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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 2023

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 2023, together with the comparative figures for the corresponding period in 2022.

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2023	2022
Results and financial performances		
Results		
Revenue (HK$'000)	**855,914**	969,182
Profit for the period (HK$'000)	**54,699**	58,452
Basic earnings per share (HK cents)	**6.6**	7.0
Proposed interim dividend per share (HK cents)	**2.8**	2.8
Gross profit margin	**23.3%**	18.7%
Net profit margin	**6.4%**	6.0%
Return on equity *(Note 1)*	**3.6%**	3.8%
Return on assets *(Note 2)*	**2.2%**	2.2%
Inventory turnover days *(Note 3)*	**116**	123
Trade receivable turnover days *(Note 4)*	**61**	63
Trade payable turnover days *(Note 5)*	**70**	66

	30 June 2023	31 December 2022
Financial position		
Net current assets (HK$'000)	**1,050,694**	1,090,873
Current ratio *(Note 6)*	**231.3%**	219.1%
Quick ratio *(Note 7)*	**178.8%**	176.3%
Gearing ratio *(Note 8)*	**11.3%**	21.6%
Net gearing ratio *(Note 9)*	**N/A**	N/A

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 not applicable as net cash of the Company as at 30 June 2023 and 31 December 2022 was HK$935,650,000 and HK$924,579,000 respectively.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
	Note	**2023**	2022
		(Unaudited)	(Unaudited)
		HK$'000	*HK$'000*
Revenue	*5*	**855,914**	969,182
Cost of sales		**(656,186)**	(788,246)
Gross profit		**199,728**	180,936
Other income	*6*	**13,343**	26,045
Other (losses)/gains – net	*6*	**(1,684)**	9,734
Selling expenses		**(28,130)**	(32,995)
Administrative expenses		**(123,312)**	(129,047)
Operating profit		**59,945**	54,673
Interest income	*7*	**11,718**	14,311
Interest expenses	*7*	**(7,904)**	(3,588)
Finance income – net		**3,814**	10,723
Share of results of associates	*10*	**(631)**	410
Profit before income tax		**63,128**	65,806
Income tax expense	*8*	**(8,429)**	(7,354)
Profit for the period		**54,699**	58,452
Other comprehensive loss			
Item that may be reclassified to profit and loss:			
Currency translation differences		**(60,426)**	(69,446)
Total comprehensive loss for the period		**(5,727)**	(10,994)
Earnings per share attributable to owners of the Company			
(expressed in HK cents per share)			
– Basic and diluted	*9*	**6.6**	7.0

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**As at 30 June 2023 (Unaudited)** *HK$'000*	As at 31 December 2022 (Audited) *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**453,902**	485,972
Right-of-use assets		**71,981**	112,316
Intangible assets		**16,182**	19,483
Financial assets at fair value through profit or loss		**33,621**	33,621
Investments in associates	*10*	**16,565**	25,368
Deferred income tax assets		**2,605**	1,643
Prepayments for property, plant and equipment		**7,391**	12,437
		602,247	690,840
Current assets			
Inventories	*11*	**419,934**	391,862
Trade and other receivables	*12*	**321,894**	343,227
Deposits for bank borrowings		**–**	157,138
Cash and cash equivalents		**1,108,841**	1,114,456
		1,850,669	2,006,683
Total assets		**2,452,916**	2,697,523

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2023 (Unaudited) HK$'000	As at 31 December 2022 (Audited) HK$'000
Equity			
Share capital	*13*	**83,326**	83,326
Share premium	*13*	**251,293**	251,293
Shares held for employee share scheme		**(17,679)**	(14,401)
Other reserves		**10,508**	69,506
Retained earnings		**1,198,910**	1,215,871
Total equity		**1,526,358**	1,605,595
Liabilities			
Non-current liabilities			
Bank borrowings	*15*	**25,000**	60,543
Lease liabilities		**33,579**	40,841
Deferred income		**41,343**	43,412
Deferred income tax liabilities		**26,661**	31,322
		126,583	176,118
Current liabilities			
Trade and other payables	*14*	**342,548**	348,601
Contract liabilities		**261,358**	200,955
Income tax liabilities		**4,670**	4,405
Bank borrowings	*15*	**148,191**	286,472
Lease liabilities		**43,208**	75,377
		799,975	915,810
Total liabilities		**926,558**	1,091,928
Total equity and liabilities		**2,452,916**	2,697,523

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. The Company 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 2023, 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 30.01%, 18.67% and 18.01% 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 25 August 2023.

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 2023 (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 2022 ("**2022 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 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 the 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 2022 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 determine 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**	
	2023	2022	**2023**	2022	**2023**	2022
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue						
Segment revenue	**291,250**	307,788	**592,661**	722,004	**883,911**	1,029,792
Inter-segment revenue elimination	**(27,997)**	(60,610)	**–**	–	**(27,997)**	(60,610)
Revenue from external customers	**263,253**	247,178	**592,661**	722,004	**855,914**	969,182
Segment results	**76,883**	55,881	**122,845**	125,055	**199,728**	180,936

Please refer to the interim condensed consolidated statement of comprehensive income for the reconciliation of gross profit (the aggregate segment results) to profit before income tax.

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

6. OTHER INCOME AND OTHER (LOSSES)/GAINS – NET

	Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
Other income		
Government grants	**8,084**	13,330
Sales of scrap and surplus materials	**3,638**	8,189
Others	**1,621**	4,526
	13,343	26,045
Other (losses)/gains – net		
Impairment loss related to an associate	**(8,032)**	–
Net foreign exchange gains	**4,340**	9,300
Gains on disposal of property, plant and equipment	**2,256**	434
Others	**(248)**	–
	(1,684)	9,734

7. FINANCE INCOME – NET

	Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
Interest income:		
– Bank deposits	**10,959**	3,635
– Financial assets at fair value through profit or loss	**714**	10,676
– Loan to an associate	**45**	–
Finance income	**11,718**	14,311
Interest expenses:		
– Bank borrowings	**(5,498)**	(1,500)
– Lease liabilities	**(2,406)**	(2,088)
Finance cost	**(7,904)**	(3,588)
Finance income – net	**3,814**	10,723

8. 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	
	2023	2022
	HK$'000	*HK$'000*
Current income tax		
– Hong Kong profits tax	**3,339**	1,426
– PRC corporate income tax	**10,038**	8,899
Total current tax expense	**13,377**	10,325
Deferred income tax		
– Hong Kong profits tax	**659**	(904)
– PRC corporate income tax	**(5,607)**	(2,067)
Total deferred tax benefit	**(4,948)**	(2,971)
Income tax expense	**8,429**	7,354

9. 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	
	2023	2022
Profit for the period (HK$'000)	**54,699**	58,452
Weighted average number of ordinary shares issued (thousands)	**827,964**	829,557
Basic earnings per share (HK cents)	**6.6**	7.0

Diluted earnings per share approximates basic earnings per share for the period ended 30 June 2023 and 2022 as the impact of dilutive potential shares is immaterial.

10. INVESTMENTS IN ASSOCIATES

As at 30 June 2023, 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**"), respectively. 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	
	2023	2022
	HK$'000	*HK$'000*
At the beginning of the period	**25,368**	16,296
Additions	**–**	12,380
Share of results of associates	**(631)**	410
Dividends received	**–**	(355)
Impairment loss (a)	**(8,032)**	–
Currency translation differences	**(140)**	–
At the end of the period	**16,565**	28,731

(a) Management regularly reviews whether there are any indications of impairment of the Group's investments in associated companies based on value in use calculations or fair value less cost of disposal approach. In determining the value in use, management assesses the present value of estimated future cash flows expected to arise from their businesses. Shenzhen Sunmerry is not able to obtain the licence of e-Cigarettes in China and it is not certain that Shenzhen Sunmerry may continue to operate its business. Management is of the view that impairment of the Group's investments in Shenzhen Sunmerry of HK$8,032,000 is required and the impairment was recognized in "other (losses)/gains – net" of the interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2023.

(b) The associates are private entities with limited liability and no quoted prices are available.

11. INVENTORIES

	30 June 2023 *HK$'000*	31 December 2022 *HK$'000*
Raw materials		
– At cost	**43,902**	45,957
– At net realisable value	**683**	320
Work in progress		
– At cost	**302,638**	271,608
– At net realisable value	**12,935**	12,367
Finished goods		
– At cost	**59,638**	61,497
– At net realisable value	**138**	113
	419,934	391,862

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

	Six months ended 30 June	
	2023 *HK$'000*	2022 *HK$'000*
At the beginning of the period	**19,154**	24,054
Currency translation difference	**(882)**	(1,016)
Allowance for write-down, net	**15**	4,536
At the end of the period	**18,287**	27,574

12. TRADE AND OTHER RECEIVABLES

	30 June 2023 *HK$'000*	31 December 2022 *HK$'000*
Trade receivables	**281,113**	297,701
Less: allowance for impairment	**(5,100)**	(9,668)
Trade receivables, net	**276,013**	288,033
Prepayments and deposits	**23,617**	36,643
Export tax refund receivables	**5,492**	2,369
Advances to employees	**3,060**	3,200
Value-added tax recoverable	**11,233**	9,822
Loan to an associate	**–**	2,297
Others	**2,479**	863
	321,894	343,227

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 2023 *HK$'000*	31 December 2022 *HK$'000*
Less than 3 months	**261,334**	281,734
More than 3 months but not exceeding 1 year	**19,133**	15,539
More than 1 year	**646**	428
	281,113	297,701

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.

13. 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 2023, 30 June 2023, 1 January 2022 and 30 June 2022	2,000,000	200,000		
Issued and fully paid				
As at 1 January 2023, 30 June 2023, 1 January 2022 and 30 June 2022	833,260	83,326	251,293	334,619

14. TRADE AND OTHER PAYABLES

	30 June 2023 *HK$'000*	31 December 2022 *HK$'000*
Trade payables (a)	**259,809**	250,007
Wages and staff welfare benefits payable	**57,019**	73,223
Accrual for expenses and other payables	**12,675**	15,620
Other taxes payable	**13,045**	9,751
	342,548	348,601

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

	30 June 2023	31 December 2022
	HK$'000	*HK$'000*
Within 90 days	**202,295**	194,821
91 – 120 days	**38,966**	34,080
121 – 365 days	**10,668**	16,200
Over 365 days	**7,880**	4,906
	259,809	250,007

15. BORROWINGS

	30 June 2023	31 December 2022
	HK$'000	*HK$'000*
Non-current		
Bank borrowings – unsecured	**108,113**	149,327
Less: current portion of non-current borrowings	**(83,113)**	(88,784)
	25,000	60,543
Current		
Bank borrowings – secured (a)	**–**	116,060
Bank borrowings – unsecured	**65,078**	81,628
Current portion of non-current borrowings	**83,113**	88,784
	148,191	286,472
Total borrowings	**173,191**	347,015

(a) As at 30 June 2023, there were no bank borrowings secured by bank deposits. As at 31 December 2022, bank borrowings of HK$116,060,000 were secured by bank deposits of HK$157,138,000.

16. DIVIDENDS

On 25 August 2023, the board of directors resolved to declare an interim dividend of HK2.8 cents per share (2022 interim: HK2.8 cents per share). This interim dividend, amounting to HK$23,331,280 (2022 interim: HK$23,331,280), has not been recognised as a liability in this Interim Financial Information.

A final dividend in respect of the year ended 31 December 2022 of HK8.6 cents per ordinary share, amounting to a total of HK$71,660,360 was paid on 23 June 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2023, the U.S. and Europe saw a significantly softer economic growth. Amid the continuation of the Russo-Ukrainian war, global energy and food crisis and other threats have not yet been completely resolved. Despite the fact that inflation fell from a peak in the fourth quarter of last year, it still remained at a high level, thus Americans and Europeans reduced discretionary consumption accordingly. Meanwhile, major western economies continued to implement economic austerity measures, such as by raising interest rates. In the U.S., many technology giants carried out large-scale layoffs, and a series of bank failures also occurred. These seriously hit consumer market sentiment and affected customer orders for consumer electronic products in the U.S. and Europe, and consequently dragged down the results performance of the Group. On the other hand, China has fully resumed to normalcy following the end of strict pandemic control in early 2023. The government is introducing aggressive policies to foster consumption, investment and economic growth, thereby creating a more favorable business environment for businesses. In the first half of 2023, the Group's revenue amounted to HK$855.9 million (first half of 2022: HK$969.2 million), representing a year-on-year decrease of 11.7%. In particular, the plastic components manufacturing business fell by 17.9% due to low overseas consumption sentiment, while the mold fabrication business recorded a 6.5% growth due to the resolution of supply chain issues.

Revenue Analyzed by Downstream Industries

	Six months ended 30 June				**Change**	
Industry	**2023**		2022			
	HK$ million	*%*	*HK$ million*	*%*	*HK$ million*	*%*
Mobile phones and wearable devices	**215.7**	**25.2**	285.3	29.4	–69.6	–24.4
Medical and personal health care	**155.7**	**18.2**	190.8	19.7	–35.1	–18.4
Automobiles	**162.2**	**19.0**	133.7	13.8	28.5	21.3
Electronic atomizers	**102.8**	**12.0**	53.2	5.5	49.6	93.2
Smart home	**92.4**	**10.8**	150.4	15.5	–58.0	–38.6
Commercial telecommunications equipment	**62.4**	**7.3**	89.8	9.3	–27.4	–30.5
Others	**64.7**	**7.5**	66.0	6.8	–1.3	–2.0
	855.9	**100.0**	969.2	100.0	–113.3	–11.7

In the past two years, as fluctuations in the macro environment were uncontrollable, the Group focused more on enhancing its own capabilities and strengths, implementing measures to reduce costs and enhance efficiency, and comprehensively optimizing and improving the production process, thereby increasing production efficiency and management effectiveness. During the Period, the Group's gross profit increased by 10.4% to HK$199.7 million (first half of 2022: HK$180.9 million), and gross profit margin increased by 4.6 percentage points to 23.3% (first half of 2022: 18.7%), showing the initial results of the cost reduction and efficiency enhancement measures. As the Group has been continuously improving the layout of its production bases in China and overseas, including the production base in Vietnam and the one for silicone products in Huizhou, which involved additional expenses and affected the profitability of the Group. During the Period, the Group recorded a profit for the period of approximately HK$54.7 million (first half of 2022: HK$58.5 million), representing a year-on-year decrease of 6.4%. Net profit margin increased by 0.4 percentage points to 6.4% (first half of 2022: 6.0%). Basic earnings per share was HK$6.6 cents (first half of 2022: HK$7.0 cents), representing a year-on-year decrease of 5.7%.

As countries gradually lifted lockdown measures, logistics and transportation have generally returned to normalcy. In the first half of 2023, the Group's inventory turnover days decreased by 7 days to 116 days, and trade receivable turnover days decreased by 2 days to 61 days. Facing uncertainties such as macroeconomic uncertainties and geopolitical conflicts, the Group adopted more prudent measures in terms of capital management, and maintained its net cash at a high level HK$935.7 million (30 June 2022: HK$751.2 million), representing a year-on-year increase of 24.6%. Leveraging its strong cash flows, the Group was able to flexibly respond to the challenging economic environment. As at 30 June 2023, the Group's sales orders on hand amounted to HK$858.1 million, representing a decrease of 14.4% as compared to HK$1,002.3 million as at 30 June 2022. Along with the gradual easing of the inflation crisis in the U.S. and Europe, through maintaining close relationships with customers and adopting effective diversified strategies, the Group's sales orders in the second quarter improved significantly as compared to the first quarter, and the sales orders in the second half of the year are expected to grow steadily.

Business Segment Analysis

Mold Fabrication Business

In the first half of 2023, revenue of the mold fabrication business from external customers amounted to approximately HK$263.2 million, representing an increase of approximately 6.5% as compared to approximately HK$247.2 million in the same period of last year, and accounting for approximately 30.8% 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 automobile components. Its clients mainly include first-tier component suppliers who manufacture automobile components for automobile brands in Europe, such as Mercedes-Benz, BMW and Volkswagen. The high-precision molds production lines mainly produce high-precision molds with multi-cavity and efficiency, covering the industries of smart home, high-end consumer electronic products such as mobile phones and wearable devices, medical and personal 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.

From 2020 to 2022, due to the restrictions on pandemic control in various countries, there was a global shortage of semiconductors and components, which resulted in a sharp drop in automobile production volume and had a severe impact on the automobile mold industry. Along with the easing of shortage of semiconductors and other key components, the automobile industry has been gradually recovering in 2023. According to data from the European Automobile Manufacturers' Association, in June 2023, the number of new car registrations in Europe increased by 19% year-on-year, achieving growth for 11 consecutive months. As a result, the Group's mold orders also gradually recovered, and this segment recorded a growth in revenue. Moreover, as a result of the completion of a series of cost reduction and efficiency enhancement measures in the past two years, the Group's mold business achieved significant boost in efficiency. During the Period, the gross profit margin of this segment increased by 6.6 percentage points to 29.2% (first half of 2022: 22.6%).

In response to the increasingly competitive market environment, the Group has focused on the development of high-precision molds with multi-cavity and efficiency which have stringent quality requirements, endeavored to improve the precision of its products, and is committed to exploring new customers and new projects on high-precision molds and securing top-notch customers in the medical, consumer electronics, packaging and other industries. Meanwhile, in line with the internal circular economy policies, the Group is committed to securing domestic brand customers with international stronghold. The Group's product quality and technology are well received and recognized by the domestic market. The Group will continue to offer higher-quality molds and design solutions to help customers improve production efficiency and ensure product quality, so as to maintain its leading position in the industry.

Plastic Components Manufacturing Business

In the first half of 2023, revenue of the plastic components manufacturing business segment amounted to approximately HK$592.7 million (first half of 2022: HK$722.0 million), representing a year-on-year decrease of 17.9%, and accounting for approximately 69.2% of the Group's total revenue.

The Group's plastic injection molding business serves various leading consumer electronics brands. Due to the combined effect of high inflation and low consumer confidence in the U.S. and Europe and other various factors, consumer sentiment for non-essential goods remained weak during the Period. In addition, as smart products and consumer electronics were over-expanded during the pandemic, the demand for such products shrank significantly during the Period. In the absence of a sign of strong economic recovery, brand customers were relatively cautious about placing orders, thus delaying or adjusting their production and shipment plans. The mobile phones and wearable devices segment and the smart home segment fell by 24.4% and 38.6% year-on-year, respectively. For the commercial telecommunications equipment segment, during the Period, due to the large-scale product recalls by brand customers which affected the overall product sales, the revenue dropped by 30.5% year-on-year. Faced with various difficulties and challenges in the overseas markets, the Group has stepped up its efforts in securing domestic customers, especially focusing on leading medical innovative technology enterprises, and offered customers with innovative product solutions with new products that integrate silicone, so as to ensure stable business development.

The medical and personal health care segment fell by 18.4% year-on-year, primarily attributable to the reduction of product orders from personal health care brand customers due to the poor consumer sentiment in the U.S. and Europe. However, the Group has successfully secured a number of domestic medical customers by utilizing high-precision mold technology with multi-cavity, the business of which covers in vitro diagnostics, blood glucose monitoring, hemodialysis and other laboratory consumables, which have been mass-produced successively, resulting in an increase in revenue from medical customers during the Period. In the long term, medical products have a rigid demand and are less susceptible to economic cycles. The Group will continue to secure customers in such industry and seize the opportunities arising from the development of the medical and health industry in China. In addition, as the trend of replacing traditional cigarettes with e-cigarettes continued, the demand for e-cigarettes in the overseas markets continued to increase. The Group's electronic atomizer product craftsmanship and technology have been highly commended and recognized by overseas brand customers, and the revenue of this segment during the Period increased by 93.2% year-on-year.

In the first half of 2023, as the Group's efforts in continuously reducing costs and enhancing efficiency achieved gradual results, coupled with the drop in raw material prices, the gross profit margin of the plastic components manufacturing business increased by 3.4 percentage points to 20.7% (first half of 2022: 17.3%). The Group expects that consumer sentiment will pick up more significantly in the second half of the year; the increase in order demand and new projects will drive the increase in the utilization rate of production capacity; and the gross profit margin will further improve.

FINANCIAL REVIEW

Revenue

Revenue for the first half of 2023 was approximately HK$855.9 million, representing a decrease of approximately HK$113.3 million or 11.7% as compared with the revenue of approximately HK$969.2 million for the corresponding period in 2022. In particular, revenue from plastic components manufacturing business decreased by 17.9% due to low overseas consumption sentiment, while revenue from mold fabrication business recorded an increase of 6.5% due to the resolution of supply chain issues.

Gross Profit

Gross profit for the first half of 2023 was approximately HK$199.7 million, representing an increase of approximately HK$18.8 million or 10.4% as compared with the gross profit of approximately HK$180.9 million for the corresponding period in 2022. The gross profit margin was 23.3%, representing an increase of 4.6 percentage points from 18.7% for the corresponding period of last year. Such increase was mainly attributable to the fact that the Group focused more on enhancing its own capabilities and strengths, implementing measures to reduce costs and enhance efficiency, and comprehensively optimizing and improving the production process, thereby increasing production efficiency and management effectiveness.

Gross profit margin for mold fabrication segment for the first half of 2023 was 29.2%, increasing by 6.6 percentage points from 22.6% for the corresponding period in 2022. The increase was mainly due to the fact that the Group completed a series of cost reduction and efficiency enhancement measures in the past two years and achieved significant boost in efficiency for its mold business.

Gross profit margin for plastic components manufacturing segment for the first half of 2023 was 20.7%, representing an increase of 3.4 percentage points from 17.3% for the first half of 2022, which was mainly attributable to the fact that the Group's efforts in continuously reducing costs and enhancing efficiency achieved gradual results, coupled with the drop in raw material prices, thus resulting in the increase in the gross profit margin of the plastic components manufacturing business.

Other Income

Other income for the first half of 2023 was approximately HK$13.3 million, representing a decrease of approximately HK$12.7 million or 48.8% from approximately HK$26.0 million for the corresponding period in 2022. The lesser amount was mainly due to the decrease in sales of scrap and surplus materials by the Group and the decrease in government grants income during the Period.

Other (Losses)/Gains – Net

Other losses, net for the first half of 2023 was approximately HK$1.7 million, and other gains, net for the corresponding period in 2022 was approximately HK$9.7 million, which was mainly attributable to the recognition of impairment loss related to an associate of approximately HK$8.0 million during the Period and the decrease in net exchange gains of approximately HK$5.0 million as compared with the corresponding period in last year.

Selling Expenses

Selling expenses for the first half of 2023 were approximately HK$28.1 million (first half of 2022: HK$33.0 million), accounting for 3.3% (first half of 2022: 3.4%) of the total revenue, representing a decrease of approximately HK$4.9 million or 14.7% as compared with the corresponding period in 2022.

Administrative Expenses

Administrative expenses for the first half of 2023 were approximately HK$123.3 million (first half of 2022: HK$129.0 million), accounting for 14.4% (first half of 2022: 13.3%) of the total revenue, representing a decrease of approximately HK$5.7 million or 4.4% as compared with the corresponding period in 2022, which was mainly attributable to the decrease in advisory and legal service expenses and the reversal of impairment losses on financial assets.

Finance Income – Net

Net finance income for the first half of 2023 was approximately HK$3.8 million, representing a decrease of approximately HK$6.9 million from that of approximately HK$10.7 million for the corresponding period in 2022, which was mainly due to the increase in interest expenses.

Share of Results of Associates

For the first half of 2023, share of net losses of associates was approximately HK$0.6 million, and in 2022, share of profit of associates was approximately HK$0.4 million.

Income Tax Expense

Income tax expense for the first half of 2023 was approximately HK$8.4 million (first half of 2022: HK$7.4 million) and the effective tax rate was 13.4% (first half of 2022: 11.2%).

Profit for the Period

Profit for the Period for the first half of 2023 was approximately HK$54.7 million, representing a decrease of approximately HK$3.8 million or 6.4% from approximately HK$58.5 million for the corresponding period in 2022.

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 2022, 43% of revenue was accumulated in the first half of the year, with 57% of revenue accumulated in the second half of the year.

LIQUIDITY, FINANCIAL RESOURCES AND RATIOS

As at 30 June 2023, the Group had net current assets of approximately HK$1,050.7 million (31 December 2022: HK$1,090.9 million). The Group had cash and cash equivalents of approximately HK$1,108.8 million (31 December 2022: HK$1,114.5 million). The current ratio of the Group as at 30 June 2023 was approximately 231.3% (31 December 2022: 219.1%).

Total equity of the Group as at 30 June 2023 was approximately HK$1,526.4 million (31 December 2022: HK$1,605.6 million). The gearing ratio as at 30 June 2023 was approximately 11.3% (31 December 2022: 21.6%). The decrease in gearing ratio was mainly due to the decrease in bank borrowings.

DEBT MATURITY PROFILE

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

	30 June 2023 *HK$'000*	31 December 2022 *HK$'000*
Within 1 year	**148,191**	286,472
Between 1 and 2 years	**25,000**	60,543
	173,191	347,015

An analysis of the Group's key liquidity ratios as at 30 June 2023 is as follows:

	Six months ended 30 June	
	2023	2022
Inventory turnover days *(Note 1)*	**116**	123
Trade receivable turnover days *(Note 2)*	**61**	63
Trade payable turnover days *(Note 3)*	**70**	66

	30 June 2023	31 December 2022
Current ratio *(Note 4)*	**231.3%**	219.1%

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 116 days, representing a decrease of 7 days compared to that of the same period in last year, which was primarily attributable to the fact that logistics and transportation have generally returned to normal as countries gradually lifted lockdown measures.

TRADE RECEIVABLE TURNOVER DAYS

During the Period, the Group's trade receivable turnover days were 61 days, representing a decrease of 2 days compared to that of the same period in last year. The decrease in trade receivable turnover days was primarily attributable to the Group's effective credit policy.

TRADE PAYABLE TURNOVER DAYS

During the Period, the Group's trade payable turnover days were 70 days, representing an increase of 4 days compared to that of the same period in last year, which was mainly attributable to the extension of the credit period granted to the Group by the suppliers of the mold fabrication segment in view of the Group's good reputation foundation.

CURRENT RATIO

As at 30 June 2023, the Group's current ratio was 231.3%, representing an increase of 12.2 percentage points as compared with the current ratio of 219.1% as at 31 December 2022.

ASSETS PLEDGED

Details of the assets pledged as at 30 June 2023 are set out in note 15(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, RMB and HK dollar, 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 2023, the Group had 3,407 full-time employees (31 December 2022: 3,313) and 473 workers dispatched to us from third-party staffing companies (31 December 2022: 321).

The Group's remuneration policy aims to offer competitive remuneration packages to recruit, retain and motivate competent directors and employees. The Group believes that 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 individual 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 2023, the Group has made no material acquisitions or disposals of subsidiaries (first half of 2022: Nil).

CONTINGENT LIABILITIES

As at 30 June 2023, the Group did not have any significant contingent liabilities (31 December 2022: Nil).

PROSPECTS

Looking ahead to the second half of 2023, the global economic outlook still faces numerous challenges. Despite the influence by the tightening monetary policy, inflation in the U.S. has eased significantly. However, with the surge of living costs, citizens in the U.S. at the medium income level have reduced their spendings in consumption due to the difficulty in repaying their existing debts. It is common to see that consumers are significantly more sensitive to pricing, which results in weak consumer sentiment and the fact that the brand owners remain prudent on procurement. Though the traditional peak season for consumption falls in the second half of the year, there is a remarkable difference in the number of orders from the Group's customers as compared with the projection made early this year. The market situation cannot be overly optimistic as recovery will take time. In the second half of the year, the management will pay more attention to the improvement of internal advantages, implement the strategy of reducing costs and increasing efficiency, and respond to market changes in a cool-headed manner.

In line with the trend of customers reorganizing their supply chains, the Group's overseas production base has been successfully deployed in Vietnam, so as to provide existing customers with supply solutions outside China, and take this advantage to actively explore more new customers in Southeast Asia, the U.S. and Europe. In respect of the Group's newly developed business segments, the medical business segment being developed in recent years has gradually become a new source of business growth. The Group has also further strengthened its unique competitive edges through new products that integrate silicone and traditional plastic injection molding technology, so as to provide customers with diversified product solutions. Liquid silicone products are widely favored in optical products, medical supplies, consumer electronics and other application scenarios due to their superior performance. Catering for Mini LED display's specific light output requirements, the Group is taking the first-mover advantage to develop optical silicone parts to solve the pain points of the industry and quickly open up the "Blue Ocean" market. In mid-August, the Group officially became a qualified supplier of a global-leading Augmented Reality company, and it is expected to usher in more business opportunities related to the Metaverse in time to come.

Under the general national trend of technological advancement and industrial upgrades, China is cultivating a number of emerging industries and unicorn companies. The Group is particularly focused on exploring the domestic medical technology and innovative technology industries. Leveraging its experience and strengths gathered from serving various Silicon Valley innovative technology companies in the past, the Group stands firm on being quality-oriented and gives full play to its strengths in high-precision molds, so as to secure more premium domestic customers. In particular, the Group has commenced business with a leading brand of bone conduction earphones in China and has successively delivered products, which drew overwhelming popularity in the market. Bone conduction earphones involving breakthrough technology, which are light in weight and comfortable to wear, do not require insertion to the ear canal, and can effectively protect hearing and are more suitable for sports purposes, are highly sought after by the market. As the Group possesses mature multi-color material application craftsmanship and is equipped with high-precision molds with multi-cavity and efficiency, it is capable of providing customers with diversified products and facilitating customers in seizing new markets.

During economic downturn, the Group continues to carry out internal optimization, promote technological upgrades and adopt Industry 4.0 to promote the digitalization of its production and operation, improve operating efficiency and deepen the results of cost reduction and efficiency enhancement. Competing in the environment where strengths always prevail, the Group will benefit from its industry-leading technology and solid business model when securing its competitive strengths and winning confidence from its customers, thereby facilitating further business development in the long run. Facing the business environment where opportunities and challenges coexist, the Group will maintain its profound development of advantageous industries, take solid steps towards diversified development, steadily move forward in the development of new high-quality businesses and extend its business footprint, so as to build a solid foundation for long-term business development and create greater value for customers and shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Save for the purchase of 1,930,000 shares of the Company through its trustee on the open market for the purposes of the share award scheme of the Company, neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2023.

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 CODE

The Company believes that good corporate governance is very important for maintaining and promoting investor confidence and for the sustainable growth of the Group. The Board sets and implements appropriate corporate governance policies for the business operation and growth of the Group. The Board is committed to strengthening the Group's corporate governance measures to ensure transparency and accountability of the Company's operations.

The Company has applied the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Company regularly reviews its corporate governance practices to ensure compliance with the CG Code.

In the opinion of the directors, the Company had complied with all the code provisions as set out in the CG Code during the six months ended 30 June 2023.

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, 25 August 2023, the Board resolved to declare an interim dividend of HK2.8 cents per share for the Period, amounting to a total of HK$23,331,280. The interim dividend is expected to be paid on Wednesday, 27 September 2023 to all shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 12 September 2023.

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 Monday, 11 September 2023 to Tuesday, 12 September 2023, 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, 8 September 2023.

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, 25 August 2023

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.