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TK Group (Holdings) Limited

東江集團(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2283)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2022**

RESULTS

The board of directors (the “**Board**”) of TK Group (Holdings) Limited (the “**Company**”) is pleased to present the consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2022, together with the comparative figures for the corresponding period in 2021.

FINANCIAL HIGHLIGHTS

Six months ended 30 June

2022 2021

Results and financial performances

Results

Revenue (HK dollar '000)	969,182	1,020,829
Profit attributable to owners of the Company (HK dollar '000)	58,452	115,191
Basic earnings per share (HK cents)	7.0	13.9
Proposed interim dividend per share (HK cents)	2.8	5.4
Gross profit margin	18.7%	23.7%
Net profit margin	6.0%	11.3%
Return on equity (<i>Note 1</i>)	3.8%	7.9%
Return on assets (<i>Note 2</i>)	2.2%	4.4%
Inventory turnover days (<i>Note 3</i>)	123	119
Trade receivable turnover days (<i>Note 4</i>)	63	56
Trade payable turnover days (<i>Note 5</i>)	66	76
	30 June	31 December
	2022	2021

Financial position

Net current assets (HK dollar '000)	1,060,327	1,162,975
Current ratio (<i>Note 6</i>)	219.7%	220.7%
Quick ratio (<i>Note 7</i>)	160.0%	169.2%
Gearing ratio (<i>Note 8</i>)	19.7%	20.9%
Net gearing ratio (<i>Note 9</i>)	0%	0%

Notes:

- (1) Return on equity ratio is calculated by dividing profit after tax by total equity as at period end and multiplying the resulting value by 100%.
- (2) Return on assets ratio is calculated by dividing profit after tax by total assets as at period end and multiplying the resulting value by 100%.
- (3) Inventory turnover days are calculated based on the average balance of inventories divided by the cost of sales for the relevant period and multiplied by 180 days.
- (4) Trade receivable turnover days are calculated based on the average trade receivables divided by the revenue for the relevant period and multiplied by 180 days.
- (5) Trade payable turnover days are calculated based on the average trade payables divided by the cost of sales for the relevant period and multiplied by 180 days.
- (6) Current ratio is calculated by dividing current assets by current liabilities and multiplying the resulting value by 100%.
- (7) Quick ratio is calculated by dividing current assets less inventories by current liabilities and multiplying the resulting value by 100%.
- (8) Gearing ratio is calculated by dividing total borrowings by total equity and multiplying the resulting value by 100%.
- (9) Net gearing ratio is calculated by dividing net borrowings (total borrowings net-off cash and pledged bank deposits) by total equity and multiplying the resulting value by 100%. Net gearing ratio was zero as net cash of the Company as at 30 June 2022 and 31 December 2021 was HK\$751,176,000 and HK\$864,067,000 respectively.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	Six months ended 30 June	
		2022	2021
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Revenue	5	969,182	1,020,829
Cost of sales	7	<u>(788,246)</u>	<u>(778,538)</u>
Gross profit		180,936	242,291
Other income	6	26,045	27,208
Other gains – net	6	9,734	11,373
Selling expenses	7	(32,995)	(39,214)
Administrative expenses	7	<u>(129,047)</u>	<u>(123,573)</u>
Operating profit		54,673	118,085
Interest income	8	14,311	12,941
Interest expenses	8	<u>(3,588)</u>	<u>(3,542)</u>
Finance income – net		<u>10,723</u>	<u>9,399</u>
Share of profit of associates	11	<u>410</u>	<u>1,950</u>
Profit before income tax		65,806	129,434
Income tax expense	9	<u>(7,354)</u>	<u>(14,243)</u>
Profit for the period		<u>58,452</u>	<u>115,191</u>
Other comprehensive (loss)/income			
<i>Item that may be reclassified to profit and loss:</i>			
Currency translation differences		<u>(69,446)</u>	<u>22,044</u>
Total comprehensive (loss)/income for the period		<u>(10,994)</u>	<u>137,235</u>
Earnings per share attributable to owners of the Company (expressed in HK cents per share)			
– Basic and diluted	10	<u>7.0</u>	<u>13.9</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
	<i>Note</i>	30 June 2022	31 December 2021
		(Unaudited)	(Audited)
		<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		520,668	527,966
Right-of-use assets		58,372	101,601
Intangible assets		27,864	31,746
Financial assets at fair value through profit or loss		33,621	33,621
Investment in associates	11	28,731	16,296
Deferred income tax assets		3,784	2,978
Prepayments for property, plant and equipment		13,027	10,099
		686,067	724,307
Current assets			
Inventories	12	528,800	495,644
Trade and other receivables	13	350,930	417,060
Amount due from a related company		12,843	10,913
Deposits for bank borrowings	16(a)	169,093	174,437
Restricted cash		–	1,231
Cash and cash equivalents		884,132	1,027,568
		1,945,798	2,126,853
Total assets		2,631,865	2,851,160

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
	<i>Note</i>	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	14	83,326	83,326
Share premium	14	251,293	251,293
Shares held for employee share scheme		(14,401)	(10,416)
Other reserves		132,457	201,232
Retained earnings		<u>1,083,276</u>	<u>1,096,484</u>
Total equity		<u>1,535,951</u>	<u>1,621,919</u>
Liabilities			
Non-current liabilities			
Bank borrowings	16	107,969	144,940
Lease liabilities		18,452	23,432
Deferred income		51,660	61,316
Deferred income tax liabilities		<u>32,362</u>	<u>35,675</u>
		<u>210,443</u>	<u>265,363</u>
Current liabilities			
Trade and other payables	15	368,641	399,202
Contract liabilities		263,575	263,518
Income tax liabilities		15,818	25,894
Bank borrowings	16	194,080	194,229
Lease liabilities		<u>43,357</u>	<u>81,035</u>
		<u>885,471</u>	<u>963,878</u>
Total liabilities		<u>1,095,914</u>	<u>1,229,241</u>
Total equity and liabilities		<u>2,631,865</u>	<u>2,851,160</u>

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 28 March 2013 as an exempted company with limited liability. The address of the Company's registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company is an investment holding company. It and its subsidiaries (collectively the "**Group**") are principally engaged in the manufacturing, sales, subcontracting, fabrication and modification of molds and plastic components in the People's Republic of China (the "**PRC**"). As at 30 June 2022, the ultimate shareholders of the Group are Mr. Li Pui Leung, Mr. Yung Kin Cheung Michael and Mr. Lee Leung Yiu, each holding an effective equity interest of 29.79%, 18.53% and 17.87% in the Company, respectively.

On 20 December 2013, the Company completed public offering and shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

This interim financial information ("**Interim Financial Information**") is presented in Hong Kong dollar ("**HK\$**"), unless otherwise stated.

Interim Financial information was approved for issue on 26 August 2022.

Interim Financial Information has not been audited, but reviewed by the audit committee of the Company (the "**Audit Committee**").

2. BASIS OF PREPARATION

This Interim Financial Information for the six months ended 30 June 2022 (the "**Period**") has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants. This Interim Financial Information should be read in conjunction with the annual financial statements for the year ended 31 December 2021 ("**2021 Financial Statements**"), which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**").

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period except for the adoption of new and amended standards as set out below.

3.1 New and amended standards adopted by the Group

A number of new or amended standards including amendments to HKAS 16, amendments to HKFRS 3, amendments to HKAS 37, annual improvements and amendments to Accounting Guideline 5 (revised) became applicable for the current reporting period. The Group did not change its accounting policies or make retrospective adjustments as a result of adopting these amended standards. The Directors consider that application of these new standards, amendments and interpretation to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in this Interim Financial Information.

3.2 Impact of standards issued but not yet applied by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2022 reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

4. JUDGMENTS AND ESTIMATES

The preparation of the Interim Financial Information requires management to make judgments, 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 this Interim Financial Information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2021 Financial Statements.

5. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the executive directors of the Group. The executive directors review the Group's internal reporting in order to assess performance and allocate resources and have determined the operating segments based on the internal reports that are used to make strategic decisions. The Group's operating segments are aggregated into a reportable segment when they have similar economic characteristics associated with the production process, distribution channel and type of customers, and satisfy all conditions and meet all the aggregation criteria in HKFRS 8. Accordingly, the executive directors considered the nature of the Group's business and determined that the Group has two reportable segments: (i) mold fabrication and (ii) plastic components manufacturing.

The executive directors assess the performance of the operating segments based on their revenue and gross profit and do not assess the assets and liabilities of the operating segments.

(a) Information of the reportable segments for the Period is set out as below:

	Six months ended 30 June					
	Mold fabrication		Plastic components manufacturing		Total	
	2022	2021	2022	2021	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue						
Segment revenue	307,788	421,602	722,004	655,281	1,029,792	1,076,883
Inter-segment revenue elimination	(60,610)	(56,054)	–	–	(60,610)	(56,054)
Revenue from external customers	247,178	365,548	722,004	655,281	969,182	1,020,829
Gross profit	55,881	108,152	125,055	134,139	180,936	242,291

Refer interim condensed consolidated statement of comprehensive income for the reconciliation of gross profit to profit before income tax.

The Group's revenue is generated from contracts with customers and recognised at a point in time.

(b) The non-current assets other than financial instruments and deferred tax assets by location of the assets are shown in the following:

	30 June 2022	31 December 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
PRC	597,725	654,888
Germany	7,946	9,096
Vietnam	14,260	7,428
	619,931	671,412

6. OTHER INCOME AND OTHER GAINS – NET

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other income		
Government grants	13,330	11,581
Sales of scrap and surplus materials	8,189	13,797
Others	4,526	1,830
	<u>26,045</u>	<u>27,208</u>
Other gains – net		
Net foreign exchange gains/(losses)	9,300	(568)
Gains on disposal of property, plant and equipment	434	1,360
Rent concessions	–	9,152
Lease modification	–	1,429
	<u>9,734</u>	<u>11,373</u>

7. EXPENSES BY NATURE

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Changes in finished goods and work in progress	(30,200)	(76,622)
Raw materials and consumables used	362,652	405,956
Employee benefit expenses	312,463	292,753
Subcontracting expenses	80,436	101,253
Depreciation of property, plant and equipment and amortisation of intangible assets	74,702	76,175
Depreciation of right-of-use assets	40,334	33,442
Transportation and travelling expenses	26,506	31,856
Water and electricity expenditures	29,129	25,708
Maintenance expenses	7,890	8,220
Allowance for inventories	4,536	6,183
Other taxes and levies	5,031	5,530
Security and estate management expenses	4,976	3,550
Advisory and legal service expenses	6,127	3,154
Utilities and postage fees	3,226	2,878
(Reversal of impairment losses)/impairment losses on financial assets	(704)	2,715
Commission expenses	2,177	2,622
Operating lease payments	6,719	4,277
Advertising and promotion fees	2,653	2,603
Auditors' remuneration	2,277	1,751
Customs declaration charge	983	1,081
Other expenses	8,375	6,240
	<u>950,288</u>	<u>941,325</u>

8. FINANCE INCOME – NET

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Interest income:		
– Bank deposits	3,635	2,929
– Financial assets at fair value through profit or loss	<u>10,676</u>	<u>10,012</u>
	<u>14,311</u>	<u>12,941</u>
Interest expenses:		
– Bank borrowings	(1,500)	(1,564)
– Lease liabilities	<u>(2,088)</u>	<u>(1,978)</u>
	<u>(3,588)</u>	<u>(3,542)</u>
Finance income – net	<u>10,723</u>	<u>9,399</u>

9. INCOME TAX EXPENSE

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and is exempted from Cayman Islands income tax.

No provision for income tax in the British Virgin Islands (the “BVI”) has been made as the Group has no income assessable for income tax in BVI for the Period.

Under the current Hong Kong Inland Revenue Ordinance, from the year of assessment 2018/2019 onwards, the subsidiaries in Hong Kong are subject to profits tax at the rate of 8.25% on assessable profits up to HK\$2,000,000, and 16.5% on any part of assessable profits over HK\$2,000,000.

PRC corporate income tax (“CIT”) is provided on the assessable income of entities within the Group incorporated in the PRC, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits. The applicable CIT rate is 25%. Certain subsidiaries of the Group were recognised as “New and High Technology Enterprise” and enjoy a preferential CIT rate of 15%.

According to the CIT Law, a withholding income tax of 10% will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of profits earned after 1 January 2008. The immediate holding companies of certain PRC subsidiaries have obtained Hong Kong tax resident status, and a lower 5% withholding income tax rate is applied.

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current income tax		
– Hong Kong profits tax	1,426	18,580
– PRC corporate income tax	8,899	5,594
	<u>10,325</u>	<u>24,174</u>
Total current tax expense		
Deferred income tax		
– Hong Kong profits tax	(904)	(197)
– PRC corporate income tax	(2,067)	(9,734)
	<u>(2,971)</u>	<u>(9,931)</u>
Total deferred tax benefit		
	<u>7,354</u>	<u>14,243</u>
Income tax expense		

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the Period by the weighted average number of ordinary shares in issue for the Period, excluding shares held for employee share scheme.

	Six months ended 30 June	
	2022	2021
	Profit attributable to owners of the Company (HK\$'000)	58,452
Weighted average number of ordinary shares issued (thousands)	<u>829,557</u>	<u>830,328</u>
Basic earnings per share (HK cents)	<u>7.0</u>	<u>13.9</u>

Diluted earnings per share approximates basic earnings per share for the period ended 30 June 2022 and 2021 as the impact of dilutive potential shares is immaterial.

11. INVESTMENTS IN ASSOCIATES

As at 30 June 2022, the Group had 43.01% and 32% equity interests in Motlles i Matrius Fisas Navarro, S.L. (“**Motlles**”) and Shenzhen Sunmerry Technology Co., Ltd. (“**Shenzhen Sunmerry**”), which are private companies incorporated and operating in Spain and China, respectively. The Group acquired Shenzhen Sunmerry on 6 May 2022 from a third party. The principal activities of Motlles and Shenzhen Sunmerry are provision of mold modification services in Europe and the manufacturing and sales of e-cigarettes in China, respectively.

The carrying amount of equity-accounted investments has changed as follows:

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
At the beginning of the period	16,296	16,176
Additions	12,380	–
Share of operating profit	410	1,950
Dividends received	(355)	(407)
	<u>28,731</u>	<u>17,719</u>

The associates are private entities and no quoted prices are available.

12. INVENTORIES

	30 June	31 December
	2022	2021
	HK\$'000	HK\$'000
Raw materials		
– At cost	55,612	49,093
– At net realisable value	1,093	643
Work in progress		
– At cost	320,335	296,288
– At net realisable value	36,514	42,960
Finished goods		
– At cost	115,174	105,053
– At net realisable value	72	1,607
	<u>528,800</u>	<u>495,644</u>

The movements of allowance for write-down are analysed as follows:

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
At beginning of the period	24,054	14,444
Currency translation difference	(1,016)	211
Allowance for write-down, net	4,536	6,183
	<hr/>	<hr/>
At end of the period	27,574	20,838
	<hr/>	<hr/>

The Group reversed HK\$3,026,000 of previous inventory write-down during the current reporting period (30 June 2021: HK\$612,000), as the Group sold the relevant goods that had been written down to independent customers at prices above net realisable value. The amount reversed has been included in “cost of sales” in the consolidated statement of comprehensive income.

13. TRADE AND OTHER RECEIVABLES

	30 June	31 December
	2022	2021
	HK\$'000	HK\$'000
Trade receivables	305,627	373,807
Less: allowance for impairment	(13,360)	(14,272)
	<hr/>	<hr/>
Trade receivables, net	292,267	359,535
Prepayments and deposits	35,545	42,247
Export tax refund receivables	8,974	4,608
Advances to employees	3,690	3,675
Value-added tax recoverable	6,550	5,165
Others	3,904	1,830
	<hr/>	<hr/>
	350,930	417,060
	<hr/>	<hr/>

The credit period granted to customers is generally between 30 and 90 days. The ageing analysis of the trade receivables from the date of sales is as follows:

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Less than 3 months	274,225	344,310
More than 3 months but not exceeding 1 year	29,724	28,132
More than 1 year	<u>1,678</u>	<u>1,365</u>
	<u>305,627</u>	<u>373,807</u>

The Group's sales are made to various customers. While there is concentration of credit risk within a few major customers, these customers are reputable and with good track record of payment.

14. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares thousands	Nominal value HK\$'000	Share premium HK\$'000	Total HK\$'000
Authorised				
As at 1 January 2022, 30 June 2022, 1 January 2021 and 30 June 2021	<u>2,000,000</u>	<u>200,000</u>		
Issued and fully paid				
As at 1 January 2022, 30 June 2022, 1 January 2021 and 30 June 2021	<u>833,260</u>	<u>83,326</u>	<u>251,293</u>	<u>334,619</u>

15. TRADE AND OTHER PAYABLES

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Trade payables (a)	286,421	288,192
Wages and staff welfare benefits payable	56,897	84,813
Accrual for expenses and other payables	17,495	15,071
Contingent consideration	–	2,373
Other taxes payable	<u>7,828</u>	<u>8,753</u>
	<u>368,641</u>	<u>399,202</u>

(a) The ageing analysis of the trade payables based on the goods/services receipt date is as follows:

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Within 90 days	236,009	217,922
91 – 120 days	32,087	40,168
121 – 365 days	10,994	24,486
Over 365 days	7,331	5,616
	286,421	288,192

16. BORROWINGS

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Non-current		
Bank borrowings – unsecured	187,389	215,829
Less: current portion of non-current borrowings	(79,420)	(70,889)
	107,969	144,940
Current		
Bank borrowings – secured (a)	114,660	123,340
Current portion of non-current borrowings	79,420	70,889
	194,080	194,229
Total borrowings	302,049	339,169

(a) As at 30 June 2022, bank borrowings amounting to HK\$114,660,000 (31 December 2021: HK\$123,340,000) were secured by bank deposits of HK\$169,093,000 (31 December 2021: HK\$174,437,000).

17. DIVIDENDS

On 26 August 2022, the board of directors resolved to declare an interim dividend of HK2.8 cents per share (2021 interim: HK5.4 cents per share). This interim dividend, amounting to approximately HK\$23,331,000 (2021 interim: HK\$44,996,000), has not been recognised as a liability in this Interim Financial Information.

A final dividend in respect of the year ended 31 December 2021 of HK8.6 cents per ordinary share, amounting to a total of approximately HK\$71,660,000 was paid on 27 June 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the first half of 2022, as the global economic recovery was dragged down amid the spread of new COVID-19 variants and as a result of the international situation such as Sino-US relations, Russia-Ukraine war and the global inflation expectations, the orders from customers suffered a heavy setback, which, together with continued disruptions in normal production schedule resulting from the shortage of semiconductors, affected the performance results of the Group. In the first half of 2022, the Group's revenue was HK\$969.2 million (first half of 2021: HK\$1,020.8 million), representing a decrease of 5.1% as compared to the same period last year. In particular, revenue from mold fabrication business decreased by 32.4% due to the disruption in the automobile supply chain, while revenue from plastic components manufacturing business recorded an increase of 10.2%, which was attributable to the effective customer diversification strategy and the long-term stable relationships with customers. In terms of the downstream industries, during the Period, the segments such as mobile phones and wearable devices, medical and health care and commercial telecommunications equipment remained stable, and the smart home and electronic atomizers segments also performed well.

Revenue Analysed by Downstream Industries

Industry	Six months ended 30 June					
	2022		2021		Change	
	HK\$ million	%	HK\$ million	%	HK\$ million	%
Mobile phones and wearable devices	285.3	29.4	279.8	27.4	5.5	2.0
Medical and health care	190.8	19.7	188.7	18.5	2.1	1.1
Smart home	150.4	15.5	120.0	11.8	30.4	25.3
Automobiles	133.7	13.8	245.2	24.0	-111.5	-45.5
Commercial telecommunications equipment	89.8	9.3	79.0	7.7	10.8	13.7
Electronic atomizers	53.2	5.5	33.8	3.3	19.4	57.4
Others	66.0	6.8	74.3	7.3	-8.3	-11.2
	<u>969.2</u>	<u>100.0</u>	<u>1,020.8</u>	<u>100.0</u>	<u>-51.6</u>	<u>-5.1</u>

Over the past two years, the overall supply chain was hindered by the recurrence of the pandemic on a global scale, resulting in the unsolved shortage of semiconductors. Consequently, the major automobile manufacturers and electronic product manufacturers cut their production volume. In the first half of the 2022, Russia's official military action against Ukraine triggered global market turmoil with the surging price of energy and bulk commodity, which further pushed up the production cost and global inflation. Under the economic fluctuations and high inflation expectations, consumer electronics customers shifted to a more conservative stance with frequent adjustments to their orders and delivery. Accordingly, the Group had to adjust its normal production schedule, which in turn affected its production efficiency and gross profit margin. During the Period, the Group's gross profit decreased by 25.3% to HK\$180.9 million (first half of 2021: HK\$242.3 million), and gross profit margin decreased by 5.0 percentage points to 18.7% (first half of 2021: 23.7%) as compared with the corresponding period of last year.

During the Period, the Group recorded a profit attributable to owners of the Company of HK\$58.5 million (first half of 2021: HK\$115.2 million), decreasing by approximately 49.3% over the same period last year. Net profit margin decreased by 5.3 percentage points to 6.0% (first half of 2021: 11.3%). Basic earnings per share was HK7.0 cents (first half of 2021: HK13.9 cents), decreasing by 49.6% over the same period last year.

In the first half of 2022, the Group's inventory turnover days increased by 4 days from the corresponding period of 2021 to 123 days, and its trade receivable turnover days increased by 7 days from the corresponding period of 2021 to 63 days due to the impact of unsmooth logistics and the adjustment of customers' delivery cycle. Facing challenges such as the recurring pandemic and rising material costs, the Group strictly managed its capital and maintained its net cash at a high level of HK\$751.2 million (30 June 2021: HK\$662.3 million), representing an increase of 13.4% over the same period last year. Relying on the steady cash flows, the Group can flexibly respond to changes in the challenging market environment. As at 30 June 2022, the Group's sales orders on hand amounted to HK\$1,002.3 million, representing a decrease of 5.9% as compared with HK\$1,065.0 million as at 30 June 2021.

Business Segment Analysis

Mold Fabrication Business

For the first half of 2022, revenue of the mold fabrication business from external customers amounted to approximately HK\$247.2 million, representing a decrease of approximately 32.4% when compared to approximately HK\$365.5 million in the same period last year, and accounting for approximately 25.5% of the Group's total revenue.

The Group has production lines for ultra-large standard molds and high-precision molds. The major products of the Group's ultra-large standard molds are automobiles components. Its clients mainly include first-tier component suppliers who manufacture automobile components for renowned automobile brands in Europe, such as Mercedes-Benz, BMW and Volkswagen. High-precision molds production lines mainly produce high-precision molds with multicavity and efficiency, covering the markets of high-end consumer electronic products such as smart home, mobile phones and wearable devices, medical and health care. The Group continues to focus on expert-level molding technology research and is committed to providing customers with high quality and cost-effective design solutions. In addition to developing external customers, the Group also cooperates with the downstream plastic components manufacturing business to provide customers with premium one-stop services.

In the past two years, the pandemic recurrence and the production stoppage for the pandemic prevention and control led to frequent disruptions to the global supply chain. Coupled with the supply pressure from the Russia-Ukraine war on semiconductor raw materials and required gases such as krypton and neon, the semiconductor chip shortage crisis peaked in the second quarter of 2022 and continued to seriously impact the automobile industry. In light of factors such as the short supply in the semiconductor market and the component shortage, the production targets of automobile manufacturers had to be lowered, which in turn affected the Group's standard mold orders and increased the idle time of production equipment during the Period. Taking the above into consideration, together with the pressure from the depreciation of the Euro currency, gross profit margin for mold fabrication segment for the Period decreased by 7.0 percentage points to 22.6% as compared to the corresponding period last year. Facing the increasingly competitive market environment, the Group is striving to improve the profit margin of standard molds by reducing costs and increasing efficiency. Meanwhile, the Group has actively developed new customers and projects for high-precision molds, spared no effort to develop medical, consumer electronics and packaging industries and acquire top customers in related industries. The Group is constantly improving the precision of its high-precision molds and its premium technology and the quality has been accredited by customers in Mainland China. The Group will continue to pursue the provision of higher-quality molds and design solutions to maintain its leading position in the industry.

Plastic Components Manufacturing Business

The hindered economic growth by the developmental changes of the pandemic brought by COVID-19 variants and various levels of control measures implemented in different places, the intensified inflation and the rising commodity prices triggered by Russia-Ukraine war had led to the significant drop of the consumer confidence index since the second quarter of 2022, leading to a market expectation of further decline in consumer demand. The Group's plastic injection business is mainly involving consumer electronics. As our customers delayed or adjusted their production and shipment plans according to the latest market condition, the rapid revenue growth momentum early this year slowed down. The revenue of the plastic components manufacturing business segment was approximately HK\$722.0 million (first half of 2021: HK\$655.3 million), representing a year-on-year increase of 10.2%, accounting for approximately 74.5% of the Group's total revenue.

Revenues of the mobile phones and wearable devices, and medical and personal health care segments maintained stable, with an increase of 2.0% and 1.1% respectively over the same period last year. During the Period, the Group saw growing demand from the wireless headsets brand customer and the smartphone protective cases brand customer, partly attributable to the innovative product solutions adopting silicone. The Group has developed several new domestic and overseas customers in the medical category, efficiently offsetting the temporarily reduced orders from the personal health care brand customer owing to insufficient semiconductor supply. The Group believes that, in the long run, the medical and personal care products become the necessities and the shortage of semiconductors is temporary, and the future orders will grow steadily with the Group's efforts to continue developing the business.

Despite ongoing supply chain disruptions, sluggish economic recovery and inflation, the European and American consumers' demand for emerging smart home devices unabated. The Group focuses on serving the two leading global brands customers. During the Period, such customers have placed adequate orders for mass production for a number of products, which resulted in a 25.3% year-on-year increase in the revenue of the smart home segment. Thanks to the long-term and steady partnership with the client of commercial telecommunications equipment, the Group remained as its main supplier after its business transformation. The commercial telecommunications equipment segment recorded a year-on-year increase of 13.7% in revenue, with satisfactory sales performance of new products. In addition, the overseas e-cigarette market is booming. The Group mainly serves overseas brand customers with its technique that is recognized by customers, therefore sustaining its business development with a year-on-year increase of 57.4% in revenue in the electronic atomizers segment.

For the first half of 2022, the gross profit margin of the plastic components manufacturing business decreased to 17.3% (the first half of 2021: 20.5%), which was mainly attributable to a decline in production efficiency due to the production re-scheduling resulted from frequent order adjustments by customers, as well as the more proactive business strategies taken by the Group to increase investment in self-funded molds. The Group expects that the shortage of semiconductors will ease in the second half of the year, which will increase the stability of orders, and in turn the gross profit margin is expected to improve accordingly, thereby achieving long-term sustainable development of the plastic injection business.

FINANCIAL REVIEW

Revenue

Revenue for the first half of 2022 was approximately HK\$969.2 million, representing a decrease of approximately HK\$51.6 million or 5.1% as compared with the revenue of approximately HK\$1,020.8 million for the corresponding period in 2021. In particular, revenue from mold fabrication business decreased by 32.4% due to the disruption in automobile supply chain, while revenue from plastic components manufacturing business recorded an increase of 10.2%, which was attributable to the effective customer diversification strategy and the long-term, stable relationships with customers. In terms of the downstream industries, during the Period, the segments such as mobile phones and wearable devices, medical and personal care and commercial telecommunications equipment maintained stable growth, and the smart home and electronic atomizers segments also performed well.

Gross Profit

Gross profit for the first half of 2022 was approximately HK\$180.9 million, representing a decrease of approximately HK\$61.4 million or 25.3% as compared with the gross profit of approximately HK\$242.3 million for the corresponding period in 2021. The gross profit margin was 18.7%, representing a decrease of 5.0 percentage points from 23.7% for the corresponding period of last year. Such decrease was mainly attributable to the fact that economic fluctuations and high inflationary expectation made consumer electronics customers take conservative attitudes and frequently adjusted their orders and schedules, which forced the Group to adjust its normal production schedule accordingly, and in turn affected the production efficiency and gross profit margin of the Group.

Gross profit margin for mold fabrication segment for the first half of 2022 was 22.6%, decreasing by 7.0 percentage points from 29.6% for the corresponding period in 2021. The decrease was mainly due to the fact that the frequent blows to the global supply chain from factors such as the pandemic recurrence and the production stoppage caused by the pandemic prevention and control measures, together with the supply pressure from the Russia-Ukraine war on semiconductor raw materials and required gases such as krypton and neon, peaked the semiconductor chip shortage crisis in the second quarter of 2022 and continuously dealt a heavy blow to the automobiles industry, which reduced the Group's standard mold orders and increased the idle time of production equipment during the Period, as well as the pressure from the depreciation of the Euro currency.

Gross profit margin for plastic components manufacturing segment for the first half of 2022 was 17.3%, representing a decrease of 3.2 percentage points from 20.5% for the first half of 2021, which was mainly attributable to the lower production efficiency due to production scheduling adjustments as a result of frequent order adjustments by customers, as well as the Group's more aggressive business strategy to increase investment in self-financed molds. The Group expects that semiconductor shortage will be alleviated in the second half of the year and the stability of orders will be improved, which is expected to improve our gross profit margin and maintain a long-term, sustainable development of the injection molding business.

Other Income

Other income for the first half of 2022 was approximately HK\$26.0 million, representing a decrease of approximately HK\$1.2 million or 4.3% from approximately HK\$27.2 million for the corresponding period in 2021, which was mainly due to the decrease in sales revenue of scrap and surplus materials by the Group during the Period.

Other Gains – Net

Other gains, net for the first half of 2022 was approximately HK\$9.7 million, representing a decrease of approximately HK\$1.7 million or 14.4% from approximately HK\$11.4 million for the corresponding period in 2021, which was mainly attributable to: 1) lack of COVID-19-related rental concessions (the corresponding period last year: approximately HK\$9.2 million); 2) no lease modification gains during the Period, while lease modification gains of approximately HK\$1.4 million was recorded during the corresponding period in last year; and 3) the exchange gains of approximately HK\$9.3 million during the Period as compared to the exchange losses of approximately HK\$0.6 million for the corresponding period in last year.

Selling Expenses

Selling expenses for the first half of 2022 were approximately HK\$33.0 million (first half of 2021: HK\$39.2 million), accounting for approximately 3.4% (first half of 2021: 3.8%) of the total revenue of the Group, representing a decrease of approximately HK\$6.2 million or 15.9% as compared with the corresponding period in 2021, and a decrease of 0.4 percentage point in terms of the percentage to total revenue. The decrease was mainly attributable to the decrease in transportation expenses resulting from the decrease in shipment of mold fabrication segment as compared to the corresponding period in last year.

Administrative Expenses

Administrative expenses for the first half of 2022 were approximately HK\$129.0 million (first half of 2021: HK\$123.6 million), accounting for approximately 13.3% (first half of 2021: 12.1%) of the total revenue of the Group, representing an increase of approximately HK\$5.4 million or 4.4% as compared with the corresponding period in 2021, and an increase of 1.2 percentage points in terms of the percentage to total revenue. The increase in administrative expenses was mainly attributable to the increase in employee expenses resulting from the annual salary adjustment and the increase in standard wages in Shenzhen.

Finance Income – Net

Net finance income for the first half of 2022 was approximately HK\$10.7 million, representing an increase of approximately HK\$1.3 million or 14.1% from that of approximately HK\$9.4 million for the corresponding period in 2021, which was mainly due to the increase in interest income.

Share of Profit of Associates

For the first half of 2022, share of profit of associates was approximately HK\$0.4 million, representing a decrease of approximately HK\$1.6 million or 79.0% from approximately HK\$2.0 million for the corresponding period in 2021.

Income Tax Expense

Income tax expense for the first half of 2022 was approximately HK\$7.4 million (first half of 2021: HK\$14.2 million) and the effective tax rate was 11.2% (first half of 2021: 11.0%).

Profit for the Period Attributable to Owners of the Company

Profit attributable to owners of the Company for the first half of 2022 was approximately HK\$58.5 million, representing a decrease of approximately HK\$56.7 million or 49.3% from approximately HK\$115.2 million for the corresponding period in 2021.

SEASONALITY

The Group's sales volume has historically been affected by seasonality. As the Group's products are used by the Group's customers in their respective manufacturing processes, the demand for the Group's products fluctuates as the demand for their products varies. A significant portion of the Group's products under its downstream business segments has generally been in higher demand in the second half of each calendar year, which is primarily due to the seasonal purchase patterns of consumers during festivals such as the Thanksgiving Day and Christmas holidays. As a result, it is expected that the revenue of the Group will be higher in the second half of the year than in the first half of the year. During the financial year ended 31 December 2021, 42% of revenue was accumulated in the first half of the year, with 58% of revenue accumulating in the second half of the year.

LIQUIDITY, FINANCIAL RESOURCES AND RATIOS

As at 30 June 2022, the Group had net current assets of approximately HK\$1,060.3 million (31 December 2021: HK\$1,163.0 million). The Group had total cash and bank balances of approximately HK\$1,053.2 million (31 December 2021: HK\$1,203.2 million), including cash and cash equivalents of approximately HK\$884.1 million (31 December 2021: HK\$1,027.6 million), and deposits for bank borrowings and restricted cash of approximately HK\$169.1 million (31 December 2021: HK\$175.6 million). The current ratio of the Group as at 30 June 2022 was approximately 219.7% (31 December 2021: 220.7%).

Total equity of the Group as at 30 June 2022 was approximately HK\$1,536.0 million (31 December 2021: HK\$1,621.9 million). The gearing ratio as at 30 June 2022 was approximately 19.7% (31 December 2021: 20.9%).

DEBT MATURITY PROFILE

The maturity profile of the Group's borrowings is set out below:

	30 June 2022	31 December 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	194,080	194,229
Between 1 and 2 years	82,969	85,889
Between 2 and 5 years	25,000	59,051
	302,049	339,169

An analysis of the Group's key liquidity ratios as at 30 June 2022 is as follows:

	Six months ended 30 June	
	2022	2021
Inventory turnover days (<i>Note 1</i>)	123	119
Trade receivable turnover days (<i>Note 2</i>)	63	56
Trade payable turnover days (<i>Note 3</i>)	66	76
	30 June 2022	31 December 2021
Current ratio (<i>Note 4</i>)	219.7%	220.7%

Notes:

1. Inventory turnover days are calculated based on the average balance of inventories divided by the cost of sales for the relevant period multiplied by 180 days.
2. Trade receivable turnover days are calculated based on the average trade receivables divided by the revenue for the relevant period multiplied by 180 days.
3. Trade payable turnover days are calculated based on the average trade payables divided by cost of sales for the relevant period multiplied by 180 days.
4. Current ratio is calculated by dividing current assets by current liabilities and multiplying the resulting value by 100%.

INVENTORY TURNOVER DAYS

During the Period, the Group's inventory turnover days were 123 days, representing an increase of 4 days compared to that of the same period of 2021, which was primarily attributable to the impact of disruptions in logistics and the adjustment to lead time by customers.

TRADE RECEIVABLE TURNOVER DAYS

During the Period, the Group's trade receivable turnover days were 63 days, representing an increase of 7 days compared to that of the same period in last year, which was mainly attributable to the increased sales to domestic customers of the Group with credit period ranging from 60 to 90 days. Such trade receivables are still within the normal credit period.

TRADE PAYABLE TURNOVER DAYS

During the Period, the Group's trade payable turnover days were 66 days, representing a decrease of 10 days when compared with that of 2021, which was mainly attributable to the fact that the recovery of global economy was slowed down and the orders from customers were seriously affected due to the variants of COVID-19, the international situation including Sino-US relationship and Russia-Ukraine war as well as the expected global inflation, resulting in a decrease in the Group's procurement and thus a decrease in the balance of trade payables during the Period.

CURRENT RATIO

As at 30 June 2022, the Group's current ratio was 219.7%, which was approximate to that of 220.7% as at 31 December 2021.

ASSETS PLEDGED

Details of the assets pledged as at 30 June 2022 are set out in note 16(a) to the Interim Financial Information.

FOREIGN EXCHANGE RISK MANAGEMENT

The Group mainly operated in the PRC and was exposed to foreign currency risks arising from various currency exposures, mainly with respect to US dollar, Euro and HK dollar. Exchange rate fluctuations and market trends have always been a main concern of the Group. Foreign currency hedging of the Group has been managed by the Group's financial controller, and overseen by the Group's chief executive officer. In accordance with the Group's hedging needs and the then foreign exchange situation, the Group's financial controller would collect and analyze information regarding various hedging instruments and determine hedging ratio, and the Group's chief executive officer would then evaluate and make a decision as to whether to enter into the relevant hedging agreement. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The Group's cash and bank balances were primarily denominated in RMB, US dollar, Euro and HK dollar. Its operating cash inflows and outflows were primarily denominated in RMB, US dollar, Euro and HK dollar. The Group is closely monitoring the exchange rate movements and regularly reviewing its gearing structure so as to mitigate the expected exchange rate risk.

RMB EXCHANGE RATE RISK

The Group's major revenue is principally denominated in US dollar, Euro, HK dollar and RMB, and the Group's major expenses are principally denominated in RMB. The Group has not entered into any agreement for RMB hedging purpose.

CAPITAL STRUCTURE

There was no change in the capital structure of the Company during the Period, and the Company's capital included ordinary shares and other reserves.

PLANS FOR MATERIAL CAPITAL INVESTMENTS

The Group will invest in capacity expansion and investment projects to capitalize the potential growth of the Group's business in the coming years in the manner set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company. Future funding source is mainly from internal resources.

STAFF POLICY

As at 30 June 2022, the Group had 3,688 full-time employees (31 December 2021: 3,641) and 606 workers dispatched to us from third party staffing companies (31 December 2021: 543).

The Group's remuneration policy aims to offer competitive remuneration packages to recruit, retain and motivate competent directors and employees. The Group believes the remuneration packages are reasonable and competitive and in line with market trends. The Group has put in place a share option scheme and a share award scheme for its directors and employees in a bid to provide a competitive remuneration packages for the Group's long term growth and development. The Group also provides appropriate training and development programmes to its employees to enhance the staff's work ability and personal performance.

The Group has implemented training programmes for the employees to meet different job requirements. The Group believes that these initiatives have contributed to increasing employee productivity.

As required by PRC regulations, the Group makes contributions to mandatory social security funds for the benefits of its PRC employees which provide pension insurance, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and housing funds.

MATERIAL ACQUISITIONS AND DISPOSALS

During the six months ended 30 June 2022, the Group has made no material acquisitions or disposals of subsidiaries.

CONTINGENT LIABILITIES

As at 30 June 2022, the Group did not have any significant contingent liabilities.

PROSPECTS

Global inflation is expected to persist at high levels, putting pressure on economic growth in the second half of 2022. In view of various uncertainties such as the progression of the Russia-Ukraine war, the effectiveness of inflation controls and monetary policy adjustments in Europe and the United States, fluctuations in international raw material prices and the volatility of financial markets, the Group remains cautious about its business development. However, the Group anticipates that the overall business environment in the second half of the year will be less volatile than the first, which will support normal growth. For the injection business, the Group is optimistic about its first five-year plan to double the sales through consistent resources input. For the mold business segment, the Group will vigorously develop the precision mold business, the Group is capable of fabricating MT1 molds of the highest precision as defined in the National Standard GB/T14486-2008 – Dimensional Tolerances for Moulded Plastic Parts of the People’s Republic of China, and the Group will continue to allocate resources to upgrade its technology based on the current precision standard in order to pursue excellence and foster business growth. Currently, the quality of the Group’s precision molds has been well received by customers in mainland China. This has set the stage for its future penetration in the domestic market.

Despite that the Group’s plan to expand its production base was temporarily delayed by the pandemic, the Group has schemed to start the second phase of the plastic injection production base set up in Vietnam to expand its capacity in the second half of 2022 following the first phase of production commencement in November 2021. Currently, the Vietnam site mainly serves consumer electronics brand customers with a focus on the production of mobile phones and wearable devices. It is expected that the Vietnam site will enable the Group to tap into new customers from Southeast Asia, Europe and the United States with the further enhancement of its production capacity. Since the acquisition of Techco Silicone & Technology Co., Ltd. (“**Techco Silicone**”) last year, the Group has been developing new products that integrating silicone and traditional plastic injection technologies, to provide customers with more diversified product designs and expand its current product portfolio. In view of the growing demand for silicone products from customers, the Group has further integrated its production lines in the newly leased factory in Huizhou in 2022, to enhance its production capacity and efficiency. With its excellent performances such as biocompatibility, chemical resistance, high temperature resistance, durability, elasticity and transparency, liquid silicone can meet a wide range of demanding applications with huge market potential. The newly developed production technology of the Group has effectively strengthened its position as the world’s leading one-stop supplier of integrated injection solutions.

China's economic revitalization measures and the inner circulation policy provide vast opportunities for the development of domestic demand. The Group's domestic expansion strategy is in line with the direction of China development, especially in the medical and packaging industries. In the past few years, we have been focusing on nurturing emerging industry enterprises with development potential and grow together with our customers. In addition, the management is proactive in acquisition plans and has been looking for suitable targets with development potential. During the downward economic cycle, more quality opportunities emerge along the industry chain, and thus, the Group would also seize opportunities to participate in the development of new fields, on top of considering mergers and acquisitions of peers, and keep pace with the times to maintain its long-term competitive advantage.

The future development prospects of the Metaverse are promising. According to the investigation report issued by U.S. Bloomberg Intelligence, the global market size of the Metaverse will reach US\$800 billion by 2024. Given that the Metaverse can be applied to electronic games and other pan-entertainment products, the Group has approached a number of giants in the industry to develop new products related to the Metaverse. With its one-stop production technologies that combines silicone and traditional plastic injection as well as its extensive experience in developing innovative personal consumer electronics with a number of leading enterprises in Silicon Valley, the Group is well positioned in the development of high-tech product casings.

Faced with the challenges in macroeconomic environment, the Group will continue to forge ahead by implementing various cost control measures, promoting process optimization and automation, enhancing its organizational agility, as well as improving operational efficiency. At the same time, leveraging on its own strengths, the Group will actively extend its value chain, improve its comprehensive competitiveness and develop more customers so as to maintain the competitive advantage of diversified customers, thus laying the foundation for a stable long-term business development and striving to maximize the interests of customers and shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed listed securities of the Company during the Period.

EVENTS AFTER THE PERIOD

No major subsequent events affecting the Group have occurred since the end of the Period and up to the date of this announcement.

CORPORATE GOVERNANCE

The Company believes that good corporate governance is important for maintaining and promoting investor confidence and for the sustainable growth of the Group. The directors of the Company are of the view that the Company has complied with all the code provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange during the Period.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors of the Company, namely, Mr. Tsang Wah Kwong (Chairman), Dr. Chung Chi Ping Roy and Ms. Christine Wan Chong Leung.

The Audit Committee has reviewed with management the accounting policies and practices adopted by the Group and discussed, among other things, risk management, internal controls and financial reporting matters including a review of the unaudited interim financial information for the Period.

DIVIDEND

On Friday, 26 August 2022, the Board resolved to declare an interim dividend of HK2.8 cents per share for the Period, amounting to a total of approximately HK\$23,331,000. The interim dividend is expected to be paid on Wednesday, 28 September 2022 to all shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 15 September 2022.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to the aforesaid interim dividend, the register of members of the Company will be closed from Tuesday, 13 September 2022 to Thursday, 15 September 2022, both dates inclusive, during which period no transfer of shares will be registered. In order to be qualified for the interim dividend, unregistered holders of shares of the Company should ensure that all share transfer documents, accompanied by the relevant share certificates, are lodged with the branch share registrar of the Company, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Friday, 9 September 2022.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.tkmold.com.

The interim report will be dispatched to the shareholders of the Company and published on the above websites in due course.

On behalf of the Board
TK Group (Holdings) Limited
Li Pui Leung
Chairman

Hong Kong, 26 August 2022

As at the date of this announcement, the executive directors of the Company are Mr. Li Pui Leung, Mr. Yung Kin Cheung Michael, Mr. Lee Leung Yiu and Mr. Cheung Fong Wa; and the independent non-executive directors of the Company are Dr. Chung Chi Ping Roy, Ms. Christine Wan Chong Leung and Mr. Tsang Wah Kwong.