



東江集團(控股)有限公司

TK GROUP (HOLDINGS) LIMITED (Stock code: 2283)



2020 Annual Results

*The World's Leading
One-stop Plastics Solutions Provider*



About TK Holdings

Stock code	:	2283.HK
Listing date	:	December 2013
No. of issued share capital (as at 26 March 2021)	:	833,260,000 shares
Share price (as at 26 March 2021)	:	HK\$2.78
Market cap (as at 26 March 2021)	:	HK\$2.32 billion

Stock Price Performance

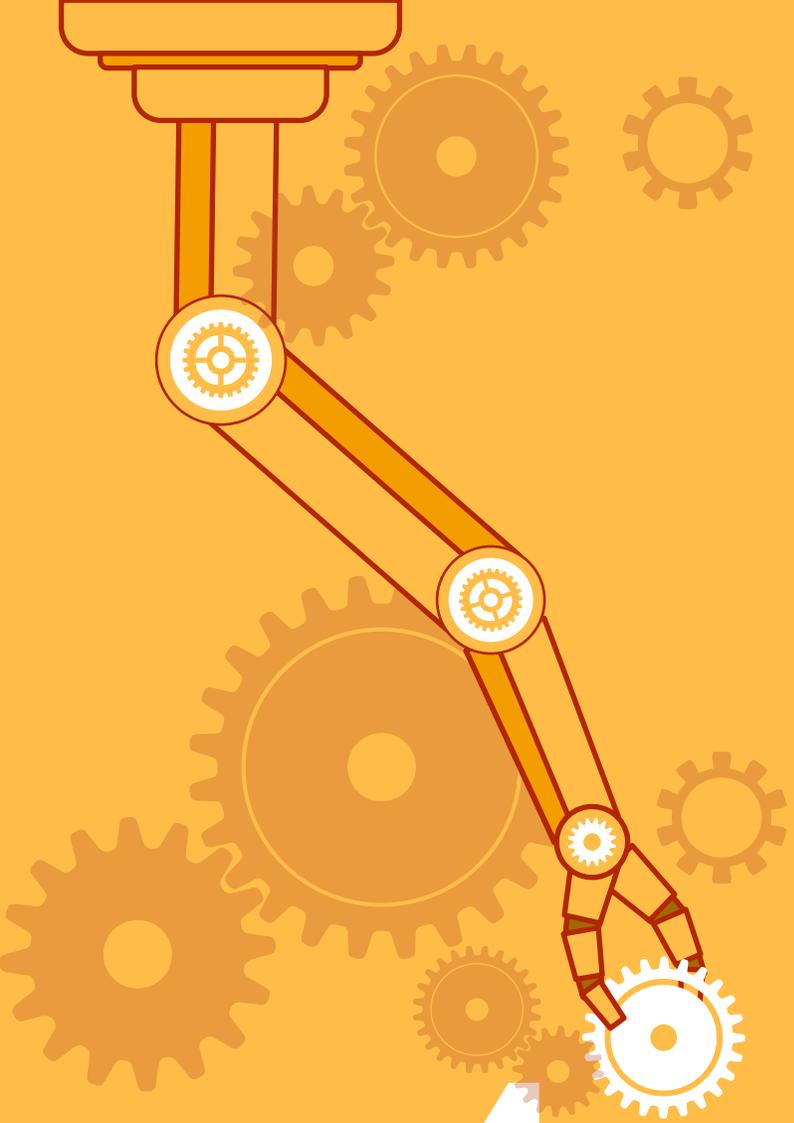


Results Highlights

- In 1H2020, most of the major customers postponed orders due to the impact of the COVID-19 epidemic, dragged down the Group's interim results. In 2H2020, with Chinese government's effective anti-epidemic measures, economic activities recovered and the market gradually coped with the new normal amid the epidemic, and led to the resumption of new product development and launch
- Downstream segments **Medical and health care, Automobiles, Mobile phones and wearable devices recorded growth**
- **Considerable orders secured on hand** reached HK\$925.2million, **increased by 4.8% yoy**
- A high technology company with **high dividend payout, payout ratio at 39.7%**

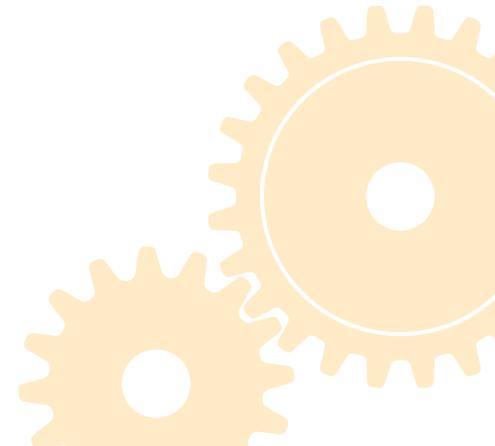
2020 Annual Results

HK\$'000	2020	yoy growth
Revenue	2,033,419	↓12.0%
Net Profit	209,687	↓30.5%
Basic earnings per share (HK cents)	25.0	↓30.6%
Proposed final dividend per share (HK cents)	8.0	↓11.1%
Full-year dividend payout ration (Including interim dividend: 2 HK cents)	39.7%	↑1.0p.p.
Gross profit margin	26.2 %	↓2.7p.p.
Net profit margin	10.3%	↓2.8p.p.



4. INDUSTRY

Business Review





Achieved V-Shaped Rebound Despite Covid-19 Impact

1H2020

- Production resumption was delayed by a week to 10 February 2020
- Insufficient work resumption rate due to the travel restrictions

- Postponement of delivery for most overseas orders at the request of customers
- Low capacity utilization as a result

- Salaries of all EDs and senior management reduced by 20% since 1 April 2020
- Various cost-saving measures were effectively implemented

Maintained Strong Cash Flow and Cash Position

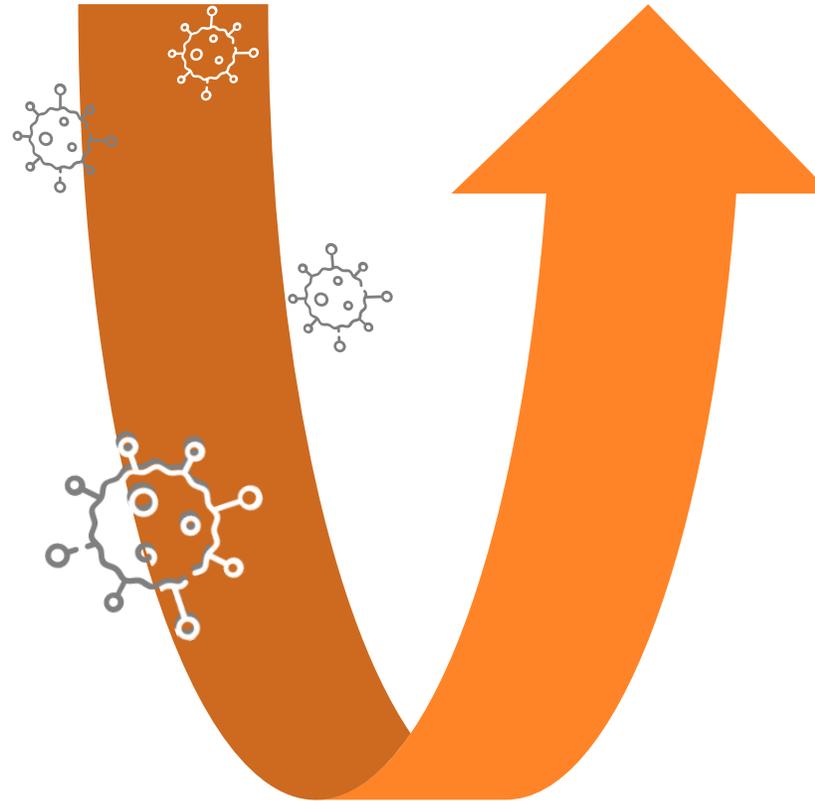
2H2020

- Other countries **gradually cope with the changes from the epidemic** and the new normal lifestyle, **demand for certain consumer electronic products recovered steadily with V-shaped rebound**

- **Packed orders in 2H2020** and sales were better than expected, **rebounded to a similar level yoy of last year**

- Apart from the improving market conditions, sales recovery in 2H2020 were mainly contributed from:

- ✓ **Continuous Diversification** of products and customers
- ✓ **Molding technology advantage** and the **guarantee of product quality**
- ✓ **Gradual commencement of projects from new customers**





Diversified Customer Network



2020 top six customers

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

▶ The top six customers contributed **52.0%** of TK's revenue in 2020



Projects on hand for 2021

Industry	Amount (HK\$'000)
Automobile	418.8
Medical and health care	167.1
Mobile phones and wearable devices	94.6
Smart home	78.3
Others	63.3
Household electric appliance	60.9
Commercial telecommunications equipment	33.3
Digital devices	8.9
Total	925.2

Projects on hand as at **31 December 2020**

Amounted to **HK\$ 925.2 million**

▲ **4.8%** compared with 2019-year end



Development Strategies

01

Riding on China's stimulus measures & 'Internal Circulation' Strategy, Develop new domestic customers

02

Expand capacity of three PRC production bases to cater the rise of orders
Continuous enhancement in intellectualization

03

Overseas expansion: set up an injection moulding production base in Vietnam, will commence production 4Q2021

04

With a healthy financial position, continue to seek M&A opportunity & further investment in Medical and Healthcare business

06

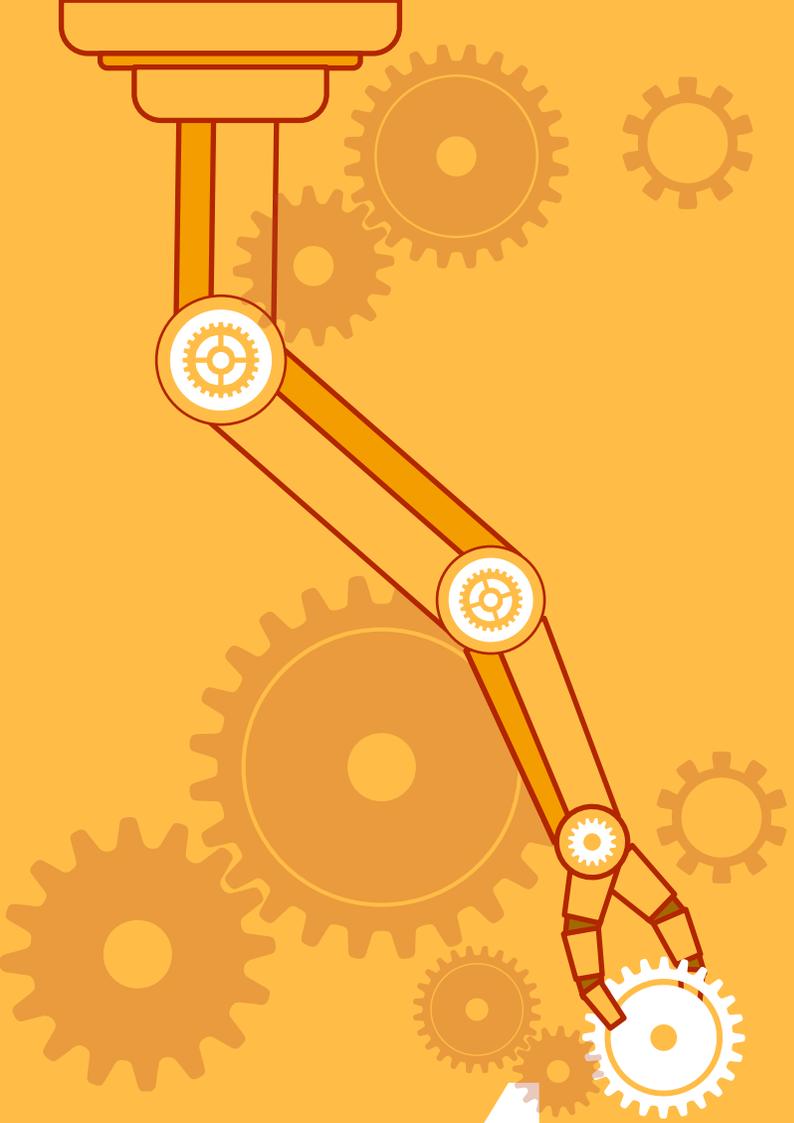
More focus on Precision Mold on tooling business

05

More aggressive pricing strategy. Target to double revenue in five years

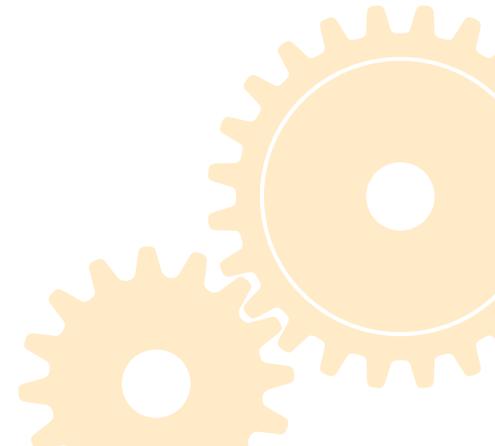


In February 2021, the Group acquired all assets of Techco Silicone & Technology Co., Ltd.



4. INDUSTRY

2020 Annual Results





Key Financials

For the year ended 31 December			
HK\$ '000	2019	2020	Change
Revenue	2,310,842	2,033,419	↓12.0%
Gross profit	667,475	532,633	↓20.2%
Operating profit	361,523	234,858	↓35.0%
Profit attributable to owners of the Company	301,803	209,687	↓30.5%
Basic earnings per share (HK cents)	36	25	↓30.6%
Gross profit margin	28.9%	26.2%	↓2.7p.p.
Net profit margin	13.1%	10.3%	↓2.8p.p.
Dividend per share (HK cents)			
- Interim	5.0	2.0	↓60.0%
- Final	9.0	8.0	↓11.1%
Dividend payout ratio	38.7%	39.7%	↑1.0p.p.

- In 1H2020, most of the Group's major customers postponed orders due to the impact of the COVID-19 epidemic. In 2H2020, the market gradually coped with the new normal and led to new product development resumption and market plans launch. Full year decline narrowed

- Daily operation was impacted by the implementation of the quarantine and social restrictions by many countries in respond to the epidemic
- In1H2020, the customers of the Group postponed delivery dates and new orders, resulting in a higher idleness ratio of the machines

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



Revenue

700.2

HK\$ million

↑18.5%

27.4%

Gross Profit Margin

↓7.8p.p.



- Since the **Sino-US trade war** in 2018, the Group was under price pressure from its customers. Together with the **keen competition from the overseas peers**, the gross profit margin was squeezed
- The Group made **great efforts to explore new customers in medical and healthcare segment** over the past few years. The increase in mold delivery during the year **drove a segment growth of 165.5%**





Revenue

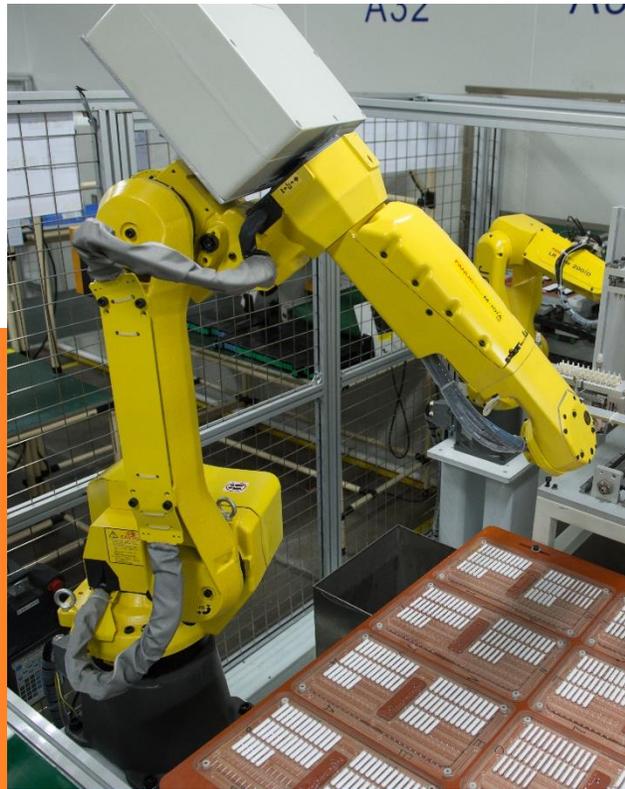
1,333.2
HK\$ million

↓ 22.5%

25.6%

Gross Profit Margin

↓ 1.1p.p.



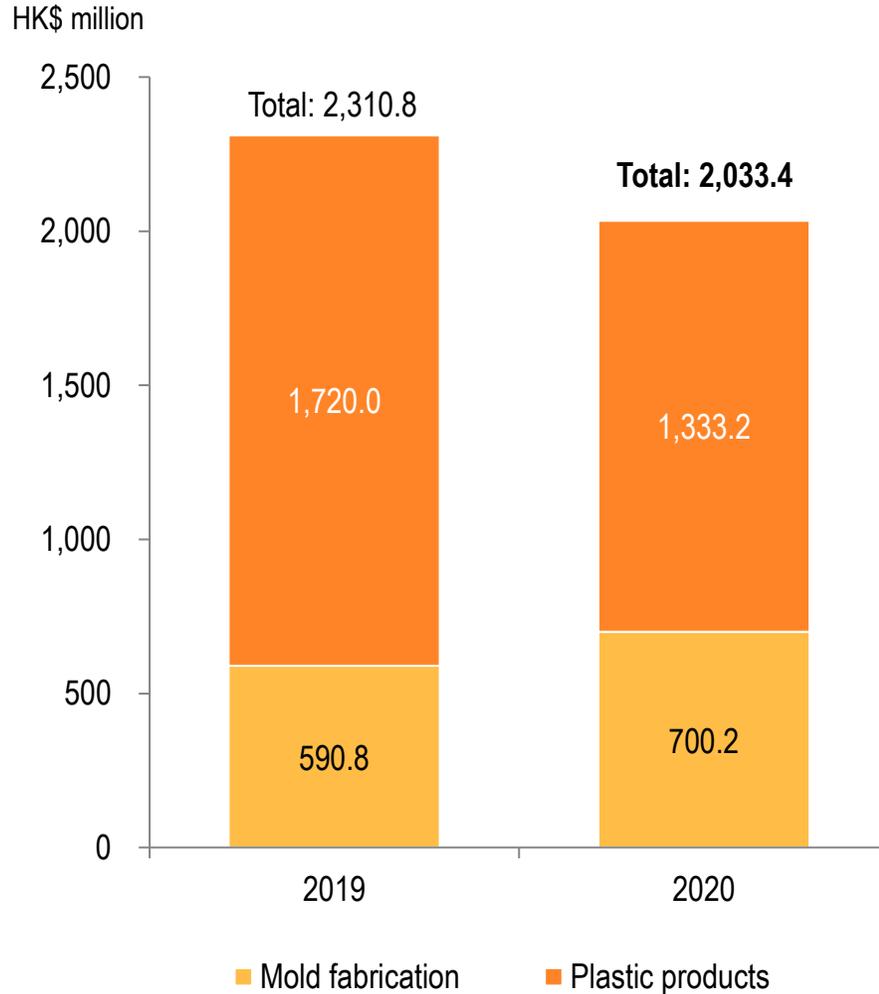
Segment revenue decreased mainly due to :

- Benefiting from the Group's diversified customer portfolio strategy and the Chinese government's effective anti-epidemic measures, the Group's production was quickly recovered and its revenue decline for the year was significantly narrowed compared to 1H2020
- **Mobile phones and wearable devices segment revenue increased 3.7% yoy**, mainly due to (1) new products launched by a smartphone cases brand customer, (2) products of a wireless headset brand customer were well received by the public, (3) however, a smartphone brand customer reduced their orders for standard products
- **Medical and health care segment revenue increased 7.0% yoy**. The Group already obtained several new large customers, including an overseas brand customer engaging in the medical consumables business and a domestic listed company. Several sets of molds were successfully tailor-made and expected to be used in the mass production of plastic components in 2021

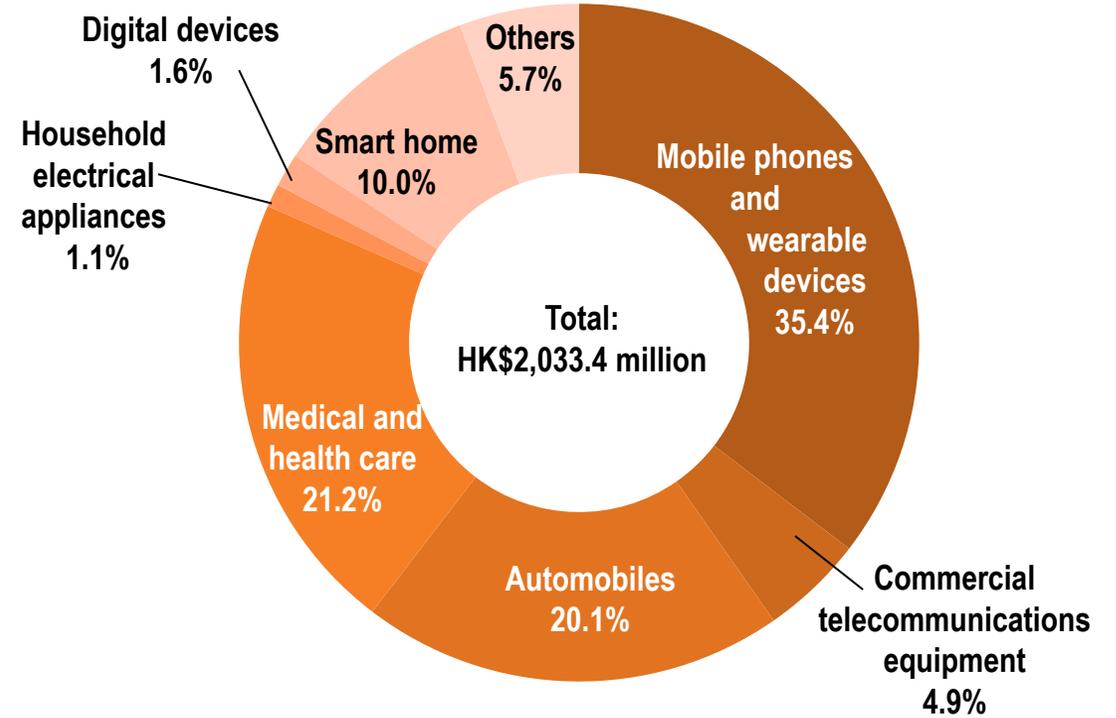




Breakdown by business segment



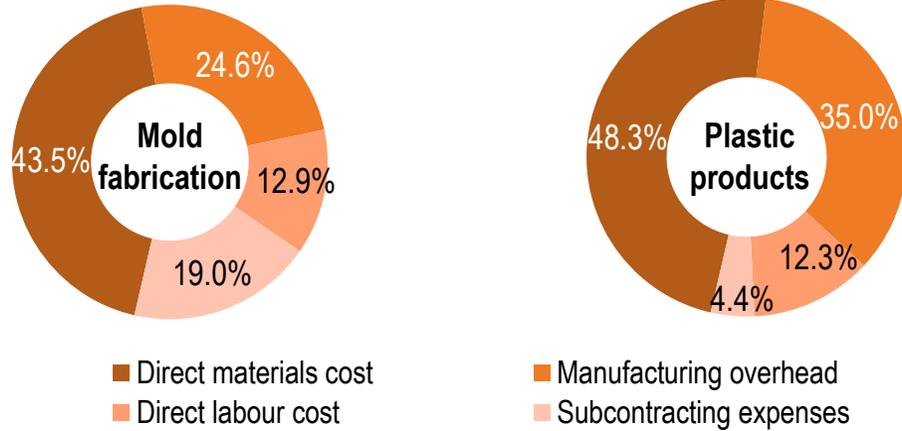
Breakdown by downstream industry



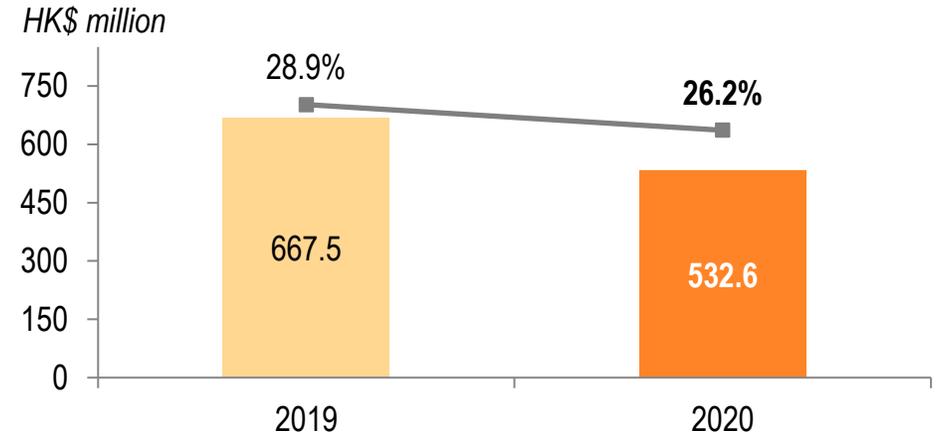
High-growth segments	yoy growth
Medical and health care	↑41.0%
Automobiles	↑6.2%
Mobile phones and wearable devices	↑3.7%



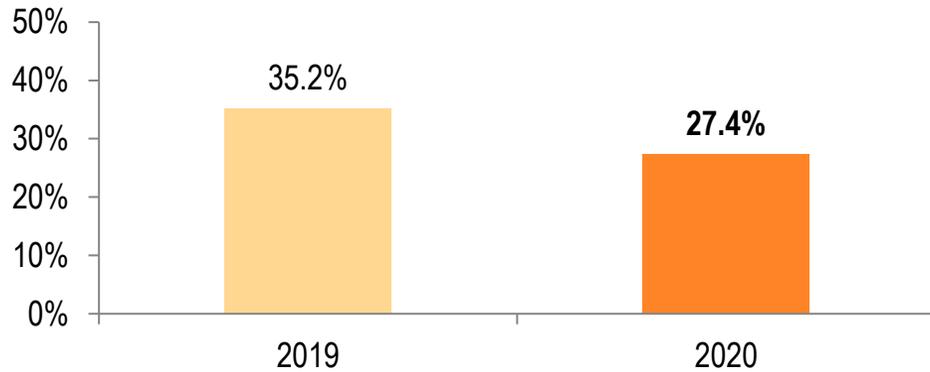
Cost of sales



Gross profit & gross profit margin

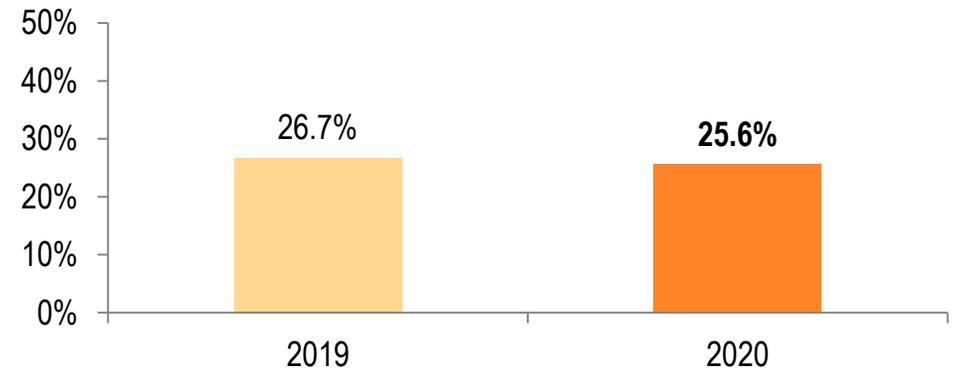


Gross profit margin – Mold fabrication



▪ Bargaining pressure from customers and fierce competition from overseas counterparts, resulting in lower prices

Gross profit margin – Plastic products



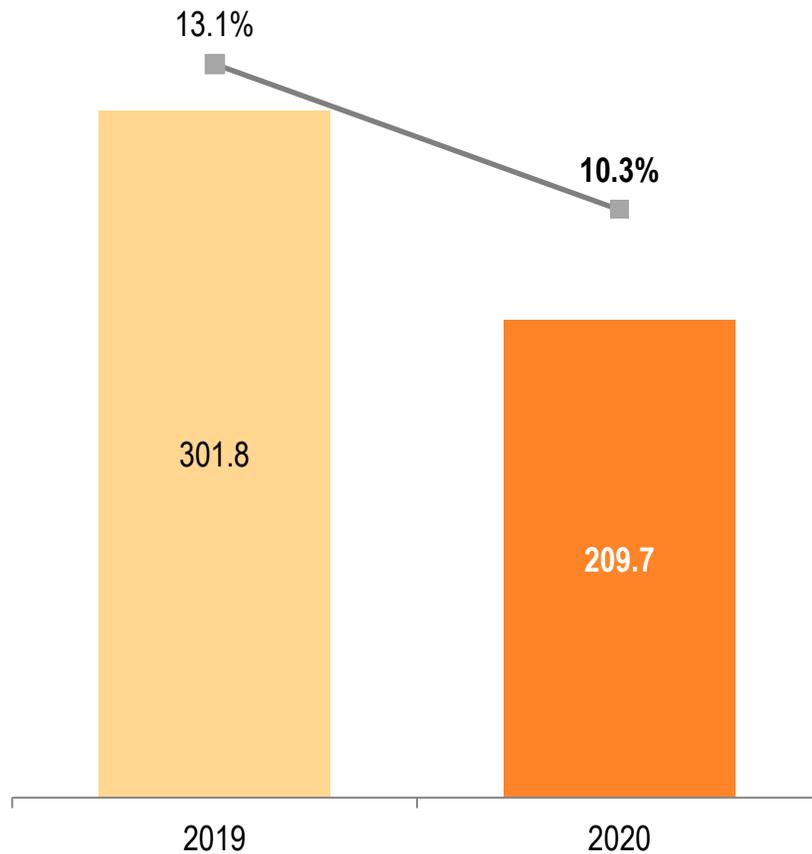
▪ Affected by Covid-19 in 1H2020, idleness ratio of machines increased resulting from the delayed production of projects



Net Profit Analysis

Net profit & net profit margin

HK\$ million



Key expenses

HK\$ million	2019	2020	Change
Selling expenses	80.7 (3.5% of revenue)	71.1 (3.5% of revenue)	↓11.8%
Administrative expenses	269.6 (11.7% of revenue)	254.7 (12.5% of revenue)	↓5.5%
Finance Income / (expenses) - net*	-1.4	5.0	- to +
Income tax expense	58.7 (16.3% of profit before tax)	30.9 (12.8% of profit before tax)	↓47.4%

*Finance Income/ (expenses) -net = Interest income – Interest expenses



Key Financial Indicators

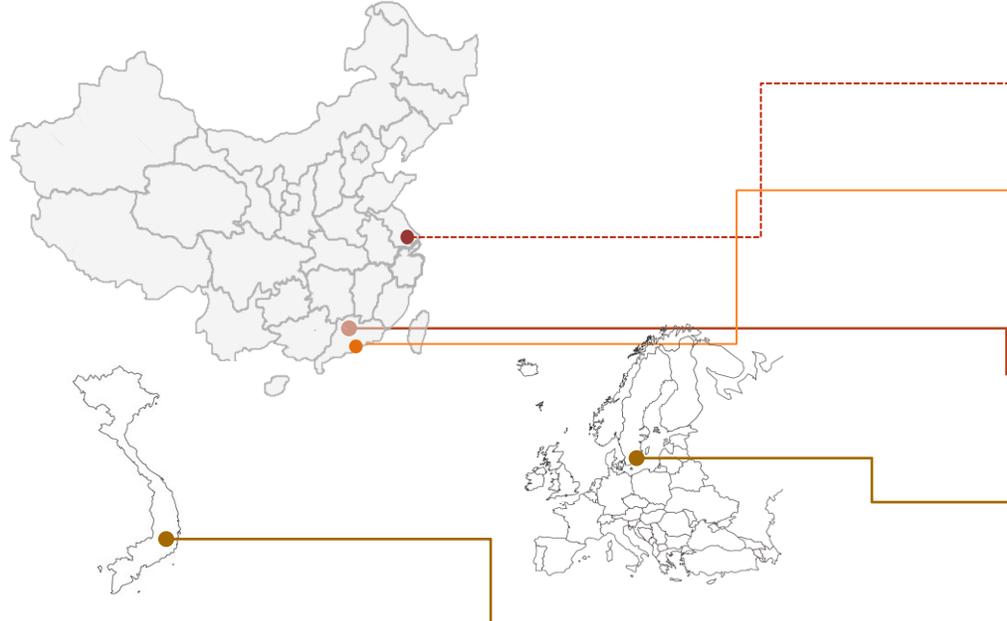
HK\$ '000	As at 31 December 2019	As at 31 December 2020	Change
Net current assets	619,628	835,259	↑34.8%
Cash and cash equivalents	735,110	1,069,120	↑45.4%
Current ratio	170.1%	182.5%	↑12.4p.p.
Quick ratio	125.2%	138.3%	↑13.1p.p.
Gearing ratio	20.3%	20.2%	↓0.1p.p.
Net gearing ratio[#]	0.0%	0.0%	--
Return on assets	13.0%	8.2%	↓4.8p.p.
Return on equity	25.3%	15.0%	↓10.3p.p.

Net gearing ratio = (Total borrowings – cash & deposits for bank borrowings) / Total equity x 100%
 (Net cash as at 31 Dec 2019 and 31 Dec 2020 were HK\$ 493,150,000 and HK\$ 786,885,000 respectively, thus Net gearing ratio is 0%.)

For the year ended 31 December	2019	2020	Change
Net cash generated from operating activities (HK\$'000)	443,800	518,110	↑16.7%
Inventory turnover days	83	105	↑22
Trade receivable turnover days	49	54	↑5
Trade payable turnover days	65	74	↑9



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	TK Mold	<i>High-tech enterprise</i>	33,130 sq.m.
	TK Plastics Products	<i>High-tech enterprise</i>	88,407 sq.m.
Location	Shenzhen, Guangdong Province		G.F.A
Production base	TK Plastics Products		15,994 sq.m.
Location	Shenzhen, Guangdong Province		G.F.A
Production base	TK Mold		1,203 sq.m.
Location	Vietnam		G.F.A
Production base	TK Precision Technology	Installation of production line to be completed in Q3	

Rented

New

Utilisation of Machines



	2019	2020	Change
Mold fabrication			
Utilisation rate	91.2%	89.7%	↓1.5p.p.



	2019	2020	Change
Plastic products			
Utilisation rate	56.3%	41.0%	↓15.3p.p.

Affected by Covid-19, idleness rate increased



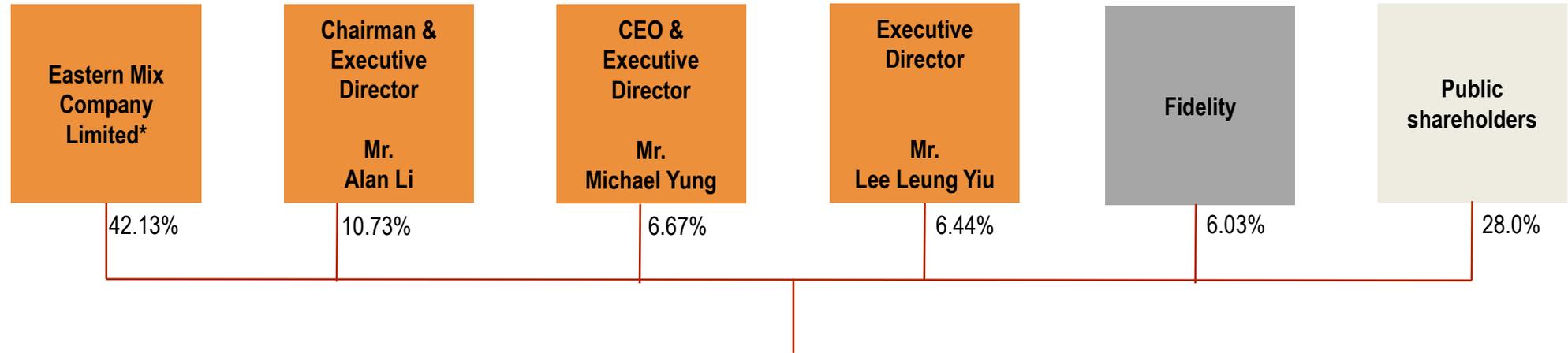
Calculation of Utilisation Rate

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

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



Shareholding Structure

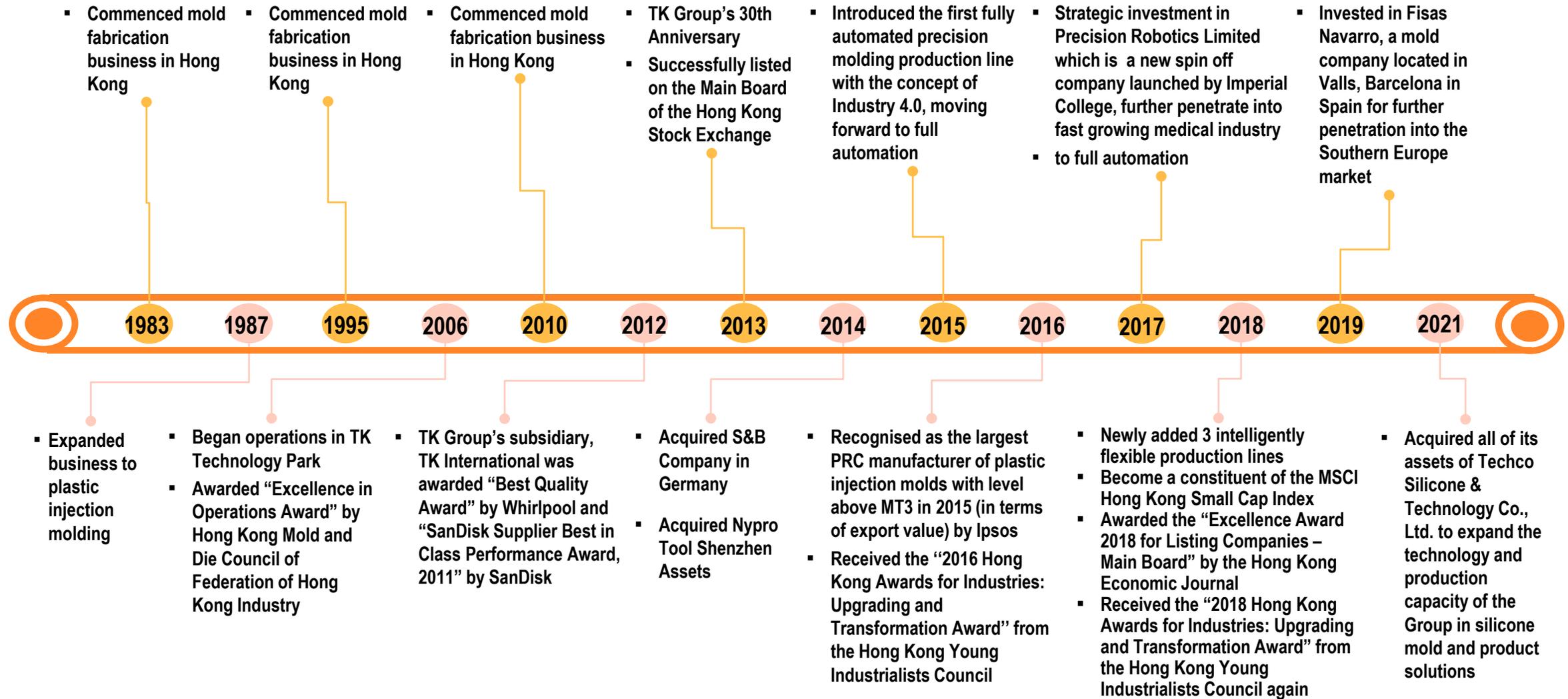


Number of issued shares (as of 26 March 2021): 833,260,000 shares

*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

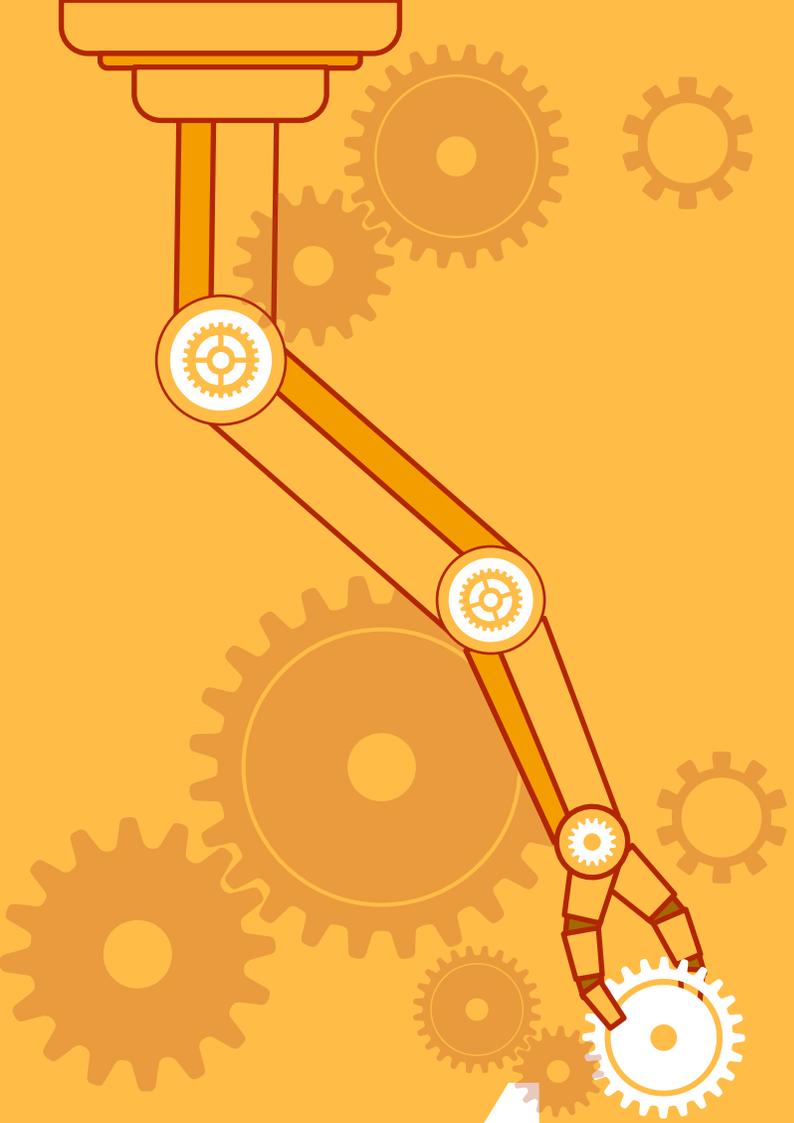


Corporate Milestones



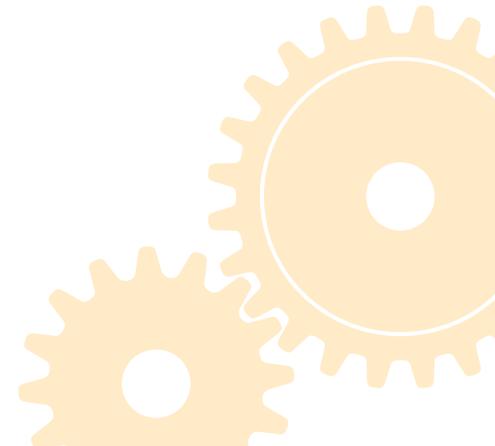


Name & title	Major responsibilities	Years of professional experience
 <p>Mr. Alan Li <i>Chairman & Executive Director</i></p>	<ul style="list-style-type: none">▪ One of the founders of the Company▪ Responsible for overall management and strategic planning	<ul style="list-style-type: none">▪ More than 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 30 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 30 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.



4. INDUSTRY

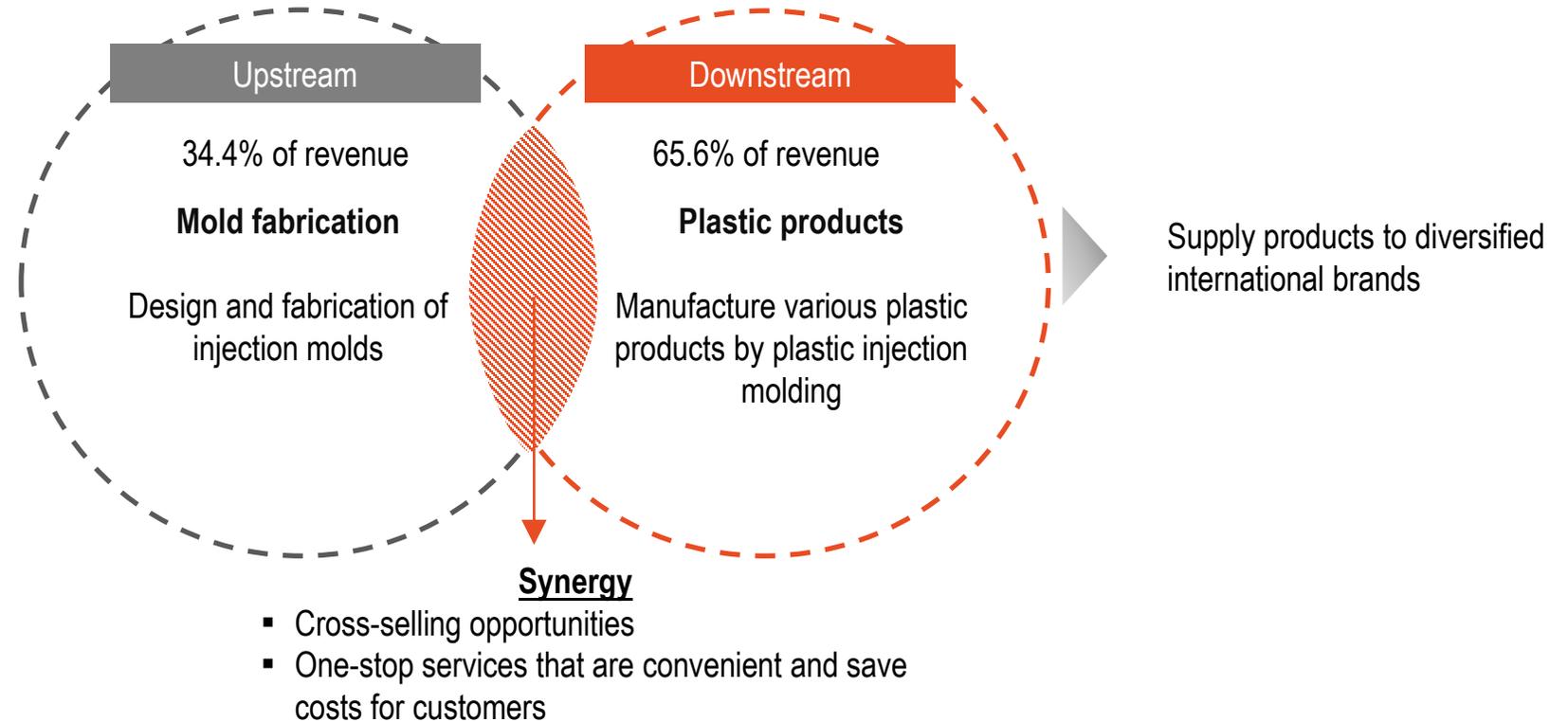
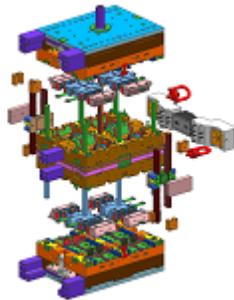
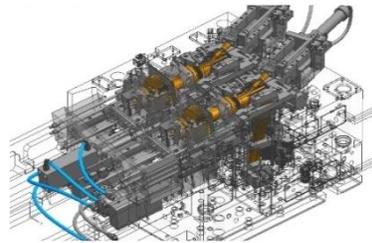
Appendix





For the year ended 31 December 2020

Leading One-stop Plastics Solutions Provider



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

Source: Ipsos



Smart home



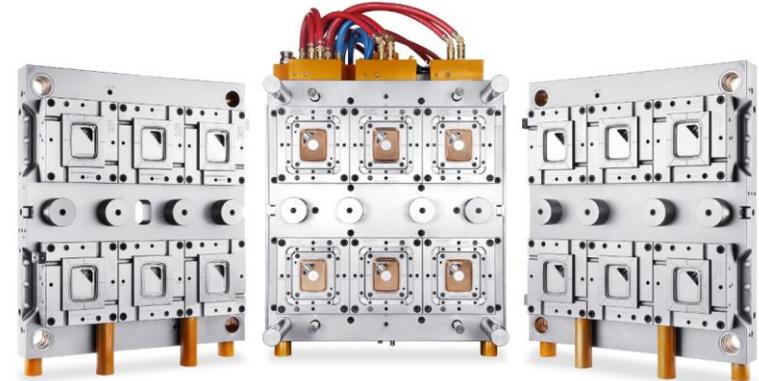
Medical and health care



Mobile phones and wearable devices



Mobile phones and wearable devices





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 2020 GP margin: 27.4%

- 71 patents:
 - 5 invention patents
 - 6 software patents
 - 60 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 2020 GP margin: 25.6%

- 116 utility model patents
 - 1 invention patent
 - 115 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





Consolidated Income Statement

For the year ended 31 December		
HK\$ '000	2019	2020
Revenue	2,310,842	2,033,419
Cost of sales	(1,643,367)	(1,500,786)
Gross profit	667,475	532,633
Other income	50,147	58,835
Other losses — net	(5,842)	(30,761)
Selling expenses	(80,690)	(71,130)
Administrative expenses	(269,567)	(254,719)
Operating profit	361,523	234,858
Interest income	20,220	15,025
Interest expenses	(21,615)	(9,991)
Share of net profit of an associate accounted for using the equity method	371	650
Profit before income tax	360,499	240,542
Income tax expense	(58,696)	(30,855)
Profit for the Year attributable to owners of the Company	301,803	209,687
Basic earnings per share (HK cents)	36	25
Dividends per share (HK cents)	14	10
Gross profit margin	28.9%	26.2%
Net profit margin	13.1%	10.3%



Consolidated Statement of Financial Position

HK\$ '000	As at 31 December 2019	As at 31 December 2020
Non-current assets	820,598	724,362
Investment in an associate	15,526	16,176
Property, plant and equipment	592,278	556,903
Intangible assets	13,831	24,141
Prepayments for property, plant and equipment	22,812	10,083
Right-of-use assets	142,530	83,438
Financial assets at fair value through profit or loss	33,621	33,621
Current assets	1,503,945	1,847,949
Inventories	397,041	447,095
Amount due from a related company	—	10,898
Trade and other receivables	371,794	320,836
Deposits for bank borrowings	134,594	148,231
Restricted cashes	17,638	443
Cash and cash equivalents	582,878	920,446
Total assets	2,324,543	2,572,311
Non-current liabilities	248,761	165,066
Bank borrowings	75,911	58,435
Lease liabilities	92,671	19,536
Deferred income on government grants	36,442	46,421
Deferred income tax liabilities	43,737	40,674
Current liabilities	884,317	1,012,690
Trade and other payables	411,751	456,370
Contract liabilities	226,663	245,955
Income tax liabilities	21,299	7,471
Bank borrowings	166,049	223,800
Lease liabilities	58,555	79,094
Total liabilities	1,133,078	1,177,756
Net current assets	619,628	835,259
Equity		
Share capital	83,326	83,326
Share premium	251,293	251,293
Shares held for employee share scheme	(5,517)	(10,416)
Other reserves	21,188	126,026
Retained earnings	841,175	944,326
Total equity	1,191,465	1,394,555



Thank You

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