

The World's Leading One-stop Plastics Solutions Provider



東江集團(控股)有限公司

TK GROUP (HOLDINGS) LIMITED

(Stock code: 2283)

2018 Interim Results



Company Overview

About TK Holdings **MSCI** Hong Kong Small Cap Index

Stock code	:	2283.HK
Listing date	:	December 2013
No. of issued share capital (as at 14 Aug 2018)	:	833,260,000 shares
Share price (as at 14 Aug 2018)	:	HK\$5.81
Market cap (as at 14 Aug 2018)	:	HK\$4.8 billion

Stock Price Performance



Investment Highlights

- **One of the world's leading one-stop plastics solutions providers**, primarily engaged in: i) the design and fabrication of plastic injection molds, and ii) the manufacture of plastic products
- **Strong growth in 3 business segments in 1H2018**
 - **Smart home segment grew by 145.3%**, as TK has become the sole supplier of certain products of two leading smart home brands in North America and successively obtained orders for additional parts during the period
 - **Mobile phones and wearable devices segment grew by 45.1%**, driven by the continuously strong orders from various customers, and a bigger share of orders obtained
 - **Medical and health care segment grew by 10.6%**, driven by the continuously strong orders from customers
- **Considerable orders secured on hand for 2H2018, size increased by 20.9% yoy**

2018 Interim Results

HK\$'000	1H2018	yoy growth
Revenue	1,025,665	↑25.7%
Net Profit	140,432	↑27.1%
Basic earnings per share (HK cents)	16.9	↑26.1%
Proposed interim dividend per share (HK cents)	6.0	↑20.0%
Interim dividend payout ratio	35.6%	↓2.1p.p.
Gross profit margin	31.5%	↓0.8p.p.
Net profit margin	13.7%	↑0.2p.p.



Diversified Customer Network

1H2018 top six customers



#	Company name	Industry	Product category
1	Polycom	Commercial telecommunications equipment	Mold and Plastic products
2	A leading health care product brand	Medical and health care	Mold and Plastic products
3	A leading smartphone brand	Mobile phones and wearable devices	Mold and Plastic products
4	NEW A leading smart phone accessory brand	Mobile phones and wearable devices	Mold and Plastic products
5	A leading smart home product brand	Smart home	Mold and Plastic products
6	NEW A leading audio equipment brand	Mobile phones and wearable devices	Mold and Plastic products

▶ The top six customers contributed **56.1%** of TK's revenue in 1H2018



Segment Review – Mold Fabrication

339.9 HK\$ million

Revenue

+11.0%

YoY Increase

36.7%

Gross Profit Margin

+1.9 p.p.

YoY Increase

Orders increased and utilization of production lines improved



Further investment in automation and molding plant upgrade increased production capacity and quality

Involved in the design of our clients' products at an early stage, and offered design proposals with high efficiency and cost-effectiveness



Segment Review – Plastic Products

685.8 HK\$ million

Revenue

+34.4%

YoY Increase

28.9%

Gross Profit Margin

-1.8 p.p.

YoY slightly dropped

Became the sole supplier of certain products of two leading smart home brands in North America, driving a strong growth of the segment

Received significant growth in orders for smartphone protective cases and wireless audio equipment

The initial investment for new customers and projects temporarily affected gross profit margin. After entering the mass production, efficiency will be fully released





Projects on hand for 2H2018

Industry	Amount(HK\$'000)
Automobile	367,222
Commercial telecommunications equipment	127,514
Mobile phones and wearable devices	124,264
Medical and health care	94,197
Others	72,086
Smart home	65,711
Household electric appliance	59,988
Digital devices	12,791
Total	923,773

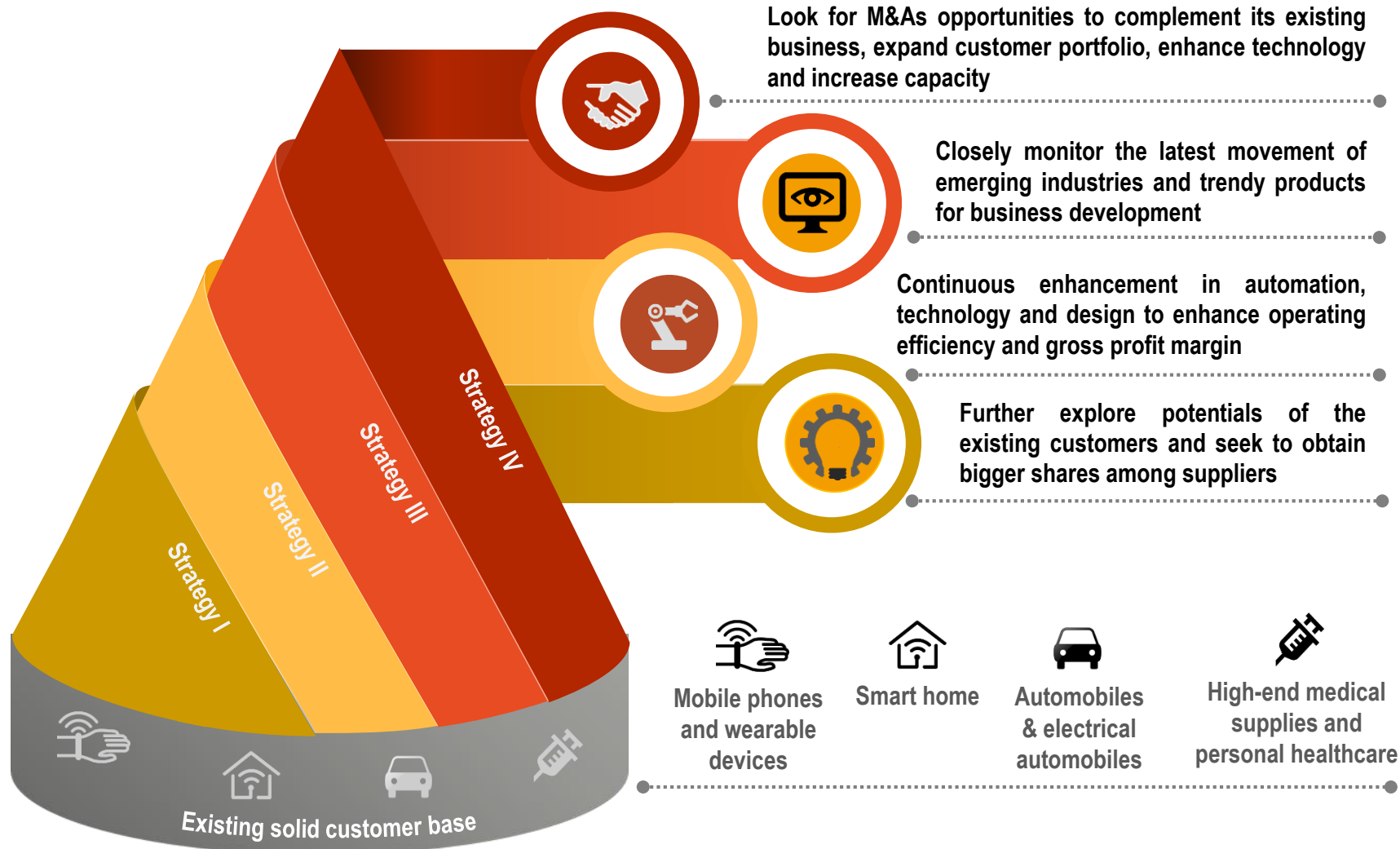
Projects on hand
as at 30 June 2018

Amounted to **HK\$ 923.8 million**

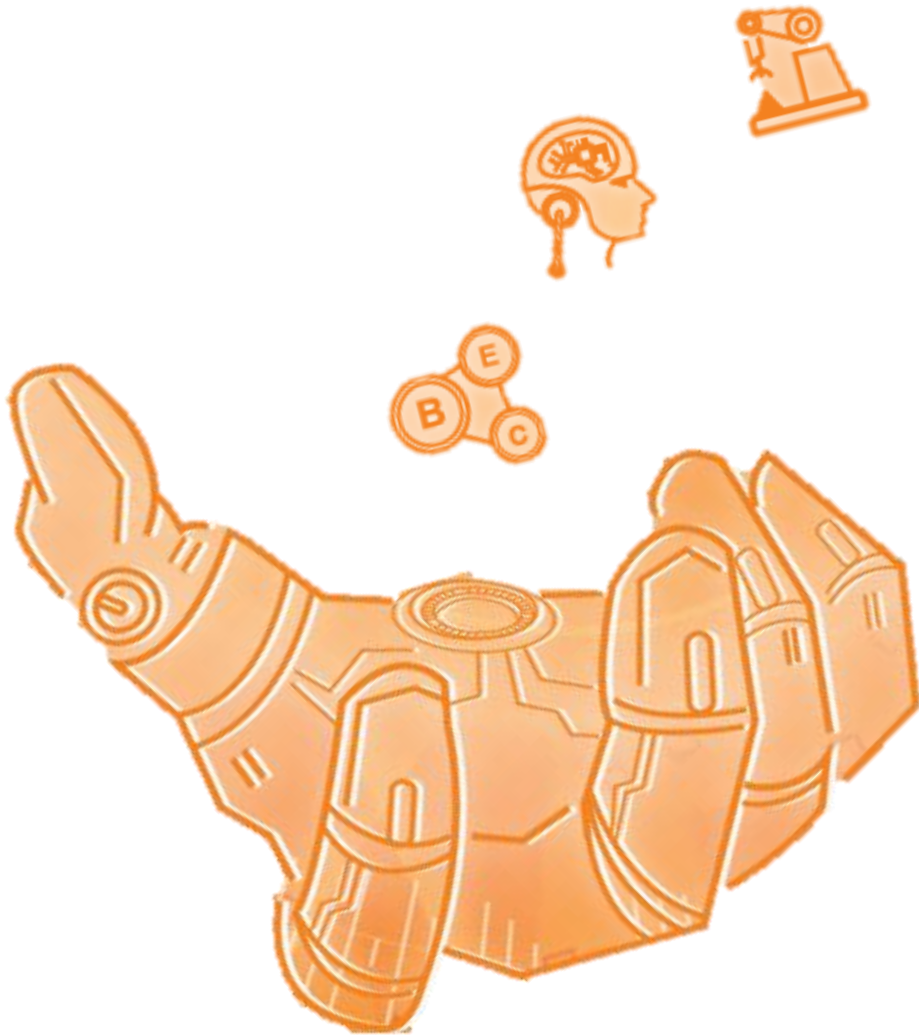
Growth at 20.9% yoy



Development Strategies



2018 Interim Results





Key Financials

HK\$ '000	For the year ended 31 December	For the six months ended 30 June		Change
	2017	2017	2018	
Revenue	1,860,900	816,268	1,025,665	↑25.7%
Gross profit	627,003	263,335	323,403	↑22.8%
Operating profit	344,873	128,313	159,594	↑24.4%
Profit attributable to owners of the Company	301,833	110,524	140,432	↑27.1%
Basic earnings per share (HK cents)	36	13.4	16.9	↑26.1%
Gross profit margin	33.7%	32.3%	31.5%	↓0.8p.p.
Net profit margin	16.2%	13.5%	13.7%	↑0.2p.p.
Proposed interim dividend per share (HK cents)	17.0	5.0	6.0	↑20.0%
Dividend payout ratio	46.9%	37.7%	35.6%	↓2.1p.p.

- Mainly driven by the growth in smart home, mobile phones and wearable devices and medical and health care segments

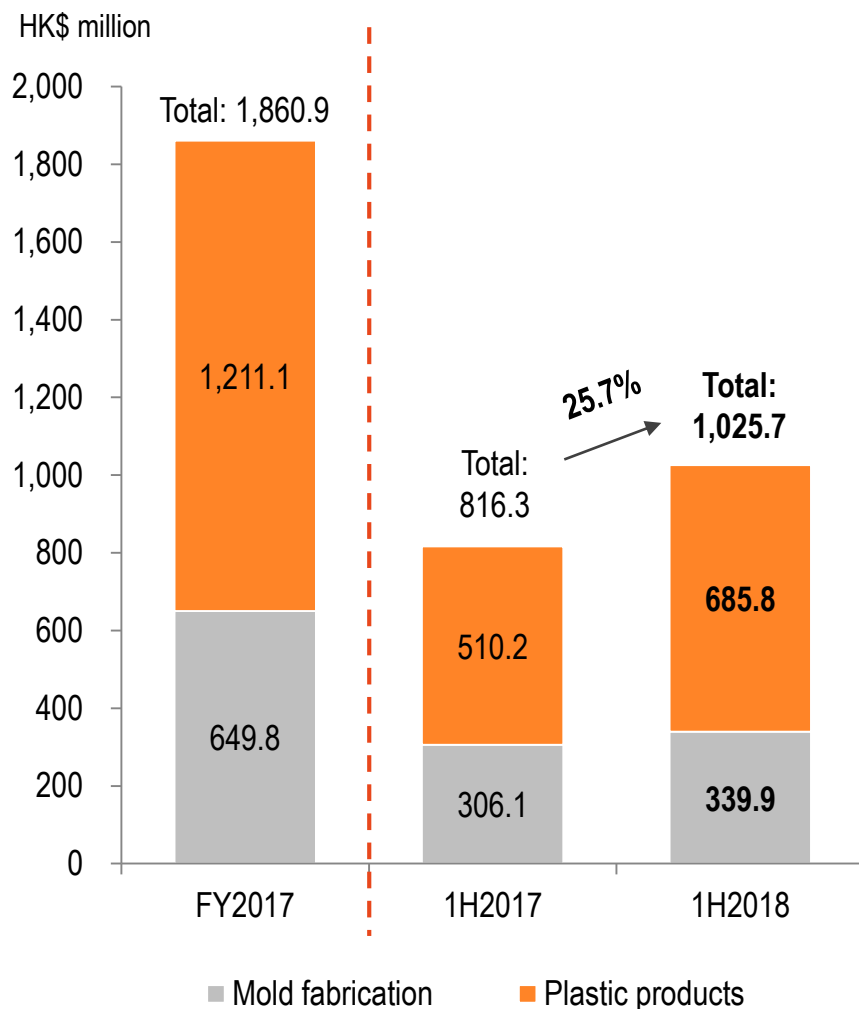
- High initial investment incurred from new projects which temporary affected gross profit margin

- Healthy financials support high dividend payout ratio
- Positioned as a high technology company with high dividend payout

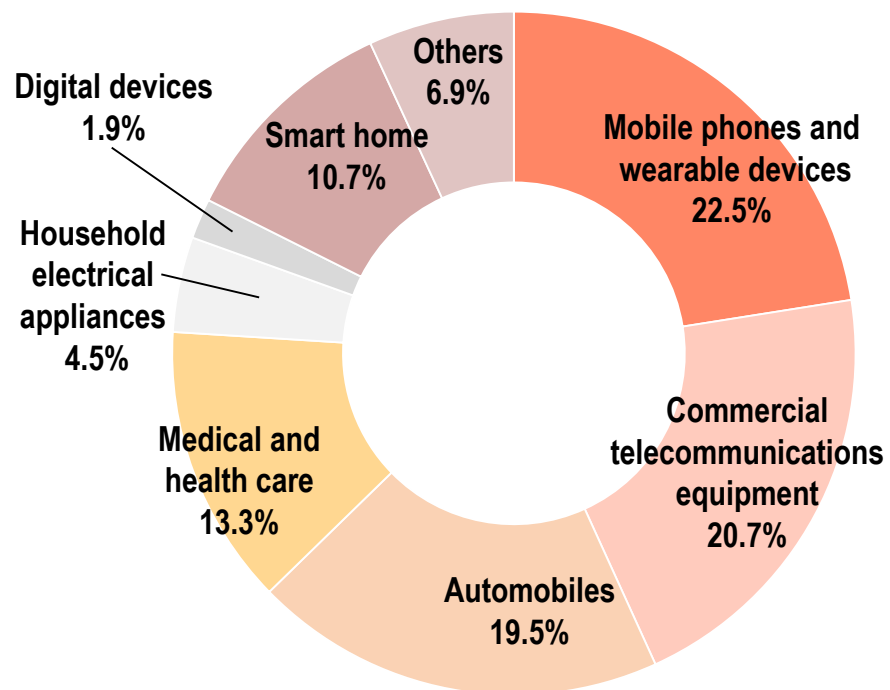


Revenue Analysis

Breakdown by business segment



Breakdown by downstream industry

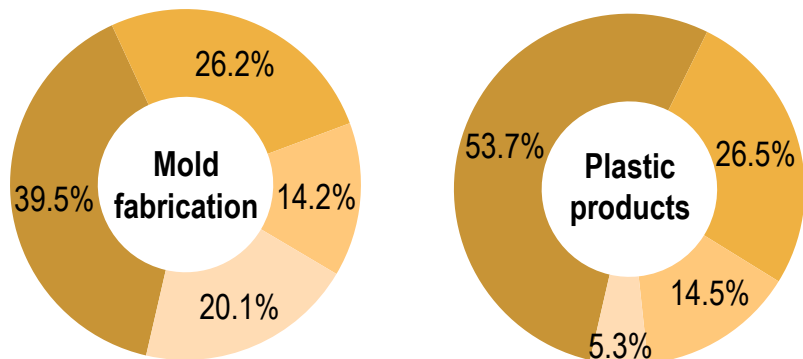


Segments with high potential	yoy growth
Smart home	↑145.3%
Mobile phones and wearable devices	↑45.1%
Medical and health care	↑10.6%



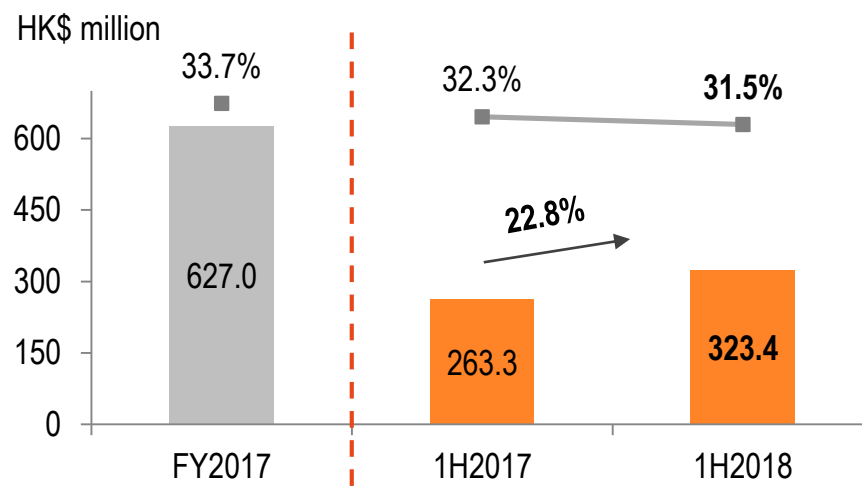
Gross Profit Analysis

Cost of sales

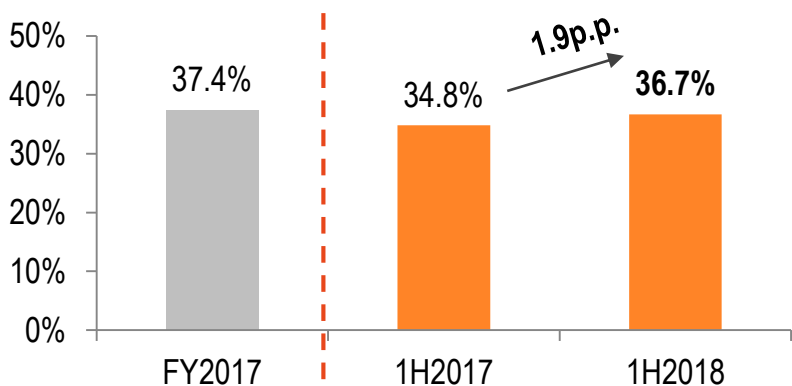


- Direct materials cost
- Manufacturing overhead
- Direct labour cost
- Subcontracting expenses

Gross profit & gross profit margin

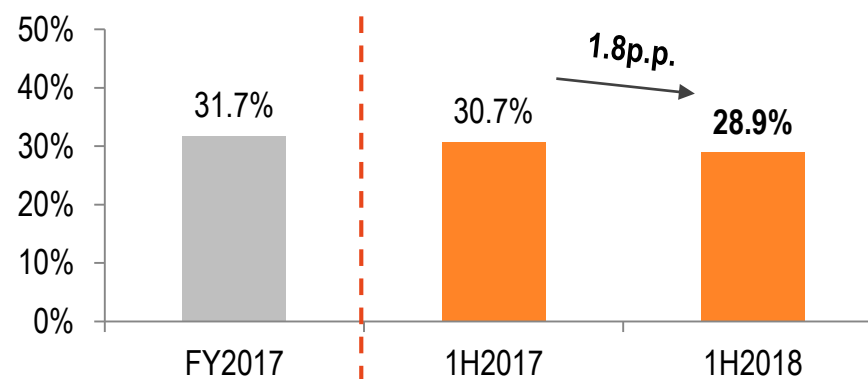


Gross profit margin – Mold fabrication



- Increase in revenue and internal improvement drove up gross profit margin

Gross profit margin – Plastic products



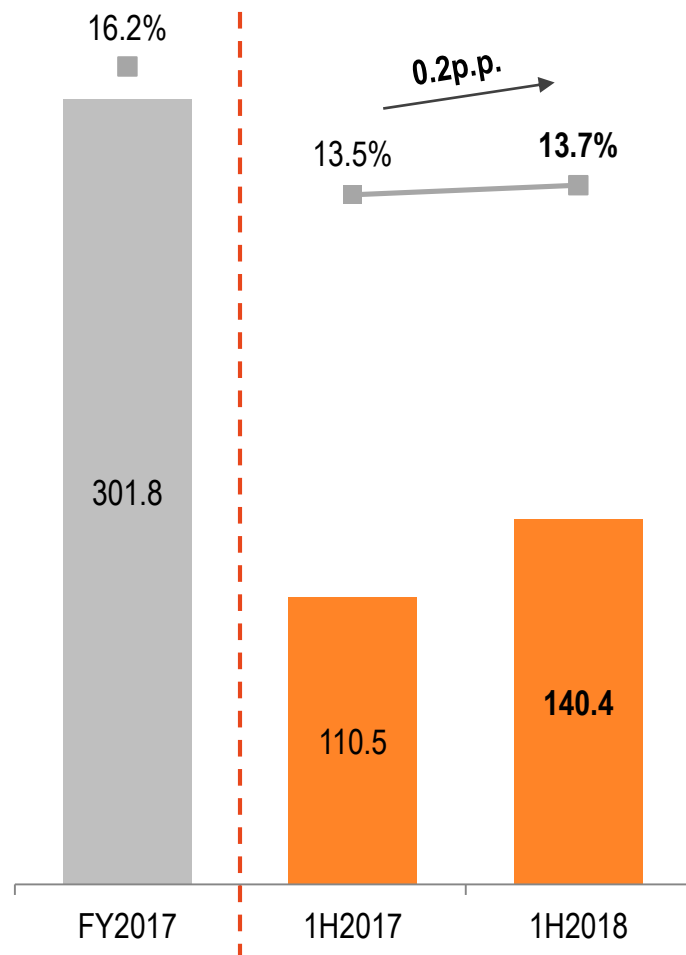
- Gross profit margin affected by capacity expansion and the initial investment incurred from new projects



Net Profit Analysis

Net profit & net profit margin

HK\$ million



Key expenses

HK\$ million	FY2017	1H2017	1H2018	Change
Selling expenses	84.6 (4.5% of revenue)	41.3 (5.1% of revenue)	39.4 (3.8% of revenue)	↓4.6%
Administrative expenses	215.2 (11.6% of revenue)	93.1 (11.4% of revenue)	120.9 (11.8% of revenue)	↑29.9%
Finance Income - net*	4.6	1.9	4.2	↑121.1%
Income tax expense	47.7 (13.6% of profit before tax)	19.7 (15.1% of profit before tax)	23.3 (14.3% of profit before tax)	↑18.3%

*Finance Income-net = Interest income – finance expenses



Key Financial Indicators

HK\$ '000	As at 31 December 2017	As at 30 June 2018	Change
Net current assets	560,251	487,642	↓13.0%
Total cash and bank balances	550,227	522,595	↓5.0%
Current ratio	187.2%	163.0%	↓24.2p.p.
Quick ratio	139.6%	115.4%	↓24.2p.p.
Gearing ratio	10.7%	17.6%	↑6.9p.p.
Net gearing ratio [#]	0%	0%	--
Return on assets	18.4%	15.6%(Annualize)	↓2.8p.p.
Return on equity	33.1%	29.4%(Annualize)	↓3.7p.p.

Net gearing ratio = (Total borrowings – cash) / Total equity x 100%

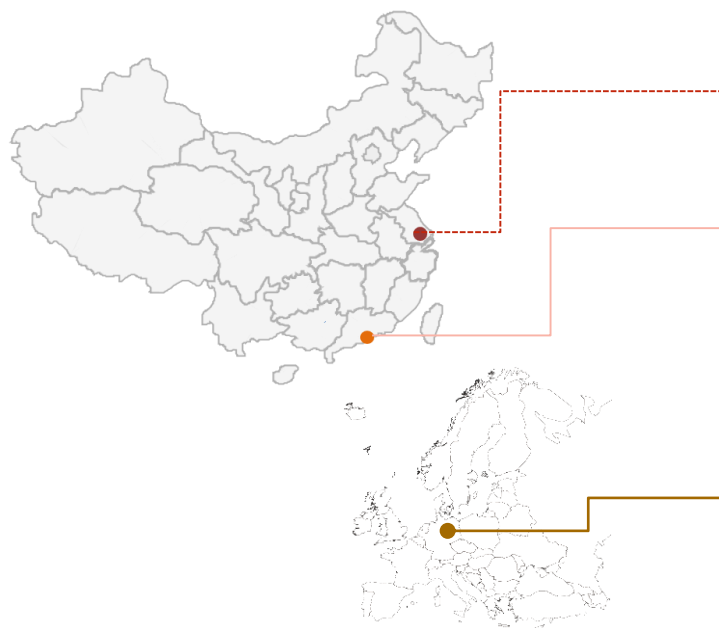
(Net cash as at 31 Dec 2017 and 30 Jun 2018 were HK\$452,312,000 and HK\$355,061,000 thus Net gearing ratio is 0%.)

For the six months ended 30 June	2017	2018	Change
Net cash generated from operating activities	143,778	130,824	↓9.0%
Inventory turnover days	90	87	↓3
Trade receivable turnover days	47	52	↑5
Trade payable turnover days	69	73	↑4



Production Base and Capacity

Production capacity by production base



Location	Suzhou, Jiangsu Province		G.F.A
Production base	TK Plastics Products	<i>High-tech enterprise</i>	12,582 sq.m.
Location	Shenzhen, Guangdong Province		G.F.A
Production base	<ul style="list-style-type: none"> ▪ TK Mold <i>High-tech enterprise</i> 33,307 sq.m. ▪ TK Precision Plastics <i>High-tech enterprise</i> 87,713 sq.m. 		
Location	Germany		G.F.A
Production base	TK Mold		1,203 sq.m.

Utilisation of Machines



Mold fabrication	FY2017	1H2017	1H2018	Change
Utilisation rate	90.7%	86.8%	85.0%	↓1.8p.p.



Plastic products	FY2017	1H2017	1H2018	Change
Utilisation rate	72.6%	58.3%	68.6%	↑10.3p.p.



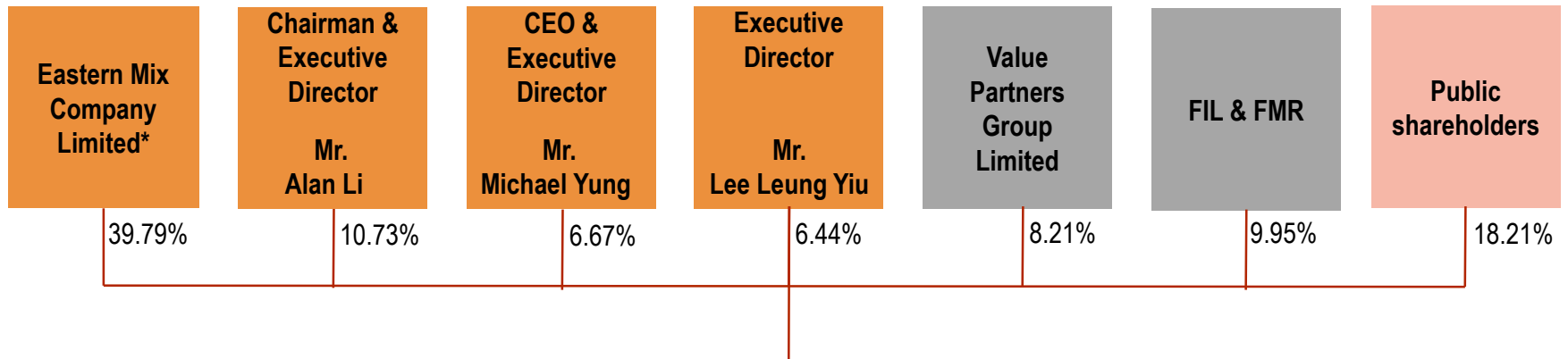
Calculation of Utilisation Rate

$$\text{Utilisation Rate} = \frac{\text{Actual hour worked}^*}{\text{Available hour}}$$

*Includes actual production time, molding time, adjustment time, testing time and sample making time etc.

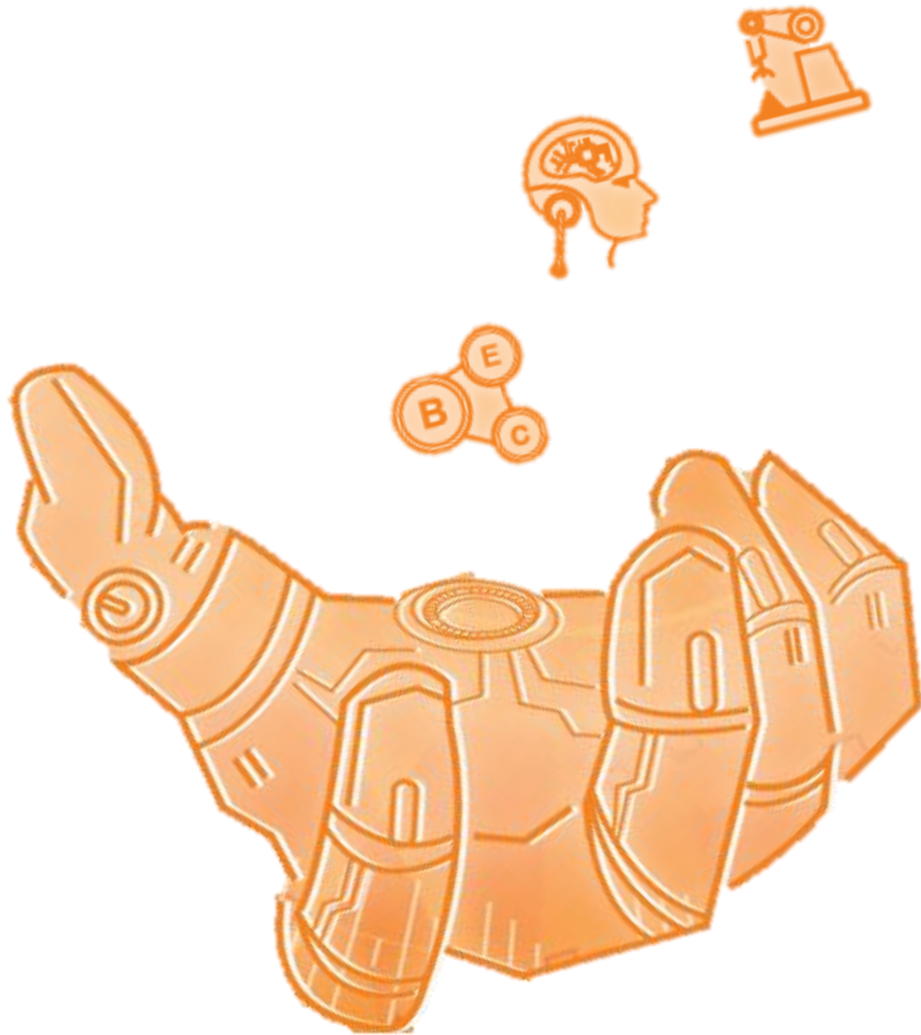


Shareholding Structure



Number of issued shares (as of 14 Aug 2018): 833,260,000 shares

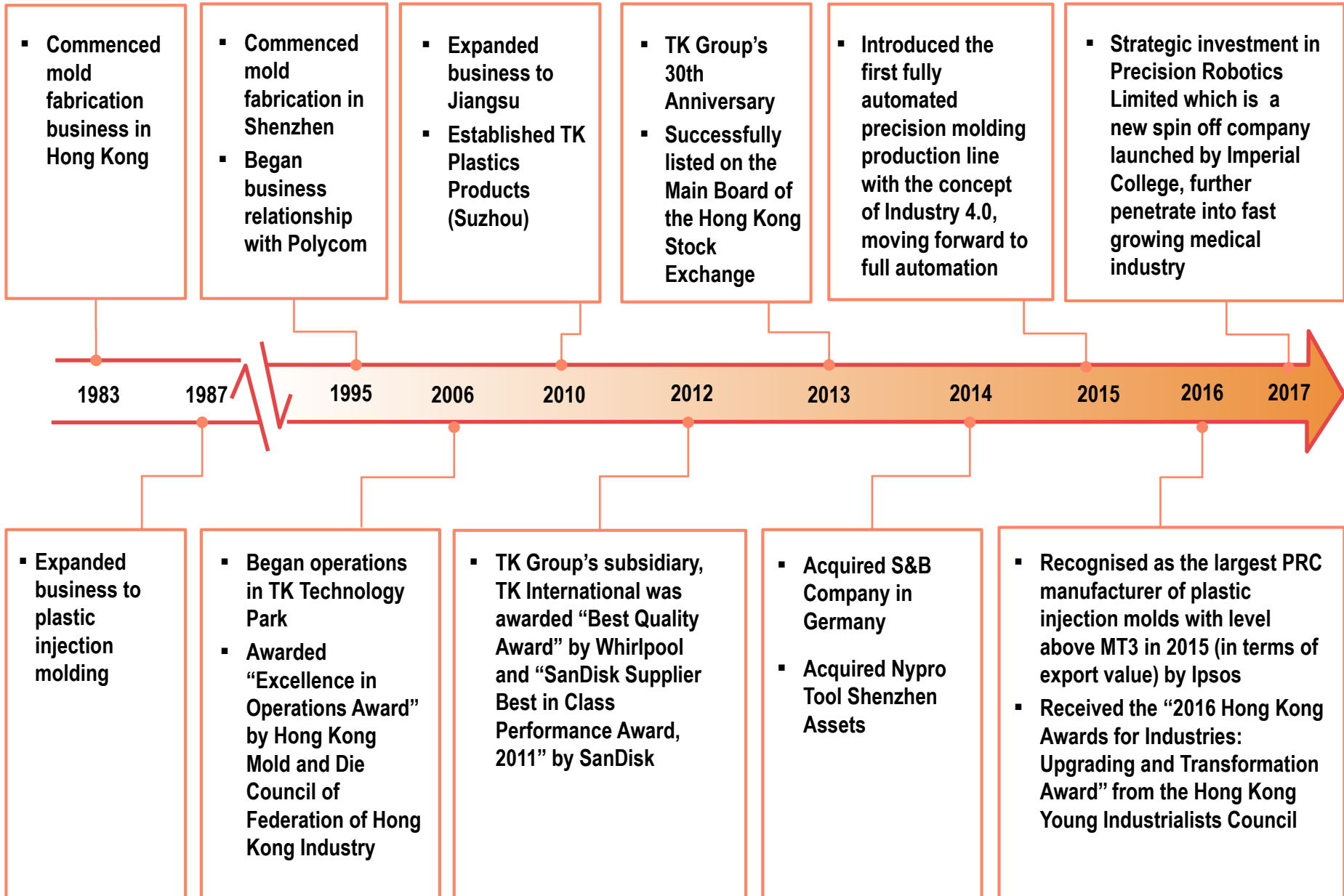
*Issued share capital of Eastern Mix Company Limited is held by Mr. Alan Li, Mr. Michael Yung and Mr. Lee Leung Yiu at the stake of 45.0%, 28.0% and 27.0% respectively



Appendix







Corporate Milestones





Management Team

Name & title	Major responsibilities	Years of professional experience
 <p>Mr. Alan Li <i>Chairman & Executive Director</i></p>	<ul style="list-style-type: none">▪ One of the founders of the Company▪ Responsible for overall management and strategic planning	<ul style="list-style-type: none">▪ More than 30 years of professional experience in plastic mold fabrication and plastic injection molding▪ Rich experience in business management in the manufacturing industry
 <p>Mr. Michael Yung <i>CEO & Executive Director</i></p>	<ul style="list-style-type: none">▪ Responsible for business development and daily operations	<ul style="list-style-type: none">▪ About 25 years of experience in plastic mold fabrication and plastic injection molding
 <p>Mr. Lee Leung Yiu <i>Executive Director</i></p>	<ul style="list-style-type: none">▪ One of the founders of the Company▪ Responsible for procurement	<ul style="list-style-type: none">▪ About 30 years of experience in plastic mold fabrication and plastic injection molding
 <p>Mr. Franky Cheung <i>CFO & Executive Director</i></p>	<ul style="list-style-type: none">▪ Responsible for finance, taxation, audit and investment	<ul style="list-style-type: none">▪ About 29 years of experience in the field of auditing, accounting and corporate finance▪ Formerly worked at Deloitte Ross Tohmatsu, FORTUNE 500 manufacturing company, and manufacturing companies listed in Hong Kong and the U.S.

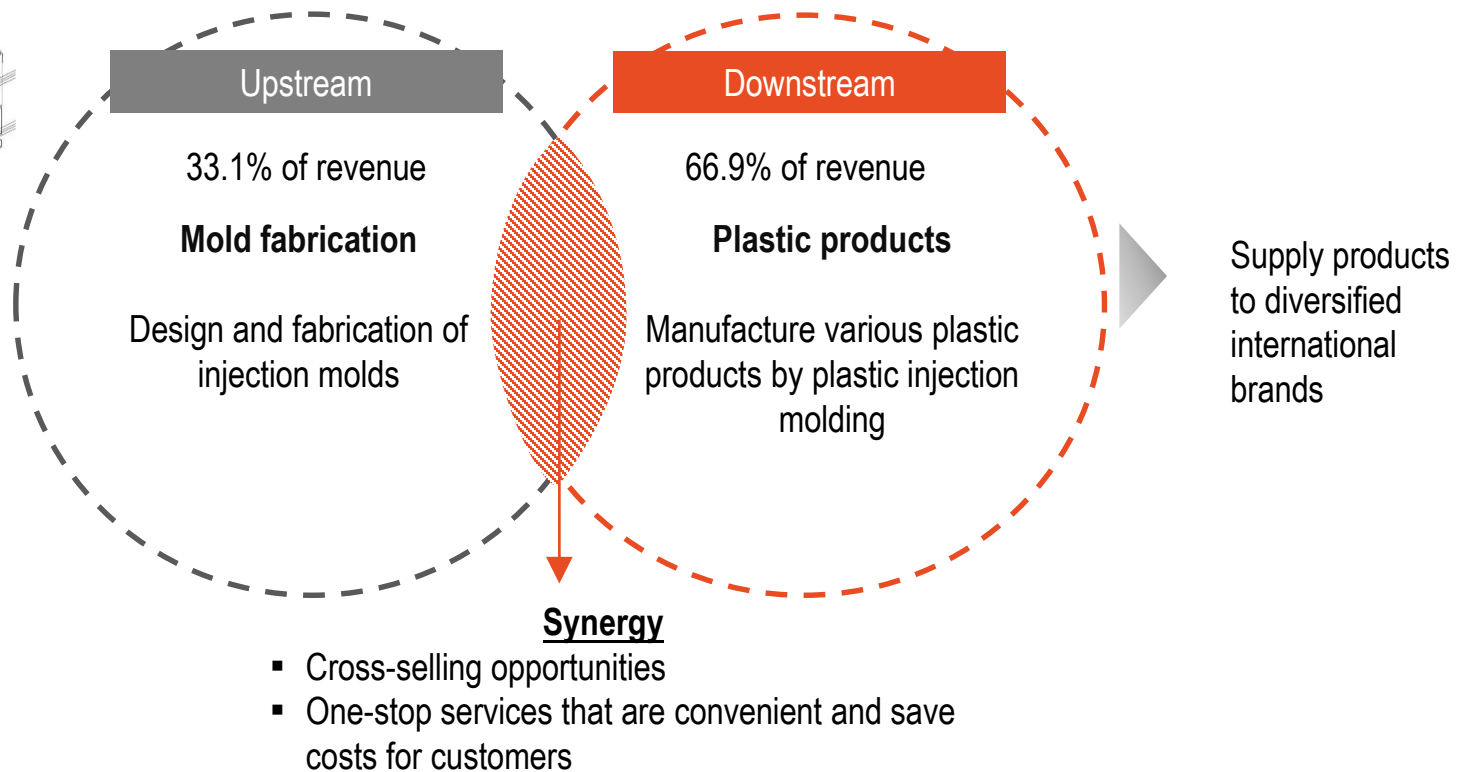
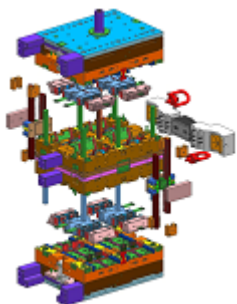
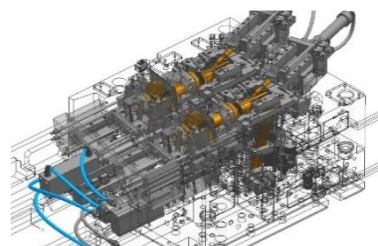


Business Overview



For the six months ended 30 June 2018

Leading One-stop Plastics Solutions Provider



Provide customised, cost-effective and high-precision products and services to renowned multi-national companies



Vertically Integrated Business Model

TK Group (2283.HK)

Design of machinery and molds

- Major raw materials:
 - Steel
 - Plastic resin
- 2 research cooperation agreements with the National Laboratory for Material Formation and Molds of Huazhong University of Science and Technology in Shenzhen

Mold fabrication 1H2018 GP margin: 36.7%

- 43 patents:
 - 4 invention patents
 - 3 software patents
 - 36 utility model patents
- Technological capabilities to comply with the stringent requirements of downstream customers:
 - Precision
 - Tooling-life
 - Reliability
 - Quality
- Meet the MT1 precision level as defined by the “National Standard of the People’s Republic of China GB/T14486-2008—Dimensional Tolerances for Moulded Plastic Parts”
- Value-added services that minimises costs, e.g. product optimisation, shortening of product development cycle and efficiency improvement

Plastic products 1H2018 GP margin: 28.9%

- 65 utility model patents
 - 2 invention patent
 - 63 utility model patents
- Technological capability to serve industry leaders
- Performance molding
- Standard molding
- Special decorative molding
- Acquired the international certification of ISO13485 (Medical Device — Quality Management Systems — Requirements for Regulatory Purposes)

Extensive end applications

- ➔ Mobile phones and wearable devices
- ➔ Medical and health care
- ➔ Commercial telecommunication equipment
- ➔ Automobile





Fast-Growing Business Segments

Smart home



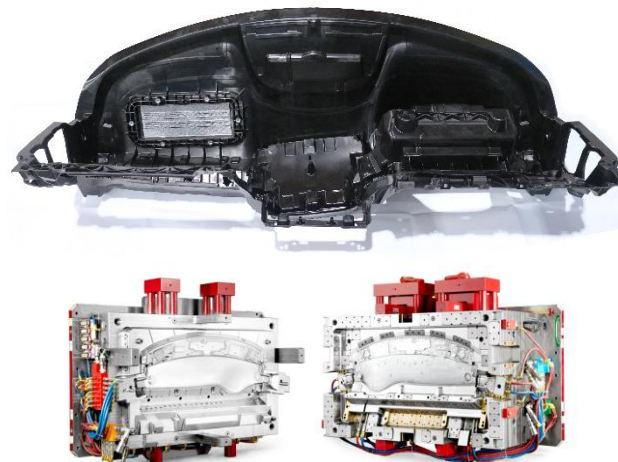
Mobile phones and wearable devices



Medical and health care



Automobiles





Consolidated Income Statement

	For the year ended 31 December	For the six months ended	
<i>HK\$ '000</i>	2017	2017	2018
Revenue	1,860,900	816,268	1,025,665
Cost of sales	(1,233,897)	(552,933)	(702,262)
Gross profit	627,003	263,335	323,403
Other income	28,743	7,698	12,022
Other losses — net	(11,118)	(8,246)	(15,492)
Selling expenses	(84,602)	(41,334)	(39,418)
Administrative expenses	(215,153)	(93,140)	(120,921)
Operating profit	344,873	128,313	159,594
Interest income	6,615	2,784	5,199
Interest expenses	(1,981)	(893)	(1,012)
Profit before income tax	349,507	130,204	163,781
Income tax expense	(47,674)	(19,680)	(23,349)
Profit for the period attributable to owners of the Company	301,833	110,524	140,432
Basic earnings per share (HK cents)	36	13.4	16.9
Dividends per share (HK cents)	17	5.0	6.0
Gross profit margin	33.7%	32.3%	31.5%
Net profit margin	16.2%	13.5%	13.7%



Consolidated Statement of Financial Position

<i>HK\$ '000</i>	As at 31 December 2017	As at 30 June 2018
Non-current assets	435,614	538,234
Property, plant and equipment	415,697	439,276
Intangible assets	12,124	11,679
Prepayments for property, plant and equipment	7,793	63,658
Financial assets at fair value through profit or loss	--	23,621
Current assets	1,202,993	1,261,703
Inventories	305,468	368,428
Trade and other receivables	347,298	370,680
Deposits for bank borrowings	--	94,828
Restricted cashes	9,412	21,302
Cash and cash equivalents	540,815	406,465
Total assets	1,638,607	1,799,937
Non-current liabilities	84,347	71,322
Non-current bank borrowings	65,210	50,185
Deferred income on government grants	11,443	13,847
Deferred income tax liabilities	7,694	7,290
Current liabilities	642,742	774,061
Trade and other payables	582,589	615,190
Income tax liabilities	27,448	41,522
Bank borrowings	32,705	117,349
Total liabilities	727,089	845,383
Net current assets	560,251	487,642
Equity		
Share capital	83,326	83,326
Share premium	251,293	251,293
Other reserves	38,466	41,061
Retained earnings	538,433	578,874
Total equity	911,518	954,554



Thank You

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