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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)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

The board of directors (the “**Board**”) of TK Group (Holdings) Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2021 together with the comparative figures for the year ended 31 December 2020, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	Year ended 31 December	
		2021	2020
		<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	4	2,404,398	2,033,419
Cost of sales	5	<u>(1,835,231)</u>	<u>(1,500,786)</u>
Gross profit		569,167	532,633
Other income		51,869	58,835
Other gains/(losses) – net		11,076	(30,761)
Selling expenses	5	(79,252)	(71,130)
Administrative expenses	5	<u>(247,004)</u>	<u>(254,719)</u>
Operating profit		305,856	234,858
Interest income		24,513	15,025
Interest expenses		<u>(6,376)</u>	<u>(9,991)</u>
Finance income – net		<u>18,137</u>	<u>5,034</u>
Share of profit of an associate		<u>527</u>	<u>650</u>
Profit before income tax		324,520	240,542
Income tax expense	6	<u>(42,137)</u>	<u>(30,855)</u>
Profit for the year attributable to owners of the Company		282,383	209,687
Other comprehensive income			
<i>Item that may be reclassified to profit and loss:</i>			
Currency translation differences		<u>54,627</u>	<u>87,949</u>
Total comprehensive income for the year		<u>337,010</u>	<u>297,636</u>
Earnings per share attributable to the owners of the Company (expressed in HK\$ per share)			
– Basic and diluted	7	<u>0.34</u>	<u>0.25</u>

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2021	2020
	Note	HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		527,966	556,903
Right-of-use assets		101,601	83,438
Intangible assets		31,746	24,141
Financial assets at fair value through profit or loss		33,621	33,621
Investment in an associate		16,296	16,176
Deferred income tax assets		2,978	–
Prepayments for property, plant and equipment		10,099	10,083
		<u>724,307</u>	<u>724,362</u>
Current assets			
Inventories		495,644	447,095
Trade and other receivables	9	417,060	320,836
Amounts due from a related company		10,913	10,898
Deposits for bank borrowings	11	174,437	148,231
Restricted cash		1,231	443
Cash and cash equivalents		1,027,568	920,446
		<u>2,126,853</u>	<u>1,847,949</u>
Total assets		<u>2,851,160</u>	<u>2,572,311</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	12	83,326	83,326
Share premium	12	251,293	251,293
Shares held for employee share scheme	13	(10,416)	(10,416)
Other reserves		201,232	126,026
Retained earnings		1,096,484	944,326
		<u>1,621,919</u>	<u>1,394,555</u>
Total equity		<u>1,621,919</u>	<u>1,394,555</u>

		As at 31 December	
		2021	2020
	<i>Note</i>	HK\$'000	HK\$'000
LIABILITIES			
Non-current liabilities			
Bank borrowings	<i>11</i>	144,940	58,435
Lease liabilities		23,432	19,536
Deferred income		61,316	46,421
Deferred income tax liabilities		35,675	40,674
		<u>265,363</u>	<u>165,066</u>
Current liabilities			
Trade and other payables	<i>10</i>	399,202	456,370
Contract liabilities		263,518	245,955
Income tax liabilities		25,894	7,471
Bank borrowings	<i>11</i>	194,229	223,800
Lease liabilities		81,035	79,094
		<u>963,878</u>	<u>1,012,690</u>
Total liabilities		<u>1,229,241</u>	<u>1,177,756</u>
Total equity and liabilities		<u>2,851,160</u>	<u>2,572,311</u>

NOTES:

1. CORPORATE 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, an investment holding 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 31 December 2021, the ultimate shareholders of the Company are Mr. Li Pui Leung, Mr. Yung Kin Cheung Michael and Mr. Lee Leung Yiu (collectively the "**Ultimate Shareholders**"), each holding an effective equity interest of 29.78%, 18.53% and 17.87% in the Company, respectively.

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

2. BASIS OF PREPARATION

(a) Compliance with HKFRS and the disclosure requirements of HKCO

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") and the disclosure requirements of the Hong Kong Companies Ordinance ("**HKCO**") Cap. 622.

(b) Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss which are carried at fair value.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(a) New and amended standards adopted by the Group

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time for accounting periods beginning on 1 January 2021:

- *Interest Rate Benchmark Reform – Phase 2 – amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16*

The application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial position and performance for the current and prior years and on the disclosures set out in these consolidated financial statements.

(b) Change in accounting policies

In the consolidated financial statements for the year ended 31 December 2020, individual other reserve items were presented separately in the consolidated statement of changes in equity. In preparing the consolidated financial statements for the year ended 31 December 2021, the Group, for easy reading and reducing voluminous details, combined all other reserve items into one single item to simplify the presentation of the consolidated statement of changes in equity. Comparative information for the consolidated statement of changes in equity for the year ended 31 December 2020 has been restated to conform to the current period presentation. This change in accounting policies has no impact on the results, financial position and cashflow of the Group.

4. SEGMENT INFORMATION

The segment information for the reportable segments is set out as below:

	Mold fabrication		Plastic components manufacturing		Total	
	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000
Revenue						
Segment revenue	822,364	797,315	1,698,373	1,333,221	2,520,737	2,130,536
Inter-segment revenue elimination	(116,339)	(97,117)	–	–	(116,339)	(97,117)
Revenue from external customers	706,025	700,198	1,698,373	1,333,221	2,404,398	2,033,419
Segment results	191,557	191,562	377,610	341,071	569,167	532,633
Other income and other gains/ (losses) – net					62,945	28,074
Selling expenses					(79,252)	(71,130)
Administrative expenses					(247,004)	(254,719)
Finance income – net					18,137	5,034
Share of profit of an associate					527	650
Profit before income tax					324,520	240,542

Information regarding the Group's revenue by nature:

	2021 HK\$'000	2020 HK\$'000
Sales of goods	2,321,883	1,951,086
Modification income	82,515	82,333
	2,404,398	2,033,419

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

5. EXPENSES BY NATURE

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Changes in inventories of finished goods and work in progress	(34,631)	(62,990)
Raw materials and consumables used	912,109	781,781
Employee benefit expenses	634,715	534,232
Subcontracting expenses	189,391	172,015
Depreciation of property, plant and equipment and amortisation of intangible assets	151,645	145,380
Depreciation of right-of-use assets	69,647	64,714
Transportation and travelling expenses	62,963	47,453
Water and electricity expenditures	56,156	45,183
Maintenance expenses	17,955	10,506
Other taxes and levies	16,189	13,681
Operating lease payments	12,332	3,846
Allowance for inventories	8,948	5,203
Advisory and legal service expenses	7,831	12,862
Security and estate management expenses	7,811	7,261
Impairment of equipments	7,145	–
Commission expenses	6,986	8,385
Utilities and postage fees	6,142	3,293
Advertising and promotion fees	5,351	2,993
Auditors' remuneration		
– Audit services	3,611	3,013
– Non-audit services	500	435
Allowance for impairment of financial assets	2,941	6,992
Custom declaration charges	2,172	1,854
Donations	1,531	2,194
Other expenses	12,047	16,349
	<hr/>	<hr/>
Total cost of sales, selling expenses and administrative expenses	<u>2,161,487</u>	<u>1,826,635</u>

6. INCOME TAX EXPENSE

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current income tax		
– Hong Kong profits tax	18,673	13,560
– PRC corporate income tax	<u>32,258</u>	<u>21,958</u>
Total current tax expense	<u>50,931</u>	<u>35,518</u>
Deferred income tax		
– Hong Kong profits tax	(109)	(1,089)
– PRC corporate income tax	<u>(8,685)</u>	<u>(3,574)</u>
Total deferred tax benefit	<u>(8,794)</u>	<u>(4,663)</u>
Income tax expense	<u>42,137</u>	<u>30,855</u>

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

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.

(c) PRC corporate income tax (“CIT”)

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% (2020: 25%). Certain subsidiaries of the Group were recognised as “New and High Technology Enterprise” and enjoy a preferential CIT rate of 15%.

(d) PRC withholding income tax

According to the CIT Law, starting from 1 January 2008, 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.

(e) The British Virgin Islands (the “BVI”) income tax

No provision for income tax in the BVI has been made as the Group has no income assessable for income tax in the BVI during the year (2020: Nil).

7. EARNINGS PER SHARE

(a) Basic

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

	2021	2020
Profit attributable to owners of the Company (HK\$'000)	<u>282,383</u>	<u>209,687</u>
Weighted average number of ordinary shares issued (thousands)	<u>830,328</u>	<u>830,817</u>
Basic earnings per share (HK\$)	<u>0.34</u>	<u>0.25</u>

(b) Diluted

Diluted earnings per share approximates basic earnings per share for the years ended 31 December 2021 and 2020 as the impact of dilutive potential shares is immaterial.

8. DIVIDENDS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interim dividend of HK5.4 cents (2020 Interim: HK2.0 cents) per ordinary share	44,996	16,665
Proposed final dividend of HK8.6 cents (2020 Final: HK8.0 cents) per ordinary share	<u>71,660</u>	<u>66,661</u>
	<u>116,656</u>	<u>83,326</u>

The dividends paid in 2021 and 2020 were HK\$111,657,000 (HK13.4 cents per share) and HK\$91,658,000 (HK11.0 cents per share) respectively. A final dividend in respect of the year ended 31 December 2021 of HK8.6 cents per share, amounting to a total of approximately HK\$71,660,000, is to be approved at the forthcoming annual general meeting (“AGM”).

9. TRADE AND OTHER RECEIVABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables (<i>Note</i>)	373,807	283,834
Less: allowance for impairment	<u>(14,272)</u>	<u>(11,258)</u>
Trade receivables, net	359,535	272,576
Export tax refund receivables	4,608	13,629
Prepayments and deposits	42,247	27,054
Value-added tax recoverable	5,165	2,393
Advances to employees	3,675	3,550
Others	<u>1,830</u>	<u>1,634</u>
	<u>417,060</u>	<u>320,836</u>

Note:

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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Less than 3 months	344,310	255,196
More than 3 months but not exceeding 1 year	28,132	27,804
More than 1 year	1,365	834
	<u>373,807</u>	<u>283,834</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.

10. TRADE AND OTHER PAYABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade payables	288,192	335,321
Wages and staff welfare benefits payable	84,813	97,849
Accrual for expenses and other payables	17,444	17,699
Other taxes payable	8,753	5,501
	<u>399,202</u>	<u>456,370</u>

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0–90 days	217,922	261,677
91–120 days	40,168	49,783
121–365 days	24,486	19,951
Over 365 days	5,616	3,910
	<u>288,192</u>	<u>335,321</u>

11. BORROWINGS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Non-current		
Bank borrowings – unsecured	215,829	158,475
Less: current portion of non-current borrowings	<u>(70,889)</u>	<u>(100,040)</u>
	<u>144,940</u>	<u>58,435</u>
Current		
Bank borrowings – secured (<i>Note</i>)	123,340	123,760
Current portion of non-current borrowings	<u>70,889</u>	<u>100,040</u>
	<u>194,229</u>	<u>223,800</u>
Total borrowings	<u>339,169</u>	<u>282,235</u>

Note:

As at 31 December 2021, bank borrowings amounting to HK\$123,340,000 (2020: HK\$123,760,000) were secured by bank deposits of HK\$174,437,000 (2020: HK\$148,231,000).

12. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares <i>thousands</i>	Nominal value <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Total <i>HK\$'000</i>
Authorised				
As at 1 January 2020, 31 December 2020 and 31 December 2021	<u>2,000,000</u>	<u>200,000</u>		
Issued and fully paid				
As at 1 January 2020, 31 December 2020 and 31 December 2021	<u>833,260</u>	<u>83,326</u>	<u>251,293</u>	<u>334,619</u>

13. SHARES HELD FOR EMPLOYEE SHARE SCHEME

	2021		2020	
	Number of shares <i>thousands</i>	Total consideration <i>HK\$'000</i>	Number of shares <i>thousands</i>	Total consideration <i>HK\$'000</i>
Opening balance as at 1 January	2,932	10,416	1,154	5,517
Acquisitions	—	—	1,778	4,899
Balance as at 31 December	<u>2,932</u>	<u>10,416</u>	<u>2,932</u>	<u>10,416</u>

The Group acquires the Company's shares through its trustee, Bank of Communications Trustee Limited (the "Trustee"), for the share award scheme adopted on 25 February 2019 (the "Share Award Scheme"). The total consideration paid to acquisitions of these shares is presented as a deduction from equity attributable to owners of the Company. These shares are held by the Trustee for the purpose of granting shares to be awarded under the Share Award Scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2021, as the global economy recovered from the lowest point caused by the COVID-19 epidemic in the previous year, economies in Europe and the United States gradually relaxed relevant control measures. Many countries implemented large-scale relief and stimulus measures which restored economic activities and promoted the recovery in consumption. The Group's revenue also recovered from the epidemic to a level close to that in 2019. For the year ended 31 December 2021, the Group's total revenue amounted to HK\$2,404.4 million (2020: HK\$2,033.4 million), representing a year-on-year increase of 18.2%. The segments in downstream industries, such as mobile phones and wearable devices, commercial telecommunications equipment and smart home, recorded strong growth during the year, while the new segment of electronic atomizers also performed well.

Revenue Analyzed by Downstream Industries

Industry	2021		2020		Change	
	HK\$ million	%	HK\$ million	%	HK\$ million	%
Mobile phones and wearable devices	804.0	33.4	719.5	35.4	84.5	11.7
Automobiles	452.2	18.8	409.1	20.1	43.1	10.5
Medical and personal health care	411.5	17.1	431.3	21.2	-19.8	-4.6
Smart home	306.9	12.8	203.1	10.0	103.8	51.1
Commercial telecommunications equipment	170.3	7.1	99.9	4.9	70.4	70.5
Electronic atomizers	98.8	4.1	23.2	1.1	75.6	325.9
Household electrical appliances	66.7	2.8	22.0	1.1	44.7	203.2
Digital devices	17.6	0.7	31.9	1.6	-14.3	-44.8
Others	76.4	3.2	93.4	4.6	-17.0	-18.2
	<u>2,404.4</u>	<u>100.0</u>	<u>2,033.4</u>	<u>100.0</u>	<u>371.0</u>	<u>18.2</u>

As the impact of the new variants of COVID-19 continued in 2021, which resulted in the failure of full recovery of supply chain operation. The price of raw material continued to rise in the circumstance of the supply and demand imbalance. In addition, the shortage of global semiconductors affected the production plans and orders of certain customers. The frequent change of orders by customers also affected the production efficiency. During the year, the gross profit of the Group increased by 6.9% to HK\$569.2 million (2020: HK\$532.6 million), while gross profit margin dropped by 2.5 percentage points to 23.7% (2020: 26.2%).

During the year, the Group effectively controlled its selling and administrative expenses. Profit attributable to owners of the Company recorded HK\$282.4 million (2020: HK\$209.7 million), representing a significant increase of 34.7% as compared with last year. Net profit margin increased by 1.4 percentage points to 11.7% (2020: 10.3%). Basic earnings per share was HK\$0.34 (2020: HK\$0.25), representing an increase of 36.0% as compared with last year.

The Group has been committed to maintaining a sound financial position. Trade receivable turnover days decreased to 50 days as compared with that of last year. Despite of the lingering global logistics difficulty, inventory turnover days decreased to 98 days in 2021. In view of the recurring and spreading COVID-19 epidemic, the Group adopted a prudent attitude towards capital expenditure, which enabled the Group to maintain net cash of HK\$864.1 million (2020: HK\$786.9 million). The sound cash position has enabled the Group to flexibly respond to the uncertainties and challenges arising from the macro environment. In addition, since the traditional automobile industry was one of those being seriously affected by the supply chain imbalance, coupled with the declining production in Euro zone including Germany and insufficient supply of chips, automobile manufacturers significantly reduced their production targets, which had an impact on the orders for the manufacture of automotive molds. As at 31 December 2021, the Group had sales orders on hand amounting to HK\$918.3 million, which represented a slight decrease of 0.7% as compared with HK\$925.2 million as at 31 December 2020.

BUSINESS SEGMENT ANALYSIS

Mold Fabrication Business

During the year under review, the revenue of the mold fabrication segment from external customers amounted to approximately HK\$706.0 million, representing an increase of approximately 0.8% as compared with approximately HK\$700.2 million in last year, and accounting for approximately 29.4% 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. The clients mainly include first-tier component suppliers who manufacture automobiles 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 multi-cavity and efficiency, covering the markets of high-end consumer electronics products and commercial telecommunications equipment such as smart home, 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 more premium one-stop services for the customers.

During the year, the mold segment continued its good momentum in the second half of 2020. Customers actively launched new products and maintained stable mold demand. The revenue of the segment slightly increased by 0.8% to HK\$706.0 million (2020: HK\$700.2 million), while gross profit margin edged down by 0.3 percentage point to 27.1% (2020: 27.4%). The global economy is gradually recovering. However, under the macro uncertainties such as the extended impacts of the COVID-19 epidemic, the price negotiation pressure from customers has continued, and the market has also experienced fierce competition. In the face of market pressure, the Group will continue to improve its process technology, expand the scope of mold products, deepen customer relationships, provide high-quality mold products and design solutions, and maintain its competitive advantages. Given the opportunities for domestic sales brought by China's internal circular economy policies, the Group is actively exploring new domestic customers in addition to overseas export customers, to continue its customer diversification strategy.

Plastic Components Manufacturing Business

With the continuous improvement of vaccine coverage rates in developed countries around the world, the gradual recovery of economic activities, coupled with the surges in consumer demand, the global economy recovered in 2021. With rebounded orders from most downstream consumer electronics customers of the Group, sales from plastic injection business recovered from the COVID-19 epidemic and reached closely to the level in 2019. Revenue from the plastic components manufacturing segment amounted to approximately HK\$1,698.4 million (2020: HK\$1,333.2 million), representing an increase of 27.4% as compared with last year, accounting for approximately 70.6% of the total revenue of the Group.

The mobile phones and wearable devices segment achieved a year-on-year increase of 11.7% in revenue, which was due to the fact that the products of the wireless headsets brand customer and the smartphone protective cases brand customer were well received by the market, which led to a significant increase in the Group's orders. The Group actively explored domestic smartphone brands, Internet of Things and other customers to achieve continuous increase in domestic customer orders, which will further diversify the customer portfolio and drive the sustainable growth of the business of this segment.

The smart home segment recorded a significant year-on-year increase of 51.1% in revenue. Thanks to the stabilizing economy in Europe and the United States and the rapid recovery of consumer demand, various products of the Group's two major brand customers were mass-produced during the year. The abundant orders on hand indicate that the business of this segment is growing continuously, and it is believed that the smart home segment will become the future growth driver of the Group.

Medical and personal health care segment recorded a year-on-year decrease of 4.6% in revenue, mainly due to the temporary reduction of orders from personal health care customers resulting from the impact of semiconductor shortages for productions, but this did not affect the Group's strategic investment in this segment. The Group is actively developing well-known brand customers in the medical category at home and abroad, and is optimistic about the development of this sector in the long run.

The commercial telecommunications equipment segment recorded a significant year-on-year increase of 70.5% in revenue, which was due to the significant increase in sales resulting from the increase in supplier share of the Group during the supply chain restructuring of its customer. Although the customer's traditional products have gradually become saturated in the market, their newly developed products are well received by the market. In terms of the latest portfolio of supply chain, the Group remains as the main supplier of the customer's new products with stable prospects.

During the year under review, the gross profit margin of the plastic injection business decreased to 22.2% (2020: 25.6%), which was mainly attributable to raw material prices rising too fast, making it difficult for the cost to be fully passed on to customers in a short period of time, coupled with tight logistics, shortage of semiconductors, and interruption of production schedules, resulting in decline in production efficiency and machine utilisation. The Group's principal production capacity is located in the PRC, where COVID-19 epidemic prevention policies have obtained a relative success at present which enables the operation of the Group to be sustained. It is expected that with the improvement of material supply and the easing of logistics difficulties, coupled with a certain number of new projects entering the mass production stage, our capacity utilization rate will increase and our gross profit margin will return to a healthy level.

CLIENTS OF THE GROUP

As of 31 December 2021, sales of the Group were mainly export sales and our clients were mainly prestigious corporations and brands in Europe and America. Clients of the Group cover a wide range of industries, from automobile to household electrical appliances to mobile phones and wearable devices, smart home as well as medical and personal health care. As a key supplier of molds and plastics of high-end electronic products, the Group's orders are widely impacted by the launch time, popularity and life cycle of products of its downstream industry clients. However, being engaged in the molds and plastic injection industry for more than 30 years, the Group always sticks to the strategy of client diversity in order to manage and minimize risks efficiently. Currently, the Group has been widely recognized as a trustworthy business partner of various internationally known brands of consumer goods, including numbers of leading brands in many fast-growing industries such as smartphones, personal health care and smart home brand.

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2021 was approximately HK\$2,404.4 million, representing an increase of approximately HK\$371.0 million or 18.2% when compared with the revenue of approximately HK\$2,033.4 million in 2020.

In 2021, the revenue from external customers of the mold fabrication segment was approximately HK\$706.0 million, representing an increase of approximately HK\$5.8 million or 0.8% when compared with revenue of approximately HK\$700.2 million in 2020. During the year, the mold fabrication segment enjoyed a good momentum in second half of 2020 as customers actively launching new products to keep demand for moulds stable.

In 2021, the revenue from external customers of the plastic components manufacturing segment was approximately HK\$1,698.4 million, representing an increase of approximately HK\$365.2 million or 27.4% when compared with the revenue of approximately HK\$1,333.2 million in 2020. With the continuous increase of global vaccine coverage, gradual liberalization of economic activities, as well as the explosion of consumer demand and the global economic recovery in 2021, most of the Group's downstream electronics customers' orders rebounded, and sales of the plastic injection business have recovered from the impact of the COVID-19 epidemic to a similar level of 2019.

Gross Profit

Gross profit for the year ended 31 December 2021 was approximately HK\$569.2 million, representing an increase of approximately HK\$36.6 million or 6.9% as compared with the gross profit of approximately HK\$532.6 million in 2020. Gross profit margin dropped 2.5 percentage points to 23.7% (2020: 26.2%). The supply chain has not yet fully recovered resulting from the continuous impact of new variant of the coronavirus in 2021. The price of raw materials continued to rise due to a supply and demand imbalance. In addition, the global semiconductor shortage had a significant impact on the production plans and demand of customers, and frequent order adjustments by customers also affected production efficiency, resulting in a decrease in overall gross profit margin.

The gross profit margin for the mold fabrication segment slightly dropped 0.3 percentage point to 27.1% (2020: 27.4%). The global economy is gradually recovering. However, given a number of macro uncertainties such as the delayed impact of the COVID-19 epidemic, the bargaining pressure from customers continues and there is fierce competition in the market.

The gross profit margin for the plastic components manufacturing segment dropped 3.4 percentage points to 22.2% (2020: 25.6%), which was mainly attributable to the rapid increase in raw material prices in the short term, which makes it difficult to entirely pass on the costs to customers in the near term, coupled with tight logistics, shortage of semiconductors and stifled production scheduling, resulting in a decline in production efficiency and machine utilization.

Other Income

Other income for the year ended 31 December 2021 was approximately HK\$51.9 million, representing a decrease of approximately HK\$6.9 million or 11.8% when compared with that of approximately HK\$58.8 million in 2020, which was mainly attributable to the decrease in government grants income of the Group for the year.

Other Gains/(Losses) – Net

Other gains (net) for the year ended 31 December 2021 was approximately HK\$11.1 million, when compared to the other losses (net) of approximately HK\$30.8 million in 2020. In order to minimise the effect of fluctuation of the Euro exchange rate on the Group, the Group borrowed a Euro-denominated bank loan equivalent to the amount of the Group's existing orders from Europe to hedge the effects of fluctuations of the exchange rates of Euro on the Group.

Selling Expenses

Selling expenses for the year ended 31 December 2021 were approximately HK\$79.3 million (2020: HK\$71.1 million), representing an increase of approximately HK\$8.2 million or 11.4% when compared to 2020, and the percentage to sales was approximately 3.3% (2020: 3.5%), representing a decrease of 0.2 percentage point. The increase in selling expenses was mainly attributable to the increase in transportation expenses resulting from the increase in sales and ocean freight unit price.

Administrative Expenses

Administrative expenses for the year ended 31 December 2021 were approximately HK\$247.0 million (2020: HK\$254.7 million), representing a decrease of approximately HK\$7.7 million or 3.0% when compared to 2020, and the percentage to sales was 10.3% (2020: 12.5%), representing a decrease of 2.2 percentage points. The decrease in administrative expenses was mainly attributable to a decrease in one-off anti-epidemic cost.

Finance Income – Net

Net finance income for the year ended 31 December 2021 was approximately HK\$18.1 million, representing an increase of approximately HK\$13.1 million as compared to the net finance income of approximately HK\$5.0 million in 2020, which was primarily due to an increase of approximately HK\$9.5 million in interest income and a decrease of approximately HK\$3.6 million in interest expenses during the year.

Share of Profit of an Associate

Share of profit of an associate for the year ended 31 December 2021 was approximately HK\$0.5 million, representing a decrease of approximately HK\$0.2 million or 18.9% when compared with approximately HK\$0.7 million in 2020.

Income Tax Expense

Income tax expense for the year ended 31 December 2021 was approximately HK\$42.1 million (2020: HK\$30.9 million) and the effective tax rate was 13.0% (2020: 12.8%).

Profit for the Year Attributable to Owners of the Company

Profit for the year attributable to owners of the Company for the year ended 31 December 2021 was approximately HK\$282.4 million, representing an increase of approximately HK\$72.7 million or 34.7% when compared with approximately HK\$209.7 million in 2020.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group maintained a sound financial position during the year. As at 31 December 2021, the Group had net current assets of approximately HK\$1,163.0 million (31 December 2020: HK\$835.3 million). The Group had total cash and bank balances of approximately HK\$1,203.2 million (31 December 2020: HK\$1,069.1 million), including cash and cash equivalents of approximately HK\$1,027.6 million (31 December 2020: HK\$920.4 million) and restricted cash and deposits of approximately HK\$175.6 million (31 December 2020: HK\$148.7 million). The current ratio of the Group as at 31 December 2021 was approximately 220.7% (31 December 2020: 182.5%).

Total equity of the Group as at 31 December 2021 was approximately HK\$1,621.9 million (31 December 2020: HK\$1,394.6 million). The gearing ratio as at 31 December 2021 was approximately 20.9% (31 December 2020: 20.2%), which was approximate to that of 2020.

DEBT MATURITY PROFILE

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 1 year	194,229	223,800
Between 1 and 2 years	85,889	48,360
Between 2 and 5 years	59,051	10,075
	<u>339,169</u>	<u>282,235</u>

An analysis of the Group's key liquidity ratios as at 31 December 2021 is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Inventory turnover days (<i>Note 1</i>)	98	105
Trade receivable turnover days (<i>Note 2</i>)	50	54
Trade payable turnover days (<i>Note 3</i>)	62	74
Current ratio (<i>Note 4</i>)	220.7%	182.5%

Notes:

1. Inventory turnover days are calculated based on the average balance of inventories divided by the cost of sales for the relevant year multiplied by 365 days.
2. Trade receivable turnover days are calculated based on the average trade receivables divided by the revenue for the relevant year multiplied by 365 days.
3. Trade payable turnover days are calculated based on the average trade payables divided by the cost of sales for the relevant year multiplied by 365 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 year, the Group's inventory turnover days were 98 days, representing a decrease of 7 days when compared with that of 2020. The more turnover days last year were primarily attributable to the delay in orders delivery requested by some customers due to the impact of COVID-19 epidemic last year. This year, since global economic activities have gradually resumed, the orders delayed last year were gradually delivered this year.

TRADE RECEIVABLE TURNOVER DAYS

During the year, the Group's trade receivable turnover days were 50 days, representing a decrease of 4 days when compared with that of 2020. The more turnover days last year were mainly attributable to production suspension in various regions due to the impact of COVID-19 epidemic last year. This year, global economic activities were gradually back to normal, and the Group's trade receivable turnover days were also reverted to a level similar to the same period in 2019.

TRADE PAYABLE TURNOVER DAYS

During the year, the Group's trade payable turnover days were 62 days, representing a decrease of 12 days when compared with that of 2020, which was primarily due to the impact of COVID-19 epidemic last year. This year, global economic activities were gradually back to normal, and the Group's trade payable turnover days were also reverted to a level similar to the same period in 2019.

CURRENT RATIO

As at 31 December 2021, the Group's current ratio was 220.7%, representing an increase of 38.2 percentage points when compared with that of 2020, which was primarily attributable to the prudent cash flow management approach adopted by the Group, resulting in an increase in its cash and cash equivalents.

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 chief financial officer, 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 chief financial officer would collect and analyze information regarding various hedging instruments and determine stop-loss thresholds. The Group's chief financial officer would then collect quotations from various banks as to the financial instrument and present such quotations to the Group's chief executive officer, who 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 US dollar, RMB 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 year, 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. Future funding source is mainly from internal resources.

STAFF POLICY

As at 31 December 2021, the Group had 3,641 full-time employees (31 December 2020: 3,443) and 543 workers dispatched to us by third party staffing companies (31 December 2020: 636).

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 package for the Group's long-term growth and development. The Group also provides appropriate training and development programmes for 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 employees' productivity.

As required by PRC regulations, the Group has made 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 year ended 31 December 2021, the Group has made no material acquisitions or disposals of subsidiaries.

CONTINGENT LIABILITIES

As at 31 December 2021, the Group did not have any significant contingent liabilities.

PROSPECTS

The COVID-19 epidemic, over the past two years of its outbreak, has impacted on raw material supply, logistics, production, and even the global supply chain ecosystem. Together with trade measures implemented by various nations as well as geopolitical and economic conflicts, all these remain barriers to a full economic recovery. According to the Global Economic Prospects report published by the World Bank in earlier this year, the global growth is expected to decelerate from 5.5% in 2021 to 4.1% in 2022. Given the uncertainties of the macroeconomic environment, the customer diversification strategy upheld by the Group is superior, and can diversify our business risks across different economic cycles and cope with the ever-changing market. In fact, all segments of the Group have witnessed various degrees of recovery in business, while the new emerging sector also has contributed impetus to the growth.

With vaccine availability, governments in Europe and the United States have gradually eased restrictions and adopted a strategy of “live with the virus”. On this basis, consumer activities have gradually restored across various regions, especially reflecting in the growth of the plastic injection business segment. In 2020, the development and penetration of the smart home market in Europe and the United States were clearly constrained by the COVID-19 epidemic, and had gradually picked up with the easing of anti-epidemic measures and consuming desires improved in 2021. With the close partnership with the two giants in market, the Group has already produced new products for multi-brands for them, and is expected to maintain strong growth momentum and surpass the pre-epidemic business level in 2019. It is predicted that revenue from the smart home segment in the United States will maintain a sound development in the coming years at a compound annual growth rate of 12.8% to reach US\$46.8 billion by 2025. As for the electronic atomizers segment, the business scale will be continually expanding as the Group will orderly increase market share in domestic and overseas markets, and build business relationships with certain leading brands. With the increasing global demand, the global market for electronic atomizers equipment is estimated to reach US\$22.7 billion by 2024. Our management believes that the aforementioned segments will continue to make significant contributions to the Group’s revenue in 2022. For other mold and plastic businesses, the mobile phones and wearable devices segment will be driven by product upgrades along with the integration of emerging technologies (such as 5G, Internet of Things, AI and virtual reality) with consumer electronics products. For the commercial telecommunications equipment segment, our client has actively developed new products during the epidemic period leveraging its leading market position, and they are well appreciated by the market. These bring relatively strong order to the Group from the two sectors. For medical and personal health care segment, the Group has made significant progress in exploring medical-related customers in China and believes there will be a sound development in 2022.

In 2021, the Group's mold fabrication segment was hit apparently by unstable logistics of supply chain, mainly reflected in the reduction in orders from suppliers of automobiles components for ultra-large standard molds products, as numerous automobile brands in Europe reduced production to cope with the cost increase resulting from shortage of chips and disruptions of logistics. It is expected that the situation will affect the performance in mold business in 2022. However, the market expects the supply of chips will be back to normal gradually from the second half of 2022 to the end of the year; therefore, the Group will continue to keep close relationship with existing customers, in order to well prepare for the market recovery and seek more potential customers.

In view of the ongoing Sino-US trade war and the uncertainty brought by geopolitics, it is critical for the Group to layout its production facilities overseas for the purpose of diversifying the risks arising from a single production site. The Group has set up a plastic injection production base in Vietnam and commenced the first phase of production in November 2021, and schemed to start the second phase of production in the second half of 2022. It is expected the Vietnam site will mainly provide support to the production of smart home, mobile phones and wearable devices. Meanwhile, to set up plants in Vietnam will also help the Group to explore and tap into new markets in the local and nearby regions, so as to prepare for the long-term growth demand from the Southeast Asian supply chains and Europe and the United States.

With the uncertain environment, the Group still remains cautious and optimistic in the new financial year, and adheres to its most effective and fundamental business strategy of maintaining a strict and efficient credit and trade receivables turnover policy to stabilize cash flow and financial position. Meanwhile, the management is proactive in acquisition plans with development potential, seeking to keep pace with the industry trends and maintain the Group's competitive edge in the industry. In the past year, the Group expanded its investment in the production base in Huizhou and acquired Techco Silicone & Technology Co., Ltd. to diversify its production lines, which all made progressive achievement and successfully developed many potential new projects, providing room for further business development. In the coming year, the Group will also continue to invest in related projects, remain its diversified business layout and establish close relationships with industry leaders. On the one hand, the Group continues to support its long-standing overseas customers to realize their global market expansion plans; on the other hand, the Group also continues to expand its domestic market, particularly for strong and industry-leading corporation brands, striving to help its customers capture the opportunities of the national dual-circulation policy and enter the international market.

The Group is confident to maintain its competition edge of customer diversification to embrace the changes and challenges in the new year, and to create value for its customers and shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES 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 year ended 31 December 2021.

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 year ended 31 December 2021.

AUDIT COMMITTEE

The Audit Committee comprises 3 members, namely, Mr. Tsang Wah Kwong (Chairman), Dr. Chung Chi Ping Roy and Ms. Christine Wan Chong Leung. All are independent non-executive directors of the Company. The primary duties of the Audit Committee are to review and supervise the Group's financial reporting process and risk management and internal control systems.

As part of the process of the annual review, the Audit Committee and the Board have performed evaluation of the Group's accounting, internal audit and financial reporting functions, to ensure the adequacy of resources, qualifications and experience of staff for the functions, and the training programmes and budget.

The Audit Committee has reviewed with the management the annual results, the accounting principles and practices adopted by the Group for the year ended 31 December 2021 and discussed the Group's auditing, risk management and internal control and financial reporting matters.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the announcement of the Group's results for the year ended 31 December 2021 have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants, and consequently no assurance has been expressed by PricewaterhouseCoopers on the results announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' dealings in the Company's securities.

Having made specific enquiry to the directors, all directors confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2021.

DIVIDEND

It is the policy of the Board, in considering the payment of dividends, to allow shareholders of the Company to participate in the Company's profits whilst retaining adequate reserves for the Group's future growth. The Board shall consider the following factors before declaring or recommending dividends:

- the Group's actual and expected financial performance;
- retained earnings and distributable reserves of the Company and each of the members of the Group;
- the Group's working capital requirements, capital expenditure requirements and future expansion plans;
- the Group's liquidity position;

- general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and
- other factors that the Board deems relevant.

The payment of dividend is also subject to compliance with applicable laws and regulations including the laws of the Cayman Islands and the Company's Articles of Association. The Board will continually review the said dividend policy from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period.

After considering the above-mentioned factors, the Board has recommended the payment of a final dividend of HK8.6 cents per share for the year ended 31 December 2021 to the shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 9 June 2022, amounting to a total of approximately HK\$71,660,000. The proposed final dividend is subject to the approval of the shareholders at the forthcoming AGM. The final dividend, if approved, is expected to be paid on Monday, 27 June 2022.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM to be held on Monday, 30 May 2022, the register of members of the Company will be closed from Wednesday, 25 May 2022 to Monday, 30 May 2022, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, unregistered shareholders of the Company should ensure that all share transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 24 May 2022.

For determining the entitlement to the aforesaid proposed final dividend, the register of members of the Company will be closed from Tuesday, 7 June 2022 to Thursday, 9 June 2022, both dates inclusive, during which period no transfer of shares will be registered. In order to be qualified for the proposed final 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 Company's branch share registrar in Hong Kong at the above address for registration not later than 4:30 p.m. on Monday, 6 June 2022.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement of the Company for the year ended 31 December 2021 is available for viewing on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.tkmold.com.

An annual report for the year ended 31 December 2021, containing all the information required by the Listing Rules, will be despatched to the shareholders of the Company and published on the above websites in due course.

By Order of the Board
TK Group (Holdings) Limited
Li Pui Leung
Chairman

Hong Kong, 25 March 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.