<b>(94,369)</b>	34,186
(Loss)/profit for the period attributable to equity holders of the Company		<b>(65,754)</b>	35,058
Total comprehensive (loss)/income for the period attributable to equity holders of the Company		<b>(94,369)</b>	34,186
<b>(Loss)/earnings per share for profit attributable to equity holders of the Company during the period (expressed in HK cents per share)</b>			
– basic	24	<b>(3.8)</b>	2.0
– diluted	24	<b>(3.8)</b>	2.0

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 2020

	<b>Unaudited</b>		
	<b>Attributable to equity holders of the Company</b>		
	<b>Share capital HK\$'000 (Note 17)</b>	<b>Reserves HK\$'000 (Note 19)</b>	<b>Total HK\$'000</b>
Balance at 1 January 2020	171,713	2,423,536	2,595,249
Comprehensive loss			
Loss for the period	–	(65,754)	(65,754)
Other comprehensive income/(loss)			
Revaluation gain on financial assets at fair value through other comprehensive income	–	650	650
Currency translation differences	–	(29,942)	(29,942)
Release of exchange reserve upon partial disposal of an associate	–	677	677
Total comprehensive loss for the period	–	(94,369)	(94,369)
Transactions with owners			
Dividend paid	–	(45,808)	(45,808)
Employee share option scheme:			
Value of employee services	–	67	67
Repurchase of shares	(55)	(262)	(317)
	(55)	(46,003)	(46,058)
Balance at 30 June 2020	171,658	2,283,164	2,454,822

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 2020

	Unaudited		
	Attributable to equity holders of the Company		
	Share capital HK\$'000 (Note 17)	Reserves HK\$'000 (Note 19)	Total HK\$'000
Balance at 1 January 2019	172,944	2,415,559	2,588,503
Comprehensive income			
Profit for the period	–	35,058	35,058
Other comprehensive income/(loss)			
Revaluation gain on financial assets at fair value through other comprehensive income	–	212	212
Currency translation differences	–	(1,084)	(1,084)
Total comprehensive income for the period	–	34,186	34,186
Transactions with owners			
Dividend paid	–	(10,885)	(10,885)
Employee share option scheme:			
Value of employee services	–	6,143	6,143
Repurchase of shares	(159)	(1,013)	(1,172)
	(159)	(5,755)	(5,914)
Balance at 30 June 2019	172,785	2,443,990	2,616,775

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 2020

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
Note	<b>2020</b>	2019	
	<b>HK\$'000</b>	HK\$'000	
<b>Cash flows from operating activities</b>			
	<b>75,673</b>	234,953	
	<b>5,993</b>	13,241	
22	<b>(26,429)</b>	(35,619)	
22	<b>(16,236)</b>	(8,394)	
	<b>39,001</b>	204,181	
<b>Cash flows from investing activities</b>			
	<b>(67,020)</b>	(91,222)	
7	<b>(211)</b>	–	
7	<b>(3,691)</b>	(16,944)	
9	<b>(24,528)</b>	(36,329)	
	<b>5,245</b>	9,100	
	<b>1,194</b>	–	
8	<b>1,643</b>	–	
20	<b>1,121</b>	–	
	<b>–</b>	(36,261)	
	<b>66,876</b>	150,649	
	<b>19,781</b>	24,653	
	<b>410</b>	3,646	

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
Note	<b>2020</b>	2019	
	<b>HK\$'000</b>	HK\$'000	
<b>Cash flows from financing activities</b>			
	<b>850,000</b>	553,524	
	<b>(804,701)</b>	(518,944)	
	<b>(10,765)</b>	(3,093)	
17(b)	<b>(317)</b>	(1,172)	
	<b>(45,808)</b>	(10,885)	
	<b>(11,591)</b>	19,430	
<b>Net increase in cash and cash equivalents</b>			
	<b>27,820</b>	227,257	
	<b>1,070,738</b>	1,111,046	
	<b>(4,139)</b>	3,486	
<b>Cash and cash equivalents at the end of the period</b>			
	<b>1,094,419</b>	1,341,789	

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 provision of precision manufacturing services, focusing on the production of moulds and components with high quality standard and dimensional accuracy.

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 28 August 2020.

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 2020 has been prepared in accordance with Hong Kong Accounting Standard (“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 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

## 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 2019, as described in those annual financial statements except for the adoption of amendments to HKFRS effective for the financial year ending 31 December 2020, which are described below.

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

- (a) Relevant amendments to existing standards and conceptual framework effective for the financial year beginning 1 January 2020.

Amendments to HKFRS 3 (Revised)	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Interest Rate Benchmark Reform
Amendments to HKFRS 16	Covid-19 Related Rent Concessions

The adoption of the above amendments to standards and conceptual framework does not have any significant impact to the 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 2020 and have not been early adopted.

		<b>Effective for accounting periods beginning on or after</b>
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2022
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Annual Improvements to HKFRS Standards 2018-2020		1 January 2022

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

### 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 annual financial statements for the year ended 31 December 2019.

## 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 2019.

There have been no changes in any risk management policies since 31 December 2019.

#### (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. The amounts disclosed in the table are the contractual undiscounted cash flows. 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	More than 5 years HK\$'000	Total HK\$'000
<b>At 30 June 2020</b>					
Bank borrowings	620,893	569,280	767,943	–	1,958,116
Lease liabilities	18,222	15,519	21,519	39,117	94,377
Interest payables	42,431	28,726	18,873	6,495	96,525
Trade payables	835,961	–	–	–	835,961
Other payables	113,021	–	–	–	113,021
<b>At 31 December 2019</b>					
Bank borrowings	1,125,744	342,762	444,311	–	1,912,817
Lease liabilities	18,223	17,788	26,433	42,698	105,142
Interest payables	48,712	31,077	14,780	7,646	102,215
Trade payables	977,855	–	–	–	977,855
Other payables	143,408	–	–	–	143,408

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 6 REVENUE AND SEGMENT INFORMATION

#### (a) Revenue

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Sales		
Design and fabrication of metal stamping moulds	<b>155,398</b>	110,044
Manufacturing of metal stamping components	<b>606,012</b>	685,654
Manufacturing of lathing components	<b>34,524</b>	43,469
Design and fabrication of plastic injection moulds	<b>34,719</b>	37,829
Manufacturing of plastic injection components	<b>840,283</b>	885,062
Others (Note)	<b>29,384</b>	20,531
	<b>1,700,320</b>	1,782,589

The Group derives all revenue from the sales of goods at a point in time.

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 2020, the Group is organised into two main business segments:

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

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

## 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 2020				Six months ended 30 June 2019			
	Metal stamping HK\$'000	Plastic injection HK\$'000	Microcredit HK\$'000	Total HK\$'000	Metal stamping HK\$'000	Plastic injection HK\$'000	Microcredit HK\$'000	Total HK\$'000
Total gross segment revenue	1,013,595	1,030,380	-	2,043,975	1,041,547	1,051,914	-	2,093,461
Inter-segment revenue	(195,779)	(147,876)	-	(343,655)	(185,840)	(125,032)	-	(310,872)
Revenue	<u>817,816</u>	<u>882,504</u>	<u>-</u>	<u>1,700,320</u>	<u>855,707</u>	<u>926,882</u>	<u>-</u>	<u>1,782,589</u>
Segment results	<u>(22,426)</u>	<u>(18,596)</u>	<u>(2,973)</u>	<u>(43,995)</u>	<u>31,126</u>	<u>40,298</u>	<u>(4,138)</u>	<u>67,286</u>
Unallocated expenses				(4,796)				(3,786)
Finance income				5,993				13,241
Finance costs				(26,429)				(35,619)
(Loss)/profit before income tax				(69,227)				41,122
Income tax credit/(expense)				3,473				(6,064)
(Loss)/profit for the period				<u>(65,754)</u>				<u>35,058</u>
Share of losses of associates	-	-	(2,973)	(2,973)	(163)	-	(4,138)	(4,301)
Depreciation	<u>81,317</u>	<u>33,257</u>	<u>-</u>	<u>114,574</u>	<u>75,830</u>	<u>35,122</u>	<u>-</u>	<u>110,952</u>
Amortisation	<u>619</u>	<u>-</u>	<u>-</u>	<u>619</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

For the six months ended 30 June 2019 and 2020, 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 2020					As at 31 December 2019				
	Metal stamping	Plastic injection	Microcredit	Unallocated	Total	Metal stamping	Plastic injection	Microcredit	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets	<b>3,316,981</b>	<b>2,245,104</b>	<b>35,484</b>	<b>42,914</b>	<b>5,640,483</b>	4,023,310	1,847,997	55,165	21,624	5,948,096
Liabilities	<b>792,995</b>	<b>406,149</b>	<b>-</b>	<b>1,986,517</b>	<b>3,185,661</b>	949,182	443,060	-	1,960,605	3,352,847

The segment capital expenditure is as follows:

	Six months ended 30 June 2020					Six months ended 30 June 2019				
	Metal stamping	Plastic injection	Microcredit	Unallocated	Total	Metal stamping	Plastic injection	Microcredit	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditure	<b>54,626</b>	<b>32,587</b>	<b>-</b>	<b>-</b>	<b>87,213</b>	114,667	49,010	-	-	163,677

Segment assets consist primarily of certain property, plant and equipment, investment property under development, right-of-use assets, intangible assets, investments in associates, prepayments, deposits, certain other receivables, financial assets at fair value through other comprehensive income ("FVOCI"), inventories, trade receivables and cash and cash equivalents.

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

Capital expenditure comprises additions to property, plant and equipment, investment property under development, right-of-use assets and intangible assets.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 6 REVENUE AND SEGMENT INFORMATION (CONTINUED)

#### (b) Segment information (Continued)

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

#### Revenues by geographical region

	Six months ended 30 June 2020				Six months ended 30 June 2019			
	HK & PRC	Vietnam	Mexico	Total	HK & PRC	Vietnam	Mexico	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	<u>1,528,856</u>	<u>160,802</u>	<u>10,662</u>	<u>1,700,320</u>	<u>1,654,195</u>	<u>125,684</u>	<u>2,710</u>	<u>1,782,589</u>

#### Non-current assets by geographical region

	30 June 2020				31 December 2019			
	HK & PRC	Vietnam	Mexico	Total	HK & PRC	Vietnam	Mexico	Total
Total segment non-current assets	<u>2,226,835</u>	<u>243,491</u>	<u>252,939</u>	<u>2,723,265</u>	<u>2,313,340</u>	<u>255,315</u>	<u>251,405</u>	<u>2,820,060</u>
Total segment assets	<u>4,945,334</u>	<u>408,579</u>	<u>286,570</u>	<u>5,640,483</u>	<u>5,258,554</u>	<u>403,646</u>	<u>285,896</u>	<u>5,948,096</u>

## 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 the Group's assets and liabilities at 30 June 2020 as follows:

	<b>Assets HK\$'000</b>	<b>Liabilities HK\$'000</b>
Segment assets/liabilities	<b>5,597,569</b>	<b>1,199,144</b>
Unallocated:		
Cash and cash equivalents	<b>40,360</b>	–
Other receivables	<b>2,554</b>	–
Current income tax liabilities	–	<b>1,796</b>
Deferred taxation	–	<b>22,274</b>
Bank borrowings	–	<b>1,958,116</b>
Accruals and other payables	–	<b>4,331</b>
	<b>5,640,483</b>	<b>3,185,661</b>

Segment assets and liabilities are reconciled to the Group's assets and liabilities at 31 December 2019 as follows:

	Assets HK\$'000	Liabilities HK\$'000
Segment assets/liabilities	5,926,472	1,392,242
Unallocated:		
Cash and cash equivalents	19,280	–
Other receivables	2,344	–
Current income tax liabilities	–	11,193
Deferred taxation	–	32,586
Bank borrowings	–	1,912,817
Accruals and other payables	–	4,009
	<b>5,948,096</b>	<b>3,352,847</b>

During the six months ended 30 June 2020, the aggregated revenue from the top two customers, which each individually contributed more than 10% of the Group's revenue, amounted to approximately HK\$617,358,000 (For the six months ended 30 June 2019: Top three customers; HK\$684,565,000).

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 7 PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTY UNDER DEVELOPMENT AND INTANGIBLE ASSETS

	<b>Property, plant and equipment</b>	<b>Investment property under development</b>	<b>Intangible assets</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Opening net book amount at 1 January 2020	<b>2,082,318</b>	<b>176,521</b>	<b>8,524</b>
Additions	<b>83,311</b>	<b>3,691</b>	<b>211</b>
Disposals	<b>(5,931)</b>	<b>-</b>	<b>-</b>
Depreciation/amortisation	<b>(102,623)</b>	<b>-</b>	<b>(619)</b>
Exchange differences	<b>(16,670)</b>	<b>(4,648)</b>	<b>-</b>
	<b>2,040,405</b>	<b>175,564</b>	<b>8,116</b>
Closing net book amount at 30 June 2020	<b>2,040,405</b>	<b>175,564</b>	<b>8,116</b>

Opening net book amount at 1 January 2019	1,998,689	156,003	2,510
Additions	146,733	16,944	-
Disposals	(9,515)	-	-
Depreciation/amortisation	(100,158)	-	-
Exchange differences	(1,185)	(636)	-
	<b>2,034,564</b>	<b>172,311</b>	<b>2,510</b>
Closing net book amount at 30 June 2019	<b>2,034,564</b>	<b>172,311</b>	<b>2,510</b>

The fair value measurement information for the investment property under development in accordance with HKFRS 13 are given below.

#### Significant unobservable inputs (Level 3)

	<b>30 June 2020</b>	31 December 2019
	<b>HK\$'000</b>	HK\$'000
Investment property under development	<b>175,564</b>	176,521

Investment properties under development which have fair value measurement using significant unobservable inputs (Level 3).

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 8 INVESTMENTS IN ASSOCIATES

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
At 1 January	<b>55,165</b>	63,043
Disposal	<b>(14,034)</b>	–
Share of losses	<b>(2,973)</b>	(4,301)
Dividend received	<b>(1,643)</b>	–
Exchange differences	<b>(1,031)</b>	(2,482)
	<b>35,484</b>	56,260

The assets, liabilities and results of Shenzhen Jinggong Microcredit Limited (“Microcredit”), which are material to the Group, are shown below:

	<b>Six months ended 30 June 2020</b>
	<b>HK\$'000</b>
Assets	134,720
Liabilities	(16,441)
	<b>118,279</b>
Revenue	10,475
(Loss)	(10,507)
	<b>(10,507)</b>
Percentage held at 30 June 2020	30%

In February 2020, the Group entered into an agreement to dispose its 10% equity interest in Shenzhen Jinggong Microcredit Limited, for a cash consideration of RMB12,460,000 (equivalent to approximately HK\$13,651,000), and recognized a loss of HK\$1,060,000 which included the release of exchange reserve upon partial disposal of an associate of HK\$677,000.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 9 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at	
	<b>30 June 2020 HK\$'000</b>	31 December 2019 HK\$'000
Non-current:		
Deposits for purchases of property, plant and equipment	<b>24,528</b>	41,273
Others	<b>1,900</b>	3,558
	<b>26,428</b>	44,831
Current:		
Consideration receivables from disposal of subsidiaries (Note)	<b>3,478</b>	4,829
Consideration receivables from partial disposal of an associate (Note)	<b>12,457</b>	–
Prepayments for purchases of raw materials	<b>49,104</b>	57,747
VAT recoverable	<b>62,950</b>	79,853
Prepayment of utilities expenses	<b>2,803</b>	2,215
Receivables from employees and staff advances (Note)	<b>5,400</b>	6,097
Deposits placed with customs in Mainland China	<b>45</b>	4,579
Receivables from the then subsidiaries (Note)	<b>62,585</b>	65,101
Receivables from associates (Note)	<b>15,096</b>	4,181
Others	<b>7,313</b>	12,141
	<b>221,231</b>	232,562

Note: Consideration receivables from disposal of subsidiaries, consideration receivables from partial disposal of an associate, receivables from employees and staff advances, receivables from the then subsidiaries, and receivables from associates are unsecured, non-interest bearing and denominated in Renminbi ("RMB"). As at 30 June 2020, receivable from an associate of HK\$10,870,000 is repayable on maturity date on 1 January 2021. The remaining balances are repayable on demand.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 10 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at	
	30 June 2020	31 December 2019
	HK\$'000	HK\$'000
Unlisted:		
Equity securities – Mainland China, at fair value	<b>81,897</b>	81,247

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

The financial assets at FVOCI are denominated in RMB.

Movement of the financial assets at FVOCI is as follows:

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
At 1 January	<b>81,247</b>	105,851
Revaluation gains transferred to other comprehensive income	<b>650</b>	212
At 30 June	<b>81,897</b>	106,063

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 11 TRADE RECEIVABLES

The credit period granted by the Group to its customers is generally 30 to 180 days.

The aging of the trade receivables based on invoice date is as follows:

	<b>As at</b>	
	<b>30 June 2020 HK\$'000</b>	31 December 2019 HK\$'000
0 to 90 days	<b>626,253</b>	731,749
91 to 180 days	<b>192,608</b>	183,950
Less: Provision for impairment	<b>818,861 (1,188)</b>	915,699 (1,188)
Trade receivables – net	<b>817,673</b>	914,511

The top five customers and the largest customer accounted for 34.9% (31 December 2019: 30.1%) and 12.3% (31 December 2019: 10.8%), respectively, of the trade receivables balance as at 30 June 2020. 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 2020, no additional provision was recorded for its trade receivables (30 June 2019: Nil).

### 12 TRADE PAYABLES

The aging of trade payables is based on invoice date as follows:

	<b>As at</b>	
	<b>30 June 2020 HK\$'000</b>	31 December 2019 HK\$'000
0 to 90 days	<b>548,992</b>	646,810
91 to 180 days	<b>286,969</b>	331,045
	<b>835,961</b>	977,855



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 13 ACCRUALS AND OTHER PAYABLES

	As at	
	<b>30 June 2020 HK\$'000</b>	31 December 2019 HK\$'000
Payable for purchase of property, plant and equipment	<b>56,490</b>	81,472
Accrued utilities expenses	<b>3,796</b>	3,874
Accrued wages, salaries and welfare	<b>68,048</b>	99,500
Accrued operating expenses	<b>7,838</b>	7,188
Balance payable for an acquired subsidiary	<b>24,973</b>	25,648
Other payables	<b>31,558</b>	36,288
	<b>192,703</b>	253,970

## 14 BANK BORROWINGS

	As at	
	<b>30 June 2020 HK\$'000</b>	31 December 2019 HK\$'000
<b>Current</b>		
Short-term bank loans	<b>245,000</b>	850,582
Portion of long-term loans from banks due for repayment within one year	<b>375,893</b>	275,162
	<b>620,893</b>	1,125,744
<b>Non-current</b>		
Portion of long-term loans from banks due for repayment after one year	<b>1,337,223</b>	787,073
Total bank borrowings	<b>1,958,116</b>	1,912,817

All bank borrowings are interest-bearing and carried at amortised cost. All bank borrowings bore floating interest rates and the carrying amounts of bank borrowings approximate their fair values.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 14 BANK BORROWINGS (CONTINUED)

The Group's bank borrowings are repayable as follows:

	As at	
	<b>30 June 2020 HK\$'000</b>	31 December 2019 HK\$'000
Within 1 year	<b>620,893</b>	1,125,744
Between 1 and 2 years	<b>569,280</b>	342,762
Between 2 and 5 years	<b>767,943</b>	444,311
	<b><u>1,958,116</u></b>	<u>1,912,817</u>

Bank borrowings were denominated in below currencies:

	As at	
	<b>30 June 2020 HK\$'000</b>	31 December 2019 HK\$'000
HK\$	<b>1,958,116</b>	1,907,235
RMB	<b>-</b>	5,582
	<b><u>1,958,116</u></b>	<u>1,912,817</u>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 14 BANK BORROWINGS (CONTINUED)

As at 31 December 2019 and 30 June 2020, the effective interest rates (per annum) of the Group's bank borrowings were as follows:

	Short-term bank loans		Long-term bank loans	
	June 2020	December 2019	June 2020	December 2019
HK\$	<b>2.02%</b>	4.2%	<b>2.52%</b>	4.46%
RMB	-	5.22%	-	-

As at 30 June 2020, the Group has undrawn floating rate borrowing facilities of approximately HK\$1,093,200 (31 December 2019: HK\$558,130,000).

There are financial covenants attached to the bank borrowings and breaches in meeting the financial covenants would permit the bank to immediately call for the repayment of the bank borrowings. The Group has experienced a reduction in earnings during the six months ended 30 June 2020, resulting in a breach of financial covenants with certain banks. The Group has obtained waiver letters from relevant banks and the banks agreed to waive the financial covenant breached during the six months ended 30 June 2020.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 15 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

## (a) Balances recognised in the condensed consolidated interim statement of financial position

*Right-of-use assets*

	Leasehold land and land use rights HK\$'000	Land under finance lease HK\$'000	Plant and machinery under finance lease HK\$'000	Factory and office premises HK\$'000	Total HK\$'000
Opening net book amount at 1 January 2020	230,685	6,199	62,154	72,416	371,454
Depreciation	(2,936)	(132)	(4,015)	(4,868)	(11,951)
Exchange differences	(2,440)	-	-	(1,692)	(4,132)
Closing net book amount at 30 June 2020	<u>225,309</u>	<u>6,067</u>	<u>58,139</u>	<u>65,856</u>	<u>355,371</u>
Opening net book amount at 1 January 2019	238,778	6,461	11,990	84,184	341,413
Additions	-	-	69,056	-	69,056
Depreciation	(3,003)	(262)	(2,586)	(4,943)	(10,794)
Exchange differences	(236)	-	(31)	-	(267)
Closing net book amount at 30 June 2019	<u>235,539</u>	<u>6,199</u>	<u>78,429</u>	<u>79,241</u>	<u>399,408</u>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 15 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

#### (a) Balances recognised in the condensed consolidated interim statement of financial position (Continued)

##### *Lease liabilities*

	<b>As at 30 June 2020 HK\$'000</b>	As at 31 December 2019 HK\$'000
Current portion	<b>18,222</b>	18,223
Non-current portion	<b>76,155</b>	86,919
	<b>94,377</b>	105,142
Lease liabilities – Plant and machinery	<b>26,344</b>	31,132
Lease liabilities – Factory and office premises	<b>68,033</b>	74,010
	<b>94,377</b>	105,142

#### (b) The Group's leasing activities

The Group leases various buildings, machineries and equipment. Rental contracts are typically made for fixed periods of 2 to 11 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease arrangements do not impose any covenants, but certain lease liabilities are effectively secured as the right to the leased assets revert to the lessors in the event of default. As at 30 June 2020, the net book amount of the secured right-of-use assets was approximately HK\$58,139,000 (31 December 2019: HK\$62,154,000).

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 16 DEFERRED TAXATION

The analysis of deferred tax liabilities is as follows:

	<b>As at</b>	
	<b>30 June 2020 HK\$'000</b>	31 December 2019 HK\$'000
Deferred income tax liabilities:		
Deferred income tax liability to be recovered after more than 12 months	<b>21,650</b>	21,962
Deferred income tax liability to be recovered within 12 months	<b>624</b>	10,624
	<b>22,274</b>	32,586

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

	<b>Fair value gains HK\$'000</b>	<b>Withholding tax HK\$'000</b>	<b>Total HK\$'000</b>
At 1 January 2020	<b>17,457</b>	<b>15,129</b>	<b>32,586</b>
Credited to profit or loss	<b>(312)</b>	<b>(10,000)</b>	<b>(10,312)</b>
At 30 June 2020	<b>17,145</b>	<b>5,129</b>	<b>22,274</b>
At 1 January 2019	18,081	5,129	23,210
Credited to profit or loss	(312)	–	(312)
At 30 June 2019	17,769	5,129	22,898

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 17 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	<b>Number of shares (thousands)</b>	<b>Share capital HK\$'000</b>
At 1 January 2020	<b>1,717,132</b>	<b>171,713</b>
Repurchase of shares	<b>(550)</b>	<b>(55)</b>
	<b>1,716,582</b>	<b>171,658</b>
At 30 June 2020		
At 1 January 2019	1,729,442	172,944
Repurchase of shares	(1,590)	(159)
	1,727,852	172,785
At 30 June 2019		

Notes:

- (a) During the six months ended 30 June 2020, no ordinary shares were issued upon exercise of options under the share options scheme (For the six months ended 30 June 2019: Nil).
- (b) During the six months ended 30 June 2020, the Company repurchased a total of 550,000 of its own shares on The Stock Exchange of Hong Kong Limited at prices ranging from HK\$0.56 to HK\$0.58 per share for a total consideration, before expenses, of approximately HK\$317,000. The directors were authorised to repurchase shares of the Company at the annual general meeting held on 21 May 2019. The repurchased shares were cancelled before 30 June 2020. Accordingly, the issued share capital of the Company was reduced by the nominal value of these shares, and the premiums paid on these shares upon the repurchase were charged against the share premium account. An amount equivalent to the par value of the shares cancelled was transferred from the Company's retained earnings to the capital redemption reserve.
- (c) During the six months ended 30 June 2019, the Company repurchased a total of 1,590,000 of its own shares on The Stock Exchange of Hong Kong Limited at prices ranging from HK\$0.66 to HK\$0.81 per share for a total consideration, before expenses, of approximately HK\$1,172,000.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 18 SHARE OPTION SCHEME

In 2005, the Company adopted a share option scheme (“2005 Share Option Scheme”). Under the 2005 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.

In 2015, the Company adopted a share option scheme (“2015 Share Option Scheme”). Under the 2015 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 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

### 18 SHARE OPTION SCHEME (CONTINUED)

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

	Six months ended 30 June			
	2020		2019	
	Average exercise price per share	Number of options	Average exercise price per share	Number of options
	HK\$	'000	HK\$	'000
At 1 January and 30 June		<b>137,350</b>		<b>137,550</b>

Share options outstanding at 30 June 2020 and 30 June 2019 have the following expiry dates and exercise prices:

Expiry date	Exercise price per share	Number of share options	
		As at 30 June 2020	As at 30 June 2019
		'000	'000
1 October 2019	HK\$0.41	–	200
7 July 2021	HK\$0.692	67,050	67,050
4 November 2024	HK\$1.10	70,300	70,300
		<b>137,350</b>	<b>137,550</b>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 19 RESERVES

	Share premium	Capital reserve (i)	Statutory reserves (ii)	Capital redemption reserve (iii)	Share options reserve	Financial assets at FVOCI reserve	Exchange reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 31 December 2019	1,068,799	(735)	185,686	39,156	37,352	(6,470)	(113,638)	1,213,386	2,423,536
Loss for the period								(65,754)	(65,754)
Other comprehensive income/(loss)									
– Translation differences	-	-	-	-	-	-	(29,942)	-	(29,942)
– Release of exchange reserve upon partial disposal of an associate	-	-	-	-	-	-	677	-	677
– Revaluation gain on financial assets at FVOCI	-	-	-	-	-	650	-	-	650
Dividend paid	-	-	-	-	-	-	-	(45,808)	(45,808)
Employee share option scheme:									
– Value of employee services	-	-	-	-	67	-	-	-	67
Capital redemption reserve arising from repurchase of shares	-	-	-	55	-	-	-	(55)	-
Repurchase of shares	(262)	-	-	-	-	-	-	-	(262)
Balance at 30 June 2020	1,068,537	(735)	185,686	39,211	37,419	(5,820)	(142,903)	1,101,769	2,283,164

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 19 RESERVES (CONTINUED)

	Share premium HK\$'000	Capital reserve (i) HK\$'000	Statutory reserves (ii) HK\$'000	Capital redemption reserve (iii) HK\$'000	Share options reserve HK\$'000	Financial assets at FVOCI reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
Balance at 31 December 2018	1,075,586	(735)	178,752	37,905	25,082	(5,944)	(88,330)	1,193,243	2,415,559
Profit for the period	-	-	-	-	-	-	-	35,058	35,058
Other comprehensive income/(loss)									
- Translation differences	-	-	-	-	-	-	(1,084)	-	(1,084)
- Revaluation gain on financial assets at FVOCI	-	-	-	-	-	212	-	-	212
Dividend paid	-	-	-	-	-	-	-	(10,885)	(10,885)
Employee share option scheme:									
Value of employee services	-	-	-	-	6,143	-	-	-	6,143
Capital redemption reserve arising from repurchase of shares	-	-	-	159	-	-	-	(159)	-
Repurchase of shares	(1,013)	-	-	-	-	-	-	-	(1,013)
Balance at 30 June 2019	<u>1,074,573</u>	<u>(735)</u>	<u>178,752</u>	<u>38,064</u>	<u>31,225</u>	<u>(5,732)</u>	<u>(89,414)</u>	<u>1,217,257</u>	<u>2,443,990</u>

#### Notes:

- (i) The capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to a reorganisation over the nominal value of the share capital of the Company issued in exchange thereof. 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.
- (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 reaches 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 of the corresponding subsidiaries' shareholders in general meetings, the subsidiaries may convert their statutory reserves into registered capital and issue bonus capital to the existing owners in proportion to the existing ownership structure.
- (iii) The capital redemption reserve resulted from repurchase of the Company's own shares on The Stock Exchange of Hong Kong Limited. The repurchased shares were cancelled upon repurchase. An amount equivalent to the par value of the shares cancelled was transferred from the Company's retained earnings to capital redemption reserve.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 20 OTHER INCOME AND OTHER LOSSES – NET

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
<b>Other income</b>		
Government grants	<b>14,966</b>	31,567
Others	<b>2,121</b>	1,183
	<b>17,087</b>	32,750
<b>Other losses – net</b>		
Losses on disposal of property, plant and equipment	<b>(686)</b>	(415)
Loss on partial disposal of an associate	<b>(1,060)</b>	–
Dividend income from a financial asset at fair value through other comprehensive income	<b>1,121</b>	–
Loss on impairment of prepayments, deposits and other receivables	<b>(1,607)</b>	–
Net exchange losses	<b>(18,648)</b>	(7,200)
	<b>(20,880)</b>	(7,615)

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 21 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:

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
Raw materials used	<b>997,912</b>	904,708
Production overhead costs (excluding labour and depreciation expenses)	<b>101,756</b>	154,682
Staff costs, including directors' emoluments and share option costs		
– Wages, salaries and bonus	<b>359,241</b>	383,582
– Staff welfare	<b>17,940</b>	33,852
– Retirement benefit – defined contribution plans	<b>14,194</b>	14,003
– Share option granted	<b>67</b>	6,144
Depreciation		
– Property, plant and equipment	<b>102,623</b>	100,158
– Right-of-use assets	<b>11,951</b>	10,794
Amortisation of intangible assets	<b>619</b>	–
Provision for inventory obsolescence	<b>12,528</b>	3,363
Operating lease rental for short-term and low-value leases	<b>365</b>	322

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 22 FINANCE INCOME/COSTS

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
<b>Finance income</b>		
Interest income from bank deposits	<b>5,993</b>	13,241
<b>Finance costs</b>		
Interest expense on:		
Bank borrowings	<b>33,027</b>	39,402
Lease liabilities – Plant and machinery	<b>540</b>	297
Lease liabilities – Factory and office premises	<b>1,704</b>	1,942
	<b>35,271</b>	41,641
Less: interest expenses capitalised	<b>(8,842)</b>	(6,022)
	<b>26,429</b>	35,619

## 23 INCOME TAX CREDIT/(EXPENSE)

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
Current taxation		
– Hong Kong profits tax	–	–
– Mainland China corporate income tax	<b>(4,555)</b>	(13,349)
– Withholding tax	<b>(10,000)</b>	–
Over-provision in prior years	<b>7,716</b>	6,973
Deferred income tax	<b>10,312</b>	312
	<b>3,473</b>	(6,064)

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 23 INCOME TAX CREDIT/(EXPENSE) (CONTINUED)

#### (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 2020 (2019: 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 Mainland China corporate income tax was calculated at the statutory rate of 25% (2019: 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, Chongqing Digit Auto Body Ltd., Shenzhen EVA Precision Technology Group Limited, Zhongshan Digit Automotive Technology Limited, Yihe Plastic and Electronic Products (Shenzhen) Co., Ltd. and Digit Stamping Technology (Wuhan) Limited are each recognised by the Chinese Government as a "National High and New Technology Enterprise" and are therefore subject to a preferential tax rate of 15% during the six months ended 30 June 2019 and 2020.

#### (c) Other income taxes

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and, accordingly, is exempted from the Cayman Islands income tax.

The Company's subsidiaries established in the British Virgin Islands are exempted from the British Virgin Islands income tax.

The subsidiary established and operating in Vietnam is entitled to full exemption from corporate income tax for the first four years from the earlier of (i) the year when profit is generated for the first time or (ii) the fourth year of commencing operations; and a 50% reduction in corporate income tax for the next nine years. The Vietnam subsidiary of the Group was exempted from corporate income tax in Vietnam for the six months ended 30 June 2020 (For the six months ended 30 June 2019: Same).

Provisions for income taxes in other jurisdictions are based on the assessable profits of the respective subsidiaries and the applicable tax rates.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 24 (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

#### Basic

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
(Loss)/profit attributable to equity holders of the Company (HK\$'000)	<b>(65,754)</b>	35,058
Weighted average number of ordinary shares in issue ('000)	<b>1,716,643</b>	1,728,026
Basic (loss)/earnings per share (HK cents per share)	<b>(3.8)</b>	2.0

#### Diluted

Diluted (loss)/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.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 24 (LOSS)/EARNINGS PER SHARE (CONTINUED)

## Diluted (Continued)

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
(Loss)/profit attributable to equity holders of the Company (HK\$'000)	<b>(65,754)</b>	35,058
Weighted average number of ordinary shares in issue ('000)	<b>1,716,643</b>	1,728,026
Adjustment for share options ('000) (Note)	-	7,849
Weighted average number of ordinary shares for diluted earnings per share ('000)	<b>1,716,643</b>	1,735,875
Diluted (loss)/earnings per share (HK cents per share)	<b>(3.8)</b>	2.0

Note: Diluted loss per share for the six months ended 30 June 2020 equals to the basic loss per share as the exercise of the outstanding share options would be anti-dilutive.

## 25 DIVIDEND

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Proposed interim dividend of HK\$Nil (2019: HK0.65 cent) per ordinary share	-	11,230

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 26 CAPITAL COMMITMENTS

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

	<b>As at</b>	
	<b>30 June 2020 HK\$'000</b>	31 December 2019 HK\$'000
Contracted but not provided for		
– Construction of buildings	<b>117,374</b>	120,926
– Purchase of plant and machinery	<b>48,172</b>	60,754
	<b>165,546</b>	181,680

### 27 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 39.13% of the Company's shares as at 30 June 2020 (31 December 2019: 39.12%).

#### (a) Key management compensation

	<b>Six months ended 30 June</b>	
	<b>2020 HK\$'000</b>	2019 HK\$'000
Salaries and allowances	<b>13,742</b>	15,580
Share-based payment	<b>50</b>	4,524
Retirement benefits – defined contribution plan	<b>36</b>	36
	<b>13,828</b>	20,140

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 27 RELATED PARTY TRANSACTIONS (CONTINUED)

#### (b) Transaction with a related party

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
<b>Sales of goods to an associate</b>		
L&L Auto-tech Co., Ltd.	<b>685</b>	1,368
	<b>685</b>	1,368

#### (c) Balance with related parties

	<b>As at</b>	
	<b>30 June</b>	31 December
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
<b>Receivables from associates</b>		
Shenzhen Jinggong Microcredit Limited	<b>10,870</b>	–
L&L Auto-tech Co., Ltd.	<b>4,226</b>	4,181
	<b>15,096</b>	4,181

### 28 SUBSEQUENT EVENTS

From late January 2020, the outbreak of Coronavirus Disease 2019 (the “COVID-19 outbreak”) was rapidly evolving globally and a series of precautionary and control measures have been and continued to be implemented. Since then, the economic and financial markets have been significantly impacted. Subsequent to 30 June 2020 and up to now, the Group’s sales, especially in PRC, have gradually started to recover as the situation in these areas gradually improves. Due to uncertainties of new developments regarding the COVID-19 outbreak, management expects that fair value measurement for its investment property under development and financial assets at FVOCI, and the assessment of the recoverable amount of non-financial assets may be subject to fluctuation subsequent to period end. The Group will continue to pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the Group’s financial position and operating results.

## MANAGEMENT DISCUSSION AND ANALYSIS

### SIGNIFICANT EVENTS AND DEVELOPMENT

During the six months ended 30 June 2020, the outbreak of COVID-19 had brought about an adverse impact on the business environment. In response to the COVID-19 outbreak, governments around the globe have imposed various measures to contain the spread of the virus, which included widespread social lockdowns, event cancellations, closure of work places and mobility restrictions. The Group is committed to the health and safety of all our employees and business partners and to maintaining a high level of hygiene in the community. In accordance with the relevant governmental instructions, we extended the Chinese New Year holidays of the employees at our industrial parks in China to 9 February 2020, and only resumed production thereafter. We also supported and adopted all protective and hygienic measures and guidelines laid out by the relevant government departments. Internally, we imposed restrictions on business travel, and required our staff to conduct business with customers, suppliers and other business partners through electronic means such as video conferencing whenever possible. We have also taken a wide range of other protective measures, such as requiring staff who returned from epidemic regions to self-quarantine, providing protective face masks to employees, testing body temperature of our staff before work and sterilisation of production lines, with a view to containing the spread of the virus.

A substantial part of the Group's production lines are located in China. Due to the swift reaction of the Chinese government to the COVID-19 outbreak, the pandemic was brought under control in an efficient manner in China, and all of the Group's industrial parks in China had resumed production in March 2020. Coupled with the Group's diligent efforts to catch up with the delay in production after the government-imposed production stoppage period, the turnover of the Group for the period decreased only slightly by 4.6% to HK\$1,700,320,000 (1H2019: HK\$1,782,589,000). However, the COVID-19 outbreak had a more significant impact on the Group's production costs, as the Group's production planning was disrupted by the production stoppage and the various hygienic restrictions during the period. Therefore, the Group was unable to enjoy the efficiency from planning its production ahead in a detailed manner. Further, additional costs had been incurred since the COVID-19 outbreak, which included the costs of carrying out various hygiene measures in the Group's industrial parks and the extra costs for the procurement and transportation of raw materials and parts (especially those imported from overseas countries) under the transport restrictions imposed after the pandemic outbreak. The Group's profit margin for the period decreased notably, and consequently the Group recorded its first loss since its IPO in 2005.

## MANAGEMENT DISCUSSION AND ANALYSIS

Despite the temporary loss, the Group remains confident in its longer-term outlook, as the various mid-to-long term growth factors of the Group remained unscathed by the short-term impact brought by the COVID-19 outbreak. In the office automation (“OA”) equipment sector, the Group’s customers are increasingly shifting their focus from internal production management to devoting more resources on marketing and business development. Accordingly, these OA equipment customers have plans to gradually scale down their own assembly plants in China, and outsource more of their internal production to reliable suppliers with proven track record such as the Group. These OA equipment customers will also request the selected suppliers to get increasingly involved in their product design processes. At the request of the customers, the Group has already set up a product development team in Japan, which works closely with the customers’ product design departments in Japan. Team members include experienced engineers and product design experts from Japan. Given this new business direction of the customers, production outsourcing in the OA equipment sector will accelerate and the Group expects to see voluminous new orders from the OA equipment sector in the years ahead.

By the end of 2019, the construction of the Group’s new industrial park in Weihai, which is primarily tailored for the OA equipment sector, was substantially completed. However, internal renovation and production commencement were delayed by the COVID-19 outbreak in early 2020. During the period, the Group continued to utilise the temporary factory which it had rented from the Weihai government since early 2018 to cope with the existing demand in Weihai. At present, the Group is in the process of gradually moving from this temporary factory to the new self-constructed Weihai industrial park, and the process is expected to be completed by the fourth quarter of 2020. The new Weihai industrial park has a land area of 349,000 square metres and phase one floor area of 80,000 square metres, and can provide the Group with additional production capacity to cope with the voluminous production demand presently existing in Weihai, and the increasing new orders driven by accelerated production outsourcing from the OA equipment customers as mentioned above. Apart from the temporary factory and the self-constructed new Weihai industrial park, the Group also has another production facility in Weihai which was acquired in December 2017 for serving existing and future orders.

In Vietnam, the impact of the COVID-19 outbreak was less serious. At the same time, numerous multinational corporations, which include the Group’s major OA equipment customers, have been expanding their production scale in Southeast Asia particularly in Vietnam. Accordingly, the Group’s Vietnam industrial park, which is located in Haiphong, continued to record a robust growth in revenue during the six months ended 30 June 2020, a trend which we expect to continue into the second half of 2020 and the years after. At present, the Vietnam industrial park is primarily serving OA equipment customers which have assembly plants in Vietnam, but it can also expand into other high growth sectors such as the high-end consumer electronics sector in Vietnam at the later stages, as Vietnam is also well known as one of the global manufacturing hubs for high-end consumer electronics products.

In the automotive sector, the Group’s new industrial park in San Luis Potosí, Mexico, which commenced production operations in 2019, experienced a revenue growth for the period. However, the growth was slower than originally expected due to the various mobility and social restrictions imposed by the Mexican government following the COVID-19 outbreak. The Mexico industrial park, which has a land

## MANAGEMENT DISCUSSION AND ANALYSIS

area of 83,000 square metres and phase one floor area of 17,000 square metres, was built at the invitation of one of the Group's existing automotive customers for the purpose of serving its existing plants in Mexico. This existing customer is a multi-national corporation engaging in the production of automotive seats, interiors and exhaust systems, and the demand from this customer in Mexico is huge. Besides, San Luis Potosí is also one of the major automotive production hubs in the world where a lot of famous automakers and multi-national tier-one suppliers, such as BMW, Volkswagen, Audi, General Motors, Fiat Chrysler, Brose, Faurecia and Gestamp, have production plants either locally or in the adjacent states. Therefore, an enormous demand exists for the precision manufacturing services offered by the Group in Mexico, and the Group remains confident about the mid-to-long term development of its Mexico industrial park despite the temporary setbacks brought by the COVID-19 outbreak.

In China, the automotive market underwent a slowdown during the six months ended 30 June 2020, which was primarily caused by the weakening of consumer sentiment in China following the COVID-19 outbreak. With a view to driving business growth under this unfavourable external environment, the Group continued to devote substantial resources to proactively sourcing more orders from the Chinese automotive market, with particular attention given to internationally renowned tier-one suppliers in the automotive industry which have production plants in China. These tier-one suppliers are leaders in their respective product fields, and their products are sold to different automakers. Therefore, they have a huge and stable production demand which is less affected by the sales performance of a single car model. At present, reputable tier-one suppliers which have already become our customers in China include Faurecia, Brose, Gestamp, ZF, Yamada, Webasto, Yachiyo and F-Tech. At the same time, businesses with automakers were not ignored. During the period, the Group continued to deepen its business relationships with reputable automakers in China such as Dongfeng, Changan, SAIC-GM-Wuling and Great Wall Motors.

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. As a result, a lot of local high technology companies emerged in China in recent years, which created many new opportunities for the Group in the market of high technology products. The Group has a plan to source new orders from the burgeoning technology sector in China, and is confident about the outcome since the Group is reputed for outstanding quality and engineering expertise which are essential for producing high technology products.

During the six months ended 30 June 2020, the Group's turnover decreased by 4.6% to HK\$1,700,320,000, which was primarily caused by the production stoppage and the slowdown in business activities as a result of the COVID-19 outbreak. Further, the COVID-19 outbreak had disrupted the Group's production planning, and therefore the Group was unable to enjoy the efficiency from planning its production ahead in a detailed manner. Additional production costs had also been incurred since the COVID-19 outbreak, which included the costs of carrying out various hygiene measures in the Group's industrial parks and the extra costs for the procurement and transportation of raw materials and parts (especially those imported from overseas countries) under the transport restrictions imposed after the pandemic outbreak. Accordingly, the Group's gross profit margin for the period decreased to 17.4%. In addition,

## MANAGEMENT DISCUSSION AND ANALYSIS

there were an increase in net exchange loss to HK\$18,648,000, which was caused by the weakening of foreign currencies against the Hong Kong dollar, and a reduction in government grants during the period. As a result, the Group recorded a net loss of HK\$65,754,000 for the six months ended 30 June 2020.

The Group is committed to generating positive returns through sustainable operations, and has a corporate governance objective of emphasising long-term financial performance, as opposed to short-term rewards. We will seek growth and higher returns by sharpening our competitive edge, and will also implement more stringent cost control and manage our resources as effectively as possible. In the longer run, we aim to enhance the value of the Group by identifying and selecting new business opportunities with high potential which can add to our existing portfolio. Investment decisions are made after comprehensive consideration of various factors, such as the business viabilities and potential returns of the projects, legal and regulatory requirements and the financial capabilities of the Group. Investments are primarily made to projects which are related to the Group's principal businesses and, if such projects are not directly related to the Group's principal businesses, they should be of high growth potential and the amount of investments will be limited. For investments required to be carried at fair values on the financial statements, they are valued by reference to recent transaction prices in arm's length transactions, net asset values or valuations determined by independent firms of professional valuers.

We have a philosophy of creating value for shareholders. Therefore, since our listing in 2005, we have always been adhering to a dividend payout policy at approximately 30% of net profit. Although no dividend was declared for the six months ended 30 June 2020 as the Group had incurred loss during the period, the Group has a plan to resume dividend payments when its profitability turns around. In the future, we will adhere to our philosophy of continuous technological improvement, and take appropriate steps to expand our income sources to maximise the returns to our shareholders.

### OUTLOOK

At this point in time, the spread of COVID-19 shows signs of subsiding. However, there is no denying that the external environment in the second half of 2020 remains challenging, since it is uncertain about when the pandemic will come to an end and any future recurrence of a widespread COVID-19 outbreak will inevitably bring about an adverse impact on the business performance of the Group. At present, we are working diligently to catch up on the delay in production caused by the production stoppage during the COVID-19 outbreak in the first half of 2020, whilst continuing to take measures to ensure the health and safety of our staff. In the longer term, we remain confident about the Group's prospects, since the Group has taken sensible steps over the past few years to set up various business growth drivers for itself, including investments in both China and overseas countries, and deepening the business relationships with the existing and new customers. These business growth drivers are unlikely to be significantly altered by the short-term impact brought about by the COVID-19 outbreak.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

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

	<b>Six months ended 30 June</b>			
	<b>2020</b>		2019	
	<b>HK\$'000</b>		HK\$'000	
<b>By business segment</b>				
<b>Turnover</b>				
Metal division				
Design and fabrication of metal stamping moulds	<b>155,398</b>	<b>9.1%</b>	110,044	6.2%
Manufacturing of metal stamping components	<b>606,012</b>	<b>35.7%</b>	685,654	38.5%
Manufacturing of lathing components	<b>34,524</b>	<b>2.0%</b>	43,469	2.4%
Others (Note 1)	<b>21,882</b>	<b>1.3%</b>	16,540	0.9%
	<b>817,816</b>		855,707	
Plastic division				
Design and fabrication of plastic injection moulds	<b>34,719</b>	<b>2.0%</b>	37,829	2.1%
Manufacturing of plastic injection components	<b>840,283</b>	<b>49.4%</b>	885,062	49.7%
Others (Note 1)	<b>7,502</b>	<b>0.5%</b>	3,991	0.2%
	<b>882,504</b>		926,882	
Total	<b>1,700,320</b>		1,782,589	
<b>Segment results</b>				
Metal division	<b>(22,426)</b>		31,126	
Plastic division	<b>(18,596)</b>		40,298	
Micro lending business	<b>(2,973)</b>		(4,138)	
Operating (loss) profit	<b>(43,995)</b>		67,286	
Unallocated expenses	<b>(4,796)</b>		(3,786)	
Finance income	<b>5,993</b>		13,241	
Finance costs	<b>(26,429)</b>		(35,619)	
Income tax credit (expense)	<b>3,473</b>		(6,064)	
(Loss) Profit attributable to equity holders of the Company	<b>(65,754)</b>		35,058	

Note 1: Others mainly represented sales of scrap materials.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Turnover

During the period, the Group's turnover decreased by 4.6% to HK\$1,700,320,000, which was primarily caused by the production stoppage and the slowdown in business activities as a result of the COVID-19 outbreak.

### Gross profit

During the period, the Group's production planning was disrupted by the COVID-19 outbreak, and therefore the Group was unable to enjoy the efficiency from planning its production ahead in a detailed manner. Further, additional production costs had been incurred since the COVID-19 outbreak, which included the costs of carrying out various hygiene measures in the Group's industrial parks and the extra costs for the procurement and transportation of raw materials and parts (especially those imported from overseas countries) under the transport restrictions imposed after the pandemic outbreak. Accordingly, the Group's gross profit margin decreased to 17.4% during the period (1H2019: 23.4%).

### Segment results

As mentioned above, the Group experienced a reduction in gross profit margin during the period. Further, there was an increase in net exchange loss to HK\$18,648,000, which was caused by the weakening of foreign currencies against Hong Kong dollars during the period (1H2019: HK\$7,200,000). Government grants also decreased to HK\$14,966,000 during the period (1H2019: HK\$31,567,000). As a result, the Group's metal and plastic divisions recorded operating losses of HK\$22,426,000 and HK\$18,596,000 respectively.

Operating loss from the micro lending business for the six months ended 30 June 2020 represented the Group's share of the loss of the micro lending company through equity pick-up.

### Finance income and costs

During the six months ended 30 June 2020, the Group recorded a reduction in finance income and costs as a result of the decrease in market interest rates during the period.

### Income tax credit (expense)

During the period, the Group's income tax expense decreased since certain of its subsidiaries incurred losses as result of the COVID-19 outbreak. At the same time, the Group received tax refunds from the tax authorities in China amounting to HK\$7,716,000 during the period. Accordingly, the Group recorded net income tax credit of HK\$3,473,000 during the six months ended 30 June 2020.

### (Loss) Profit attributable to equity holders of the Company

During the period, the Group recorded loss attributable to equity holders of the Company amounting to HK\$65,754,000, which was primarily caused by the reduction in operating results as mentioned above.

## MANAGEMENT DISCUSSION AND ANALYSIS

### LIQUIDITY AND FINANCIAL RESOURCES

During the six months ended 30 June 2020, the Group's net cash generated from operating activities decreased to HK\$39,001,000 (1H2019: HK\$204,181,000), which was primarily due to the Group's loss during the period. During the period, the decrease in the Group's short-term bank deposits with maturity of more than three months amounted to HK\$66,876,000, which was lower than that in 1H2019 of HK\$150,649,000. Therefore, the Group's net cash generated from investing activities decreased to HK\$410,000 (1H2019: HK\$3,646,000). During the period, the Group's dividend payment increased to HK\$45,808,000 (1H2019: HK\$10,885,000), as the Group paid a special dividend to shareholders during the period to celebrate the 15th anniversary of its IPO on The Stock Exchange of Hong Kong Limited. Accordingly, the Group recorded net cash outflows from financing activities of HK\$11,591,000 during the period (1H2019: net cash inflows of HK\$19,430,000).

#### Treasury policy

The Group adopts a prudent treasury policy. Treasury activities are controlled by senior management members with an objective of achieving a balance between the Group's expansion needs and its financial stability. An adequate level of cash resources is maintained by each of the Group's subsidiaries, and the Group also has sufficient stand-by credit lines to provide adequate liquid funds to finance its business activities. Due consideration is given to the cost of borrowings. Accordingly, all of the Group's bank borrowings as at 30 June 2020 were obtained from banks in Hong Kong to take advantage of the lower borrowing costs in Hong Kong. In addition, as a majority of the Group's sales are made in Hong Kong dollars and United States dollars (which are pegged), all of the Group's borrowings as at 30 June 2020 were denominated in Hong Kong dollars or United States dollars to match repayment currency with the Group's major source of operating cash inflows. Looking ahead, the Group will adhere to conservative financial management policies and remains committed to maintaining a healthy balance sheet.

### KEY FINANCIAL PERFORMANCE INDICATORS

#### (a) Liquidity and capital adequacy ratio

	<b>30 June 2020</b>	31 December 2019
Inventory turnover days (Notes 1 and 5)	<b>74</b>	74
Debtors' turnover days (Notes 2 and 5)	<b>88</b>	89
Creditors' turnover days (Notes 3 and 5)	<b>108</b>	120
Cash conversion cycle (Notes 4 and 5)	<b>54</b>	43
Current ratio (Notes 6 and 8)	<b>1.67</b>	1.28
Net debt-to-equity ratio (Notes 7 and 8)	<b>27.5%</b>	22.0%

## MANAGEMENT DISCUSSION AND ANALYSIS

### (b) Profitability ratio

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
Net (loss) profit margin (Notes 9 and 11)	<b>(3.9%)</b>	2.0%
(Loss) Return on shareholders' equity (Notes 10 and 11)	<b>(2.7%)</b>	1.3%

#### 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. These ratios have a significant impact on the ability of the Group to generate cash flows from its operations. Therefore, they are selected as key financial performance indicators.
6. Current ratio is calculated based on the Group's total current assets divided by total current liabilities.
7. Net debt-to-equity ratio is calculated based on the total balance of bank borrowings and lease liabilities less cash and bank balances divided by shareholders' equity. Lease liabilities exclude the rentals for factory and office premises in future periods amounting to HK\$68,033,000 as at 30 June 2020 (as at 31 December 2019: HK\$74,010,000). These rentals have not yet been incurred, but are deemed as lease liabilities under Hong Kong Financial Reporting Standard 16 "Leases". The ownership of the related factory and office premises is not held by the Group.
8. These ratios reflect the Group's financial stability and its ability to pay its debts as they fall due. Therefore, they are selected as key financial performance indicators.
9. Net (loss) profit margin is based on (loss) profit attributable to equity holders of the Company divided by turnover.

## MANAGEMENT DISCUSSION AND ANALYSIS

10. (Loss) Return on shareholders' equity is based on (loss) profit attributable to equity holders of the Company divided by shareholders' equity.
11. These ratios reflect the Group's ability to generate returns from its business, and the returns obtainable by shareholders from their investments in the Group. Therefore, they are selected as key financial performance indicators. Ratios for the six months ended 30 June 2019 and 2020 were calculated using the half-year profit (loss) of the Group for the respective periods.

### Inventory turnover days

The Group's inventory turnover days for the period was 74 days, which was comparable to that for the year ended 31 December 2019.

### Debtors' and creditors' turnover days

Debtors' turnover days for the period was 88 days, which was comparable to that for the year ended 31 December 2019. Creditors' turnover days for the period decreased to 108 days, which was mainly because a higher percentage of the Group's purchases were made from suppliers with shorter credit periods during the period.

### Cash conversion cycle

The increase in cash conversion cycle in the first half of 2020 was mainly caused by the decrease in creditors' turnover days as mentioned above.

### Current ratio and net debt-to-equity ratio

During the period, the Group obtained long-term instalment loans to refinance certain of its short-term revolving loans. Accordingly, current liabilities as at 30 June 2020 decreased which resulted in an improvement in current ratio to 1.67 as at 30 June 2020.

The Group's net debt-to-equity ratio as at 30 June 2020 increased to 27.5%, which was mainly because the Group had incurred loss during the period, which resulted in a reduction of shareholders' equity as at 30 June 2020.

### Net (loss) profit margin and (loss) return on shareholders' equity

The COVID-19 outbreak had a negative impact on the business performance of the Group, and therefore the Group recorded loss during the period, as explained in the sections headed "Significant Events and Development" and "Financial Review" above.

## MANAGEMENT DISCUSSION AND ANALYSIS

### KEY RELATIONSHIPS WITH CUSTOMERS AND SUPPLIERS

A high priority for the Group is to ensure customer satisfaction in terms of our products and services. Strenuous efforts are made to ensure compliance with the laws and regulations relating to product health and safety, advertising, labelling and privacy matters of the jurisdictions in which we operate. The Group adopts international best practices in the area of product quality management, and has been accredited with ISO9001 certification by the BSI Group since 2000. As at the date of this report, the Group was compliant with the latest version of the ISO9001 standards (i.e. the 2015 version). To strengthen our relationships with key customers, various initiatives have also been introduced as part of our efforts to continuously improve the quality, reliability and safety of our products and services. During the period, the Group continued to implement various “Quality Control Circles” and lean production activities which require the participation of all employees from front line staff to senior management to identify, analyse and implement areas of improvement in our production processes. We are committed to product quality and safety, and therefore we have received numerous accolades from many reputable customers for the quality and reliability of our products and services for years, such as Fuji Xerox, Kyocera, Canon, Toshiba, Segway-Ninebot and Faurecia.

The Group always adheres to international best practices and conducts fair and unbiased tender processes when dealing with suppliers. Our procurement procedures provide directions and guidelines on evaluation and engagement when dealing with suppliers of goods and services to ensure business is conducted with legally, financially and technically-sound entities. In addition, approval procedures are in place to ensure that supplier engagements are monitored and approved by the appropriate level of management. When selecting suppliers, the Group takes into account factors such as quality of services and products, past performance, financial standing, market share assessment and recommendation from the customers. The Group expects major suppliers to observe the same environmental, social, health and safety and governance policies in their operating practices as those adopted by the Group. Procurement teams are trained to take into account each and every aspect of such policies when assessing suppliers and tendering procedures are carefully and thoroughly communicated to vendors.

As at 30 June 2020, the Group’s length of relationship with its five largest customers ranged from 3 years to more than 10 years, and the Group’s length of relationship with its five largest suppliers was more than 10 years.

For the six months ended 30 June 2020, sales to the five largest customers represented 54.7% of the Group’s total turnover. Accordingly, any change in these customers’ businesses and financial conditions is likely to have an impact on the financial performance of the Group. To manage this risk, the Group performs credit evaluation of its customers to ensure that sales are made only to entities with viable businesses and sound financial background. Credit periods granted to the customers are closely monitored and approved by the appropriate level of management. At the same time, the Group identifies and develops new customers with high potentials in an effort to widen the customer base and reduce the reliance on existing key customers.

The foreign currency risks arising from dealings with customers and suppliers in foreign currencies are discussed in the section headed “Foreign Currency Exposure” of this report.

## MANAGEMENT DISCUSSION AND ANALYSIS

### ENVIRONMENTAL POLICY AND PERFORMANCE

In conducting the business, the Group's objective is to minimise the adverse effects of its operations on the environment. In addition, in order to comply with the applicable environmental protection laws, the Group has established an environmental management system in its operations in accordance with ISO14001 international standards and obtained the latest version of ISO14001 certification (i.e. the 2015 version). The environmental management system is reviewed from time to time in order to reduce risks relating to environmental issues. The Group has complied with a number of environmental protection laws in connection with water pollutants, air pollutants, solid waste pollutants, as well as noise pollution generated from its manufacturing operations. During the six months ended 30 June 2020, there was no material breach of or non-compliance with the environmental laws and regulations by the Group that has a significant impact on its business and operations.

Other green initiatives and measures have also been adopted by the Group to control the use of energy and resources in the production, business operation and management activities so as to achieve economic benefit. Such initiatives include reducing wastes by setting up recycling centres at industrial parks, and reducing electricity, water and other resources consumption through practices such as small zone lighting, installing timer control systems on machinery, setting up resources conservation teams to monitor the use of resources and recycling of used papers.

### COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group is subject to the laws and regulations in the countries in which it operates. Any failure to comply with laws and regulations could result in legal proceedings and expose us to civil or criminal liabilities. The long-term development of our business depends on a steady legal environment. Unanticipated changes in policies and regulatory practices may adversely affect our business. The Group will continue to ensure the highest compliance standard and engage independent legal services whenever necessary.

During the six months ended 30 June 2020, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on its business and operations.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FOREIGN CURRENCY EXPOSURE

For the six months ended 30 June 2020, the Group's sales and raw material purchases were denominated in the following currencies:

	<b>Sales</b>	<b>Purchases</b>
Hong Kong dollars	23.0%	5.2%
US dollars	50.8%	54.5%
Renminbi	25.1%	40.1%
Other currencies	1.1%	0.2%

A majority of the Group's customers and suppliers in China, Vietnam and Mexico are reputable international companies which use United States dollars as the settlement currency. Accordingly, approximately 73.8% of the Group's sales and 59.7% of its raw material purchases were made in United States dollars and Hong Kong dollars (which are pegged to United States dollars) 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 and raw material purchases denominated in other currencies were mainly related to initial trial orders with new customers and suppliers, and therefore their percentages to our total turnover and purchases were small. Should these sales and raw material purchases increase in the future, we will take appropriate actions to safeguard ourselves from any potential exchange rate risk that may arise from dealing in other currencies. Further, it is the Group's policy to strictly prohibit any speculative foreign exchange transaction which is not related to business operations.

At present, although the Group endeavours to transact sales and raw material purchases in matching currencies, the percentage of the Group's raw material purchases in Renminbi is still larger than the percentage of its sales in Renminbi due to the Group's substantial production operations in China. However, management is of the view that the exchange rate risk is not high because Renminbi is unlikely to resume a long-term appreciation trend in a foreseeable future. Further, the Group operates in China, Vietnam and Mexico, and therefore has assets and liabilities denominated in Renminbi, Vietnamese Dong and Mexican Peso. Any significant fluctuation in the exchange rates of these currencies against United States dollars and Hong Kong dollars may cause the Group to incur exchange gains or losses. To handle such risks, 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### HUMAN RESOURCES

As at 30 June 2020, the total number of the Group's employees was 8,964 employees, which was comparable to 8,999 employees as at 31 December 2019.

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 scheme was 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 activities are organised to inspire the team spirit of the Group's staff, 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.

As at 30 June 2020, the average length of services of the Group's employees below and above manager grade was 2.9 years and 8.5 years respectively.

### CHARGES ON THE GROUP'S ASSETS

As at 30 June 2020, the charges on the Group's assets included mortgage of equipment under lease liabilities with net book amount of HK\$58,139,000 for securing lease liabilities.

### UPDATE OF THE IMPACT OF COVID-19 OUTBREAK ON BUSINESS

Although the COVID-19 outbreak starts to show signs of subsiding, we continue to take various measures to ensure the health and safety of our staff and business partners, and to minimise the impact of the COVID-19 outbreak on our business performance. Internally, we continue to impose restrictions on business travels, and to require our staff to conduct businesses with customers, suppliers and other business partners through electronic means such as video conferencing whenever possible. We also continue to take a wide range of other protective measures, such as the supply of protective face masks and other hygienic materials to employees, testing their body temperature before work and thorough sterilisation of production lines, with a view to prevent the recurrence of the COVID-19 spread.



## MANAGEMENT DISCUSSION AND ANALYSIS

At present, we are working diligently to catch up on the delay in production caused by the COVID-19 outbreak in the first half of 2020. However, the COVID-19 outbreak has brought about a general slowdown in business activities and market demand. At the same time, as the various government-imposed mobility and transport restrictions have not yet been fully uplifted, the procurement logistics of the Group will continue to be hindered, which is likely to result in extra costs for the procurement and transportation of raw materials and parts, especially those imported from overseas countries. Besides, any future recurrence of widespread COVID-19 outbreak will also disrupt the Group's production planning, which will consequently result in an increase in production costs, as the Group will be unable to enjoy the efficiency from planning its production ahead in a detailed manner. Therefore, there is no denying that the COVID-19 outbreak will continue to negatively affect our business performance in 2020.

To get through this difficult period, the Group continue to adopt numerous measures to control costs, such as slowing down the recruitment of new staff, planning our production schedules in a more efficient manner to shorten the operating hours of the production lines with a view to reducing overhead expenses, and taking up more of the production procedures in-house to lower subcontracting costs.

As mentioned in the Group's profit warning announcement dated 3 July 2020, the loss of the Group for the six months ended 30 June 2020 would constitute a technical breach of certain financial covenants under the Group's various bank loan arrangements with its banks. As at the date of this report, the Group had obtained the waivers of such technical breach from the banks.

The Group's existing customers primarily consist of internationally renowned companies in the office automation equipment and automotive sectors. These customers have sound financial capabilities, and accordingly the Group considers that there is no material risk of default of payment from customers as a result of the COVID-19 outbreak. The Group has maintained an adequate level of cash resources, and also has sufficient stand-by credit lines to provide adequate liquid funds to finance its business activities. Therefore, the Group is confident about withstanding any business slowdown brought by the COVID-19 outbreak.

In face of the challenges brought by the COVID-19 outbreak, the Group believes that it is critical for the entire community to unite and work diligently together to overcome these challenges. Accordingly, the Group made various cash and other in-kind donations to support the prevention initiatives in the community, which included financial donations, and donating protective face masks and other hygiene materials to the government and charitable organisation for fighting against the COVID-19 outbreak and assisting in the relief measures.

## MANAGEMENT DISCUSSION AND ANALYSIS

### SPECIFIC PERFORMANCE OBLIGATIONS OF THE CONTROLLING SHAREHOLDERS

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\$200,000,000 with a repayment term of five years from the date of first drawdown (the outstanding loan balance was HK\$171,429,000 as at 30 June 2020);
- (ii) another term loan facility up to HK\$200,000,000 with a repayment term of four years from the date of first drawdown (the outstanding loan balance was HK\$200,000,000 as at 30 June 2020); and
- (iii) a revolving loan for an amount up to HK\$40,000,000 (there was no outstanding balance as at 30 June 2020).

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 an 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 up to HK\$200,000,000 for a term of four years from the date of drawdown of the loan (the outstanding loan balance was HK\$97,000,000 as at 30 June 2020);
- (ii) another term loan facility up to HK\$300,000,000 for a term of four years from the date of drawdown of the loan (the outstanding loan balance was HK\$270,000,000 as at 30 June 2020);
- (iii) another term loan facility up to HK\$300,000,000 for a term of four years from the date of drawdown of the loan (the outstanding loan balance was HK\$300,000,000 as at 30 June 2020); and
- (iv) revolving loan of HK\$150,000,000 (the outstanding loan balance was HK\$130,000,000 as at 30 June 2020).

## MANAGEMENT DISCUSSION AND ANALYSIS

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.

A subsidiary of the Company is a party to loan agreements with MUFG Bank, Ltd. in respect of the following banking facilities ("MUFG Facilities Agreements"):

- (i) a term loan facility up to HK\$125,000,000 with a repayment term of four years from the date of the first drawdown (the outstanding loan balance was HK\$54,688,000 as at 30 June 2020); and
- (ii) another term loan facility up to HK\$200,000,000 with a repayment term of four years from the date of the first drawdown (the outstanding loan balance was HK\$200,000,000 as at 30 June 2020).

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

- (i) Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua shall collectively 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\$150,000,000 with a repayment period of four years after drawdown (the outstanding loan balance was HK\$70,000,000 as at 30 June 2020);
- (ii) revolving loan of HK\$175,000,000 (the outstanding loan balance was HK\$70,000,000 as at 30 June 2020); and
- (iii) combined trade facilities of HK\$25,000,000 (there was no outstanding balance as at 30 June 2020).

## MANAGEMENT DISCUSSION AND ANALYSIS

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.

A subsidiary of the Company had also entered into a banking facility agreement with Chong Hing Bank Limited in respect of the following banking facilities (“Chong Hing Facility Agreement”):

- (i) a term loan facility up to HK\$150,000,000 with a repayment period of three years after drawdown (the outstanding loan balance was HK\$150,000,000 as at 30 June 2020); and
- (ii) revolving loan facility of HK\$50,000,000 (the outstanding loan balance was HK\$15,000,000 as at 30 June 2020).

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

- (i) Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua shall at any time 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.

Further, a subsidiary of the Company had entered into a banking facility agreement with China Construction Bank Corporation Limited Hong Kong Branch in respect of a revolving loan facility of HK\$200,000,000 (“CCB Facility Agreement”). There was no outstanding loan balance as at 30 June 2020.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

- (i) Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua shall collectively maintain holding of not less than 35% of the legal and beneficial interest in the issued share capital of the Company; and
- (ii) Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua shall remain as the largest shareholder with controlling power in the Company.

A subsidiary of the Company is also a party to a banking facility agreement with Bank of Communications Co., Ltd. Hong Kong Branch in respect of the following banking facilities (“BOCOM Facility Agreement”):

- (i) a term loan facility of HK\$200,000,000 which is repayable by instalments within 3 years from the first utilisation date (the outstanding loan balance was HK\$200,000,000 as at 30 June 2020); and
- (ii) a revolving loan facility of HK\$100,000,000 (there was no outstanding balance as at 30 June 2020).

Under the BOCOM Facility Agreement, Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua shall (i) beneficially own in aggregate (directly or indirectly) at least 35% of the issued share capital of the Company, and (ii) have the single largest shareholding interest in 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### SHARE OPTIONS

The Company has a share option scheme, which became effective on 21 May 2015 (the “Share Option Scheme”), 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.

During the six months ended 30 June 2020 and up to the date of this report, there was no movement in the share options granted under the Share Option Scheme, and details of these share options as at 30 June 2020 and the date of this report are as follows:

	<b>As at 1 January 2020, 30 June 2020 and the date of this report</b>	<b>Share price immediately before offer date</b>	<b>Exercise price</b>
		HK\$	HK\$
<b>Executive directors</b>			
Mr. Zhang Hwo Jie			
– Granted on 8 July 2016	18,000,000	0.64	0.692
– Granted on 3 November 2017	17,000,000	1.08	1.10
Mr. Zhang Jian Hua			
– Granted on 8 July 2016	18,000,000	0.64	0.692
– Granted on 3 November 2017	17,000,000	1.08	1.10
Mr. Zhang Yaohua			
– Granted on 8 July 2016	18,000,000	0.64	0.692
– Granted on 3 November 2017	17,000,000	1.08	1.10
<b>Independent non-executive directors</b>			
Mr. Choy Tak Ho (Note 1)			
– Granted on 8 July 2016	400,000	0.64	0.692
– Granted on 3 November 2017	400,000	1.08	1.10
Mr. Leung Tai Chiu (Note 2)			
– Granted on 8 July 2016	400,000	0.64	0.692
– Granted on 3 November 2017	400,000	1.08	1.10
Mr. Lam Hiu Lo			
– Granted on 8 July 2016	400,000	0.64	0.692
– Granted on 3 November 2017	400,000	1.08	1.10
<b>Employees of the Group</b>			
Mr. Zhang Hanming (Note 3)			
– Granted on 3 November 2017	600,000	1.08	1.10
Ms. Zhang Shen Monica Quian Yi (Note 4)			
– Granted on 3 November 2017	600,000	1.08	1.10
<b>Others</b>			
– Granted on 8 July 2016	11,850,000	0.64	0.692
– Granted on 3 November 2017	16,900,000	1.08	1.10
	<u>137,350,000</u>		

## MANAGEMENT DISCUSSION AND ANALYSIS

### Notes:

1. Mr. Choy Tak Ho did not offer himself for re-election upon retirement by rotation at the Company's annual general meeting which was held on 15 June 2020, and ceased to be an independent non-executive director of the Company with effect from 15 June 2020.

The 400,000 options and 400,000 options granted to Mr. Choy Tak Ho on 8 July 2016 and 3 November 2017 respectively should have lapsed on 15 December 2020, being six months after his retirement. However, in appreciation of the efforts and valuable contributions of Mr. Choy Tak Ho as an independent non-executive director since the listing of the Group in 2005, the board of directors of the Company had on 6 May 2020 exercised its discretion under the Share Option Scheme to decide that such options should not lapse and Mr. Choy Tak Ho be allowed to exercise such options during their relevant exercisable periods. The aforesaid decision had also been approved by the remuneration committee of the Company, with Mr. Choy Tak Ho abstained from voting.

2. Mr. Leung Tai Chiu resigned as an independent non-executive director of the Company with effect from 1 July 2020.

The 400,000 options and 400,000 options granted to Mr. Leung Tai Chiu on 8 July 2016 and 3 November 2017 respectively should have lapsed upon his resignation on 1 July 2020. However, in appreciation of the efforts and valuable contributions of Mr. Leung Tai Chiu as an independent non-executive director since 2006, the board of directors of the Company had on 15 June 2020 exercised its discretion under the Share Option Scheme to decide that such options should not lapse and Mr. Leung Tai Chiu be allowed to exercise such options during their relevant exercisable periods. The aforesaid decision had also been approved by the remuneration committee of the Company.

3. Mr. Zhang Hanming is the father of the three executive directors, hence an associate (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) of them. Mr. Zhang Hanming previously worked in the Chinese government for many years before his retirement, and is now a consultant of the Group in the areas of government regulations and communication.
4. Ms. Zhang Shen Monica Quian Yi is the daughter of the Chairman of the Group, hence an associate (as defined in the Listing Rules) of him. Ms. Zhang Shen Monica Quian Yi is responsible for the overseas business development of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

### % of the options

<b>granted</b>	<b>Vesting date</b>	<b>Exercise period</b>
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#### **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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#### **With respect to the options granted on 3 November 2017 with exercise price of HK\$1.10**

100%	2 January 2020	2 January 2020 to 4 November 2024
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## VALUATION

The fair value of the options granted on 8 July 2016 and 3 November 2017 under the Share Option Scheme with outstanding balances as at 30 June 2020 of 67,050,000 options and 70,300,000 options were HK\$10,236,000 and HK\$26,594,000 respectively. These fair values were calculated using the Black-Scholes valuation model and the significant inputs into the model were as follows:

	<b>Exercise price</b>	<b>Expected volatility</b>	<b>Expected life</b>	<b>Risk-free rate</b>	<b>Dividend paid-out rate</b>
	HK\$				
Granted on 8 July 2016	0.692	45.98%	3.24 years	0.52%	2.33%
Granted on 3 November 2017	1.10	46.52%	4.59 years	1.42%	1.89%

The expected volatility is based on historic volatility adjusted for any expected change 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 2020, 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 Listing Rules, to be notified to the Company and The Stock Exchange of Hong Kong Limited were as follows:

#### (i) Long position in the shares of the Company

Name of director	Corporate interests	Personal interests	Interest of spouse	Personal interests in underlying shares held	Total interests	Approximate percentage of interest in the Company as at 30 June 2020
				under equity derivatives		
				(Note 1)		
Mr. Zhang Hwo Jie	671,750,000 (Note 2)	15,692,000	-	35,000,000	722,442,000	42.09%
Mr. Zhang Jian Hua	-	664,000	-	35,000,000	35,664,000	2.08%
Mr. Zhang Yaohua	671,750,000 (Note 2)	18,164,000	156,000	35,000,000	725,070,000	42.24%
Mr. Leung Tai Chiu (Note 3)	-	-	-	800,000	800,000	0.05%
Mr. Lam Hiu Lo	-	-	-	800,000	800,000	0.05%

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 and Mr. Zhang Yaohua held 52.93% and 47.07% of the entire issued capital of Prosper Empire Limited respectively, and Prosper Empire Limited was interested in 39.13% of the entire issued capital of the Company as at 30 June 2020. Under the SFO, Mr. Zhang Hwo Jie and Mr. Zhang Yaohua are both deemed to be interested in the shares held by Prosper Empire Limited.

## MANAGEMENT DISCUSSION AND ANALYSIS

3. Mr. Leung Tai Chiu resigned as an independent non-executive director of the Company with effect from 1 July 2020.

### (ii) Long position in the 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 2020
Mr. Zhang Hwo Jie	Personal interests	52.93%
Mr. Zhang Yaohua	Personal interests	47.07%

### SUBSTANTIAL SHAREHOLDERS

As at 30 June 2020, 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	39.13%
Ms. Shen Chan Jie Lin	Interest of spouse (Note 1)	687,442,000	35,000,000	722,442,000	42.09%
Ms. Jiang Lu	Interest of spouse (Note 2)	690,070,000	35,000,000	725,070,000	42.24%
Pandanus Associates Inc.	Interest of controlled corporation (Note 3(a))	122,536,000	–	122,536,000	7.14%
Pandanus Partners L.P.	Interest of controlled corporation (Note 3(b))	122,536,000	–	122,536,000	7.14%
FIL Limited	Interest of controlled corporation (Note 3(b))	122,536,000	–	122,536,000	7.14%
FIL Asia Holdings Pte Limited	Interest of controlled corporation (Note 3(b))	122,536,000	–	122,536,000	7.14%
FIL Investment Management (Hong Kong) Limited	Beneficial owner (Note 3(b))	122,536,000	–	122,536,000	7.14%
Invesco Asset Management Limited	Investment manager	86,614,000	–	86,614,000	5.05%

## MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

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 52.93% 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. Under the SFO, Ms. Jiang Lu is deemed to be interested in the shares held by Mr. Zhang Yaohua, who is interested in 47.07% of the issued share capital of Prosper Empire Limited. The interests disclosed by Ms. Jiang Lu included the 671,750,000 shares of the Company held by Prosper Empire Limited.
3.
  - (a) The corporate substantial shareholder notice filed by Pandanus Associates Inc. indicated that it was deemed to be interested in 122,536,000 shares under the SFO by virtue of its interests held through Pandanus Partners L.P., its immediate wholly-owned subsidiary.
  - (b) The corporate substantial shareholder notice filed by Pandanus Partners L.P. indicated that Pandanus Partners L.P. was interested in 38.10% of the issued share capital of FIL Limited. The same notice also indicated that FIL Investment Management (Hong Kong) Limited (“FIL (Hong Kong)”) was wholly-owned by FIL Asia Holdings Pte Limited, which was in turn wholly-owned by FIL Limited. Accordingly, under the SFO, each of Pandanus Partners L.P., FIL Limited and FIL Asia Holdings Pte Limited is deemed to be interested in the 122,536,000 shares held by FIL (Hong Kong).

### PURCHASES, SALE AND REDEMPTION OF THE SHARES

During the six months ended 30 June 2020 and up to the date of this report, the Company repurchased its 550,000 listed shares on The Stock Exchange of Hong Kong Limited. These shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Details of the repurchases during the six months ended 30 June 2020 and up to the date of this report are summarised as follows:

<u>Month of repurchases</u>	<u>Number of shares repurchased</u>	<u>Highest price per share</u>	<u>Lowest price per share</u>	<u>Aggregate consideration paid</u>
		HK\$	HK\$	HK\$'000
January 2020	550,000	0.58	0.56	317

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

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the six months ended 30 June 2020 and up to the date of this report.

## MANAGEMENT DISCUSSION AND ANALYSIS

### CHANGES IN THE DIRECTORS' INFORMATION

During the six months ended 30 June 2020 and up to the date of this report, the composition of the board of directors and board committees changed as follows:

- (1) Mr. Choy Tak Ho did not offer himself for re-election upon his retirement by rotation at the Company's annual general meeting which was held on 15 June 2020, and ceased to be an independent non-executive director of the Company on 15 June 2020. Mr. Choy Tak Ho also ceased to be the chairman and a member of the remuneration committee of the Company and a member of the audit committee and nomination committee of the Company.
- (2) On 15 June 2020, Mr. Lam Hiu Lo was appointed as the chairman of the remuneration committee of the Company.
- (3) On 15 June 2020, Dr. Chai Ngai Chiu Sunny was appointed as an independent non-executive director of the Company and a member of the Company's audit committee, nomination committee and remuneration committee.
- (4) On 1 July 2020, Mr. Leung Tai Chiu resigned an independent non-executive director of the Company, and ceased to be the chairman and a member of the Company's audit committee.
- (5) On 1 July 2020, Ms. Ling Kit Sum was appointed as an independent non-executive director, and the chairman and a member of the audit committee of the Company.

The members of the Company's board of directors and the board committees during the six months ended 30 June 2020 and up to the date of this report are set out in the section headed "Corporate Information" of this report.

### PRE-EMPTIVE RIGHTS

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

### DIVIDEND

No dividend was declared by the Company for the six months ended 30 June 2020.

### 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 Listing Rules. Having made specific enquiry of all directors, the Company reported that all directors had complied with the required standards set out in the Model Code during the six months ended 30 June 2020.

## 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 Listing Rules during the six months ended 30 June 2020.

### AUDIT COMMITTEE

The Company has set up an audit committee, in accordance with the requirements of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, for the purpose of reviewing and providing supervision on the financial reporting process, risk management, internal control systems and corporate governance matters of the Group.

From 1 January 2020 to 15 June 2020, the audit committee comprised Mr. Leung Tai Chiu, Mr. Choy Tak Ho and Mr. Lam Hiu Lo, the three independent non-executive directors, with Mr. Leung Tai Chiu as the chairman. On 15 June 2020, Mr. Choy Tak Ho ceased to be an independent non-executive director and a member of the audit committee of the Company. On the same day, Dr. Chai Ngai Chiu Sunny was appointed as an independent non-executive director and a member of the Company's audit committee to replace Mr. Choy Tak Ho. On 1 July 2020, Mr. Leung Tai Chiu resigned as an independent non-executive director and ceased to be the chairman and a member of the audit committee of the Company, and Ms. Ling Kit Sum was appointed as an independent non-executive director and the chairman and a member of the audit committee of the Company on 1 July 2020 to replace Mr. Leung Tai Chiu.

As at the date of this report, the audit committee comprised Ms. Ling Kit Sum, Mr. Lam Hiu Lo and Dr. Chai Ngai Chiu Sunny, the three independent non-executive directors, with Ms. Ling Kit Sum as the chairman. The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed risk management, internal control, corporate governance 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 2020.

By order of the Board

**Zhang Hwo Jie**

Chairman

Hong Kong, 28 August 2020



**EVA Precision Industrial Holdings Limited**  
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