力勁科技集團有限公司

L.K. Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 558)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

The board (the "Board") of directors (the "Directors") of L.K. Technology Holdings Limited (the "Company") presents the unaudited condensed consolidated interim financial information of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2019.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2019

		(Unaudited) Six months ended 30 September	
		2019	2018
	Note	***HK$'000***	*HK$'000*
Revenue	3	**1,455,201**	1,927,951
Cost of sales	5	**(1,082,490)**	(1,419,847)
Gross profit		**372,711**	508,104
Other income	3	**30,207**	29,622
Other losses – net	4	**(9,849)**	(9,160)
Selling and distribution expenses	5	**(143,492)**	(171,650)
General and administrative expenses	5	**(171,152)**	(187,749)
Operating profit		**78,425**	169,167
Finance income		**2,422**	2,680
Finance costs		**(41,612)**	(39,250)
Finance costs – net	6	**(39,190)**	(36,570)
Share of (loss)/profit of an associate		**(1,926)**	628
Profit before income tax		**37,309**	133,225
Income tax expense	7	**(21,416)**	(29,860)
Profit for the period attributable to owners of the Company		**15,893**	103,365
		HK cents	*HK cents*
Earnings per share for profit attributable to owners of the Company during the period (expressed in HK cents per share)			
– Basic	8(a)	**1.3**	8.7
– Diluted	8(b)	**1.3**	8.7

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2019

	(Unaudited) Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
Profit for the period	**15,893**	103,365
Other comprehensive loss for the period:		
Item that may be reclassified to profit or loss		
Currency translation difference	**(147,232)**	(218,138)
Item that will not be reclassified to profit and loss		
Change in value of insurance policy investments	**232**	233
Total comprehensive loss for the period, net of tax, attributable to owners of the company	**(131,107)**	(114,540)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2019

	Note	(Unaudited) 30 September 2019 HK$'000	(Audited) 31 March 2019 HK$'000
Non-current assets			
Intangible assets		**11,527**	11,462
Property, plant and equipment		**905,736**	1,011,716
Right-of-use assets		**355,422**	–
Investment properties		**312,179**	328,614
Land use rights		**–**	340,979
Interest in associates		**26,991**	32,848
Other receivables and deposits		**31,115**	12,729
Deferred income tax assets		**82,466**	83,220
Trade and bills receivables	10	**22,469**	19,901
Insurance policy investments		**12,379**	12,147
Financial asset at fair value through other comprehensive income		**5,556**	5,882
Restricted bank balances		**581**	2,364
Total non-current assets		**1,766,421**	1,861,862
Current assets			
Inventories		**1,115,414**	1,197,255
Trade and bills receivables	10	**1,133,740**	1,288,642
Other receivables, prepayments and deposits		**156,183**	193,841
Restricted bank balances		**83,738**	44,485
Cash and cash equivalents		**568,054**	634,699
Total current assets		**3,057,129**	3,358,922
Total assets		**4,823,550**	5,220,784
Equity			
Share capital		**119,127**	119,127
Reserves		**814,757**	961,757
Retained earnings		**1,057,361**	1,067,676
Total equity		**1,991,245**	2,148,560

	Note	(Unaudited) 30 September 2019 HK$'000	(Audited) 31 March 2019 HK$'000
Non-current liabilities			
Deferred income tax liabilities		**19,807**	20,445
Borrowings		**296,152**	438,174
Lease liabilities		**28,973**	–
Other payables		**7,147**	7,818
Total non-current liabilities		**352,079**	466,437
Current liabilities			
Trade and bills payables, other payables, deposits and accruals	11	**1,019,565**	1,265,298
Borrowings		**1,434,665**	1,313,321
Lease liabilities		**8,372**	–
Current income tax liabilities		**17,624**	27,168
Total current liabilities		**2,480,226**	2,605,787
Total liabilities		**2,832,305**	3,072,224
Total equity and liabilities		**4,823,550**	5,220,784

NOTES:

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial information for the six months ended 30 September 2019 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. In addition, the condensed consolidated interim financial information has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing this condensed consolidated interim financial information.

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 and interpretation as set out below.

Income tax expenses in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

a. New and amended standards and interpretation adopted by the Group

A number of new and amended standards and interpretation became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following standards:

Annual Improvements to 2015–2017 Cycle	Improvements to HKFRS
HKAS 19 (Amendments)	Employee Benefits
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HKFRIC 23	Uncertainty over Income Tax Treatments

The impact of the adoption of adopting HKFRS 16 Leases is disclosed in Note 1b below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

b. Impact of adoption on financial statements – HKFRS 16 Leases

HKFRS 16 has resulted in almost all leases being recognised on the condensed consolidated statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right-to-use of the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Group has adopted HKFRS 16 from 1 April 2019, but has not restated comparative figures for the six months ended 30 September 2018 and as of 31 March 2019, as permitted under the simplified transition approach in the standard. The reclassifications and adjustments arising from the new standard are therefore recognised in the opening condensed consolidated statement of financial position on 1 April 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 3.60%.

	As at 31 March 2019
	HK$'000
Operating lease commitments disclosed at 31 March 2019 (Audited)	48,524
Discounted using lessee's incremental borrowing rate as of 1 April 2019	42,255
Less: short-term leases recognised on a straight-line basis as expense	(408)
Less: low value leases recognised on a straight-line basis as expense	(615)
Lease liabilities recognised as at 1 April 2019	41,232
Analysed into:	
Current lease liabilities	4,300
Non-current lease liabilities	36,932
	41,232

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the condensed consolidated statement of financial position as at 1 April 2019.

The change in accounting policy affected the following items in the condensed consolidated statement of financial position on 1 April 2019:

- Land use rights – decrease by HK$340,979,000
- Right-of-use assets – increase by HK$382,218,000
- Prepayments – decrease by HK$7,000
- Lease liabilities – increase by HK$41,232,000

There is no impact on retained earnings on 1 April 2019.

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HKFRIC 4 Determining whether an Arrangement contains a Lease.

The Group's leasing activities and how these are accounted for

The Group mainly leases various properties and lands. Rental contracts are typically made for fixed periods of 1 to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Before the 1 April 2019, leases of properties were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments)
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2 SEGMENT INFORMATION

The Group determines its operating segments based upon the internal reports reviewed by the chief operating decision maker ("CODM") that are used to make strategic decisions. Segment results represent the profit/(loss) for the period before corporate expenses in each reportable segment. This is the measure reported to the Group's management for the purpose of resource allocation and assessment of segment performance.

The measure used for reporting segment results is "profit from operations", i.e. profit before finance income, finance costs and income tax expenses. To arrive at the profit/(loss) from operations, the Group's profit is further adjusted for items not specifically attributed to individual segments.

The Group is organised into three main reportable segments.

(i) Die-casting machine

(ii) Plastic injection moulding machine

(iii) Computerized numerical controlled ("CNC") machining centre

For the six months ended 30 September 2019, none of the customers of the Group individually accounted for 10% or more (2018: 10% or more) of the Group's total revenue.

The segment results for the six months ended 30 September 2019 are as follows:

	Unaudited					
	Die-casting machine	**Plastic injection moulding machine**	**CNC machining centre**	**Total segments**	**Eliminations**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue						
External sales	**970,670**	**437,694**	**46,837**	**1,455,201**	**–**	**1,455,201**
Inter-segments sales	**10,331**	**–**	**–**	**10,331**	**(10,331)**	**–**
	981,001	**437,694**	**46,837**	**1,465,532**	**(10,331)**	**1,455,201**
Results						
Segment results	**77,633**	**23,601**	**(7,891)**	**93,343**	**–**	**93,343**
Administrative expenses						**(14,918)**
Finance income						**2,422**
Finance costs						**(41,612)**
Share of loss of an associate						**(1,926)**
Profit before income tax						**37,309**

The segment results for the six months ended 30 September 2018 are as follows:

	Die-casting machine *HK$'000*	Plastic injection moulding machine *HK$'000*	CNC machining centre *HK$'000*	Total segments *HK$'000*	Eliminations *HK$'000*	Total *HK$'000*
	Unaudited					
Revenue						
External sales	1,361,412	501,598	64,941	1,927,951	–	1,927,951
Inter-segments sales	29,763	–	–	29,763	(29,763)	–
	1,391,175	501,598	64,941	1,957,714	(29,763)	1,927,951
Results						
Segment results	175,998	23,391	(14,217)	185,172	–	185,172
Administrative expenses						(16,005)
Finance income						2,680
Finance costs						(39,250)
Share of profit of an associate						628
Profit before income tax						133,225

The revenue from external parties reported to the CODM is measured in a manner consistent with that in the condensed consolidated income statement.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments.

As at 30 September 2019

	Die-casting machine ***HK$'000***	**Plastic injection moulding machine** ***HK$'000***	**CNC machining centre** ***HK$'000***	**Total** ***HK$'000***
	Unaudited			
Assets				
Segment assets	**3,074,424**	**1,178,307**	**536,716**	**4,789,447**
Unallocated assets				**34,103**
Total assets				**4,823,550**
Liabilities				
Segment liabilities	**2,206,285**	**489,265**	**107,671**	**2,803,221**
Unallocated liabilities				**29,084**
Total liabilities				**2,832,305**

As at 31 March 2019

	Die-casting machine	Plastic injection moulding machine	CNC machining centre	Total
	Audited			
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Segment assets	3,309,284	1,309,635	556,275	5,175,194
Unallocated assets				45,590
Total assets				5,220,784
Liabilities				
Segment liabilities	2,347,928	576,134	117,073	3,041,135
Unallocated liabilities				31,089
Total liabilities				3,072,224

For the purpose of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments except for corporate assets, financial assets at fair value through other comprehensive income and insurance policy investments (2018: same);
- all liabilities are allocated to reportable segments other than corporate liabilities; and
- liabilities for which segments are jointly liable are allocated in proportion to segment assets.

3 REVENUE AND OTHER INCOME

	(Unaudited) Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
Revenue		
Die-casting machine	**970,670**	1,361,412
Plastic injection moulding machine	**437,694**	501,598
CNC machining centre	**46,837**	64,941
	1,455,201	1,927,951
Other income		
Value added taxes refund	**5,493**	11,543
Other subsidies from government	**9,720**	5,090
Rental income	**10,826**	8,164
Sundry income	**4,168**	4,825
	30,207	29,622
Total revenue and other income	**1,485,408**	1,957,573

4 OTHER LOSSES – NET

	(Unaudited) Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
Net foreign exchange losses	**(11,534)**	(18,298)
Increase in fair value of investment properties	**855**	10,938
Gain/(loss) on disposals of property, plant and equipment	**830**	(1,800)
	(9,849)	(9,160)

5 EXPENSES BY NATURE

	(Unaudited) Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
Raw materials and consumables used	**795,959**	1,163,989
Change in inventories of finished goods and work in progress	**43,868**	(56,503)
Staff costs	**254,059**	299,179
Contributions to defined contribution retirement plans	**23,750**	27,342
Amortisation of right-of-use assets	**8,705**	–
Amortisation of land use right	**–**	3,638
Amortisation of intangible assets	**1,788**	1,700
Depreciation of property, plant and equipment	**60,391**	65,991
Research costs	**10,486**	13,510
Transportation expenses	**25,765**	36,128
Auditor's remuneration	**2,111**	2,093
Provision for impairment of trade receivables *(Note 10)*	**12,164**	5,835
(Reversal of)/provision for inventories write-down	**(14,757)**	8,323
Reversal of loss on financial guarantee contracts	**(2,297)**	(2,176)
Other expenses	**175,142**	210,197
	1,397,134	1,779,246
Represented by:		
Cost of sales	**1,082,490**	1,419,847
Selling and distribution expenses	**143,492**	171,650
General and administrative expenses	**171,152**	187,749
	1,397,134	1,779,246

6 FINANCE COSTS – NET

	(Unaudited) Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
Finance income:		
Interest income on short-term bank deposits	**2,422**	2,680
Finance costs:		
Interests on bank loans and overdrafts wholly repayable within five years	**(40,181)**	(38,053)
Interest on lease liabilities	**(591)**	–
Charges on bills receivables discounted without recourse	**(840)**	(1,197)
	(41,612)	(39,250)
	(39,190)	(36,570)

7 INCOME TAX EXPENSE

	(Unaudited) Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
Current income tax		
– PRC income tax	**21,449**	22,281
– Overseas tax	**–**	6,326
– Hong Kong profits tax	**–**	1,599
	21,449	30,206
Deferred income tax	**(33)**	(346)
Tax charge	**21,416**	29,860

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

In accordance with the applicable Corporate Income Tax Law of the PRC, the Company's subsidiaries are taxed at statutory rate of 25% (2018: 25%).

Certain subsidiaries in Shenzhen, Zhongshan, Ningbo, Shanghai and Fuxin have been certified as High and New Technology Enterprises and are entitled to a concessionary tax rate of 15% for three years. They are entitled to re-apply for the preferential tax treatment when the preferential tax period expires.

Under the Corporate Income Tax Law of the PRC, dividends out of profit earned on or after 1 January 2008 from the subsidiaries in the PRC distributed to the Group will be subject to withholding income tax. The implementation rules of the Corporate Income Tax Law of the PRC provide for the withholding income tax on such dividend to be at 10% unless reduced by tax treaty. Pursuant to a double tax arrangement between the PRC and Hong Kong, Hong Kong tax resident companies could enjoy a lower withholding tax rate of 5% on dividends received from China. Provision for withholding tax is included in deferred taxation.

As at 30 September 2019, deferred income tax liabilities of HK$41,480,000 (31 March 2019: HK$52,348,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Unremitted earnings that are subject to withholding tax totaled HK$830,480,000 at 30 September 2019 (31 March 2019: HK$1,046,944,000). Such amounts are not intended to be distributed in the foreseeable future to the Group companies outside of the Mainland China. For the subsidiary that we have an intention to distribute its respective retained earnings, we have recognised deferred tax liabilities of HK$4,500,000 (31 March 2019: HK$5,253,000) for the withholding tax as at 30 September 2019 that would be payable upon such distribution.

Subsidiaries established in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% (2018: 16.5%) on the estimated assessable profit for the period.

Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the jurisdiction in which the Group operates.

8 EARNINGS PER SHARE

(a) Basic

The calculation of the basic earnings per share is based on the consolidated earnings attributable to owners of the Company of HK$15,893,000 (2018: HK$103,365,000) and on the weighted average number of approximately 1,191,265,000 (2018: 1,191,265,000) ordinary shares in issue.

	(Unaudited) Six months ended 30 September	
	2019	2018
Profit attributable to owners of the Company *(HK$'000)*	**15,893**	103,365
Weighted average number of ordinary shares in issue *(thousands)*	**1,191,265**	1,191,265
Basic earnings per share *(HK cents)*	**1.3**	8.7

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares and excluding own shares held during the period. The Company does not have any dilutive potential ordinary shares for the six months ended 30 September 2019.

9 INTERIM DIVIDEND

At a meeting held on 29 November 2019, the board of directors has resolved not to declare an interim dividend for the period ended 30 September 2019 (2018: HK2.5cents).

10 TRADE AND BILLS RECEIVABLES

	(Unaudited) As at 30 September 2019 *HK$'000*	(Audited) As at 31 March 2019 *HK$'000*
Trade receivables	**1,084,243**	1,118,530
Less: Provision for impairment	**(126,133)**	(118,790)
	958,110	999,740
Bills receivables	**198,099**	308,803
	1,156,209	1,308,543
Less: Balance due after one year shown as non-current assets	**(22,469)**	(19,901)
Trade and bills receivables, net	**1,133,740**	1,288,642

As at 30 September 2019, the amount of provision for impaired trade receivables was HK$126,133,000 (31 March 2019: HK$118,790,000). The provision for impairment of trade receivables made during the current interim period was HK$12,164,000 (30 September 2018: HK$5,835,000). The individually impaired receivables mainly relate to individual customers, the recoverability of which was in doubt.

The ageing analysis of the gross trade receivables based on invoice date at the end of reporting period is as follows:

	(Unaudited) As at 30 September 2019 *HK$'000*	(Audited) As at 31 March 2019 *HK$'000*
Within 90 days	**486,814**	564,181
91–180 days	**152,402**	163,829
181–365 days	**191,838**	154,172
Over one year	**253,189**	236,348
	1,084,243	1,118,530

The maturity date of the bills receivables is generally between one to six months.

Goods sold to customers are either made on cash on delivery or on credit basis. Customers in general are required to pay deposits upon placing purchase orders, the remaining balances will be payable upon goods delivery to customers. Majority of customers are granted with credit terms ranging from one month to six months. The Group also sells goods to certain customers with sales proceeds payable by installments which normally range from six months to twelve months.

11 TRADE AND BILLS PAYABLES, OTHER PAYABLES, DEPOSITS AND ACCRUALS

	(Unaudited) As at 30 September 2019 *HK$'000*	(Audited) As at 31 March 2019 *HK$'000*
Trade payables	**429,733**	568,958
Bills payables	**164,052**	145,204
Other deposits	**3,225**	5,199
Trade and other deposits and receipts in advance	**147,789**	224,587
Accrued salaries, bonuses and staff benefits	**75,604**	92,845
Accrued sales commission	**40,489**	49,876
Value added tax payable	**11,790**	17,737
Others	**146,883**	160,892
	1,019,565	1,265,298

The ageing analysis of the trade payables based on invoice date is as follows:

	(Unaudited) As at 30 September 2019 *HK$'000*	(Audited) As at 31 March 2019 *HK$'000*
Within 90 days	**293,645**	414,752
91–180 days	**90,103**	123,262
181–365 days	**30,539**	13,693
Over one year	**15,446**	17,251
	429,733	568,958

The maturity dates of the bills payables are generally between one to six months.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 September 2019 (the "Period under Review"), the Group recorded a revenue of HK$1,455,201,000, representing a decrease of approximately 24.5% as compared to that of the same period last year. During the Period under Review, the profit attributable to owners of the Company was HK$15,893,000, representing a substantial decrease as compared to profits of HK$103,365,000 in the same period last year.

The decrease in revenue was mainly due to the decrease in revenue from the sales of the Group in the China market. During the Period under Review, the Group's revenue from the China market was HK$1,052,707,000, representing a decrease of 32.8% as compared to that of the same period last year.

During the Period under Review, facing the exceptionally complex and severe international conditions, the PRC's national economy remained on a steady growth trend. According to the data released by the National Bureau of Statistics, China saw a year-on-year growth on its GDP of 6.2% for the first three quarters of 2019 with continuous growth in industrial production, and the increase in residents' income basically in same pace with economic growth. On the whole, the national economy maintained a stable trend, underpinned by continuous optimisation and upgrade of the industrial structure.

According to the statistics of China Association of Automobile Manufacturers, the production and sales volume of vehicles in China from January to September 2019 reached 18.15 million and 18.37 million, representing a year-on-year decrease of 11.4% and 10.3%, respectively. The production and sales volume of the new energy vehicles in China reached 888,000 and 872,000, respectively, representing a year-on-year growth of 20.9% and 20.8%, respectively. In the absence of policies introduced or implemented to effectively drive market performance, the overall vehicle sales were lower than industry expectation and subdued at a low level, presenting big challenges to the automobile industry.

In connection with the overseas markets, the Group proactively strengthened its market share by continuing to invest in research and development and closely cooperating with its distributors. During the Period under Review, the Group's overseas revenue was HK$402,494,000, representing an increase of 11.4% as compared to that of the same period last year.

Die-casting Machine

During the Period under Review, the revenue of the Group's die-casting machine and peripheral equipment business was HK$970,670,000, representing a decrease of 28.7% compared with HK$1,361,412,000 of the same period last year.

Specifically, the revenue from the PRC market was HK$638,060,000, representing a decrease of 39.0% as compared to that of the same period last year. Due to ongoing tensions in China-U.S trade dispute and increasing external uncertainties, China's economy faced new downward pressure, resulting that most manufacturers adhered to the "wait-and-see" attitude when making investments in new equipment. The revenue of overseas market was HK$332,610,000, representing an increase of 5.3% as compared to that of the same period last year, as a result of the Group's continuous investment in a number of oversea markets and its enhanced efforts in expanding its presence in the emerging markets.

Plastic Injection Moulding Machine

During the Period under Review, the revenue of the plastic injection moulding machine of the Group was HK$437,694,000, representing a decrease of 12.7% as compared to that of the same period last year. Due to the impact of tariffs policy by the U.S., the downstream industries of plastic injection moulding machine such as household electrical appliances and 3C had faced relatively great downward pressure, and the competition among enterprises of the plastic injection moulding machine was exceptionally intense.

Computerised Numerical Controlled ("CNC") Machining Centre

During the Period under Review, the revenue of the Group's CNC machining centre business was HK$46,837,000, representing a decrease of 27.9% as compared to that of the same period last year. As investments in new equipment continued to decrease due to the China-U.S. trade war, it is again difficult to make the call on the overall situation.

FINANCIAL REVIEW

During the Period under Review, the overall gross profit margin of the business of the Group was 25.6%, generally flat as compared to that of the same period last year.

Selling and distribution expenses was HK$143,492,000, representing a decrease of 16.4% as compared to that of the same period last year, which was mainly due to lower transportation costs and agency costs.

General and administrative expenses was HK$171,152,000, representing a decrease of 8.8% as compared to that of the same period last year, which was mainly due to lower staff costs.

Net finance costs was HK$39,190,000, representing an increase of 7.2% as compared to that of the same period last year, which was mainly attributable to higher interest expense as a result of the rising interest rates for domestic and overseas loans.

PROSPECTS

Given the relatively pessimistic market expectations due to the persistently sluggish performance of the automobile industry in China coupled with impacts of negative factors such as escalation of the China-U.S. trade war since 2019, the manufacturers adhered to the "wait-and-see" attitude towards investments in new equipment. Due to the far-reaching impact of the sluggish automobile industry, it is expected to bring new challenges to the Group's future performance.

In response to the potential situation of persistently sluggish demand in China, the Group has undergone significant adjustments, and speeded up its decision-making process and enhanced its operational efficiency by optimizing and streamlining its management and sales structure, so as to cope with the current rapidly changing market conditions.

In order to satisfy the changing demands of customers in particular the new energy vehicles and 5G telecommunication products, and establish long-term business relationships with the customers, the Group will strive for major breakthroughs by unwaveringly focusing on researching and developing technologies in relation to the die-casting machine, plastic injection moulding machine and CNC machining centre. Meanwhile, the Group is committed to promoting its products to the world, with a view to lay a new foundation for the sustainable growth of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

The working capital of the Group was generally financed by internal cash flows generated from its operation and existing banking facilities. As at 30 September 2019, the Group's cash and bank balances was HK$568,054,000 (31 March 2019: HK$634,699,000).

The gearing ratio (a ratio of net debt to total equity) was approximately 58% (31 March 2019: 52%).

Note: Net debt is calculated as total borrowings less cash and cash equivalents.

As at 30 September 2019, the capital structure of the Company was constituted exclusively of 1,191,265,000 ordinary shares of HK$0.1 each. The total amount of outstanding borrowings was HK$1,730,817,000 (31 March 2019: HK$1,751,495,000), approximately 83% of which being short-term loans. Approximately 12% of the total borrowing was subject to interest payable at fixed rates.

FINANCIAL GUARANTEES

The Group provided guarantees to banks in respect of banking facilities granted to certain customers of the Group to purchase its products. As at 30 September 2019, the amount of the outstanding loans granted by banks to customers for which guarantees have been given by the Group was HK$47,087,000 (31 March 2019: HK$108,960,000). The Group has also provided guarantees in respect of financial facilities of its customers to leasing finance providers amounting to approximately HK$2,259,000 (31 March 2019: HK$13,851,000).

PLEDGE OF ASSETS

The Group's banking facilities and financial guarantee contracts were secured by the assets of the Group, including restricted bank balances, land use rights, investment properties, property, plant and equipment, insurance policy investments and bills receivables, with aggregate carrying amounts of HK$631,878,000 (31 March 2019: HK$671,646,000).

CAPITAL COMMITMENTS

As at 30 September 2019, the Group had made capital expenditure commitments amounts of HK$168,363,000 (31 March 2019: HK$6,129,000) in respect of acquisition of property, plant and equipment.

STAFF AND REMUNERATION POLICIES

As at 30 September 2019, the Group employed approximately 3,700 full time staff. The staff costs for the Period under Review was HK$277,809,000 (2018: HK$326,521,000). The remuneration policies of the Group are determined based on market trends, future plans, and the performance of individuals. In addition, the Group also provides other staff benefit such as mandatory provident fund, state-managed social welfare scheme, share option scheme and share award scheme.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2019 (2018: HK2.5 cents).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 September 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions as set out in the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the Period under Review.

AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive Directors, namely Mr. Tsang Yiu Keung, Paul, Dr. Lui Ming Wah and Dr. Low Seow Chay. Mr. Tsang Yiu Keung, Paul is the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the Board.

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. Having made specific enquiry of all Directors, all Directors have confirmed that they have fully complied with the required standard set out in the Model Code throughout the Period under Review.

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 September 2019. PricewaterhouseCoopers, the Group's external auditor, also reviewed the unaudited condensed interim financial information for the six months ended 30 September 2019 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.lktechnology.com) and the Stock Exchange (www.hkexnews.hk). The 2019/20 interim report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and available on the same websites in due course.

On behalf of the Board
Chong Siw Yin
Chairperson

Hong Kong, 29 November 2019

As at the date of this announcement, the executive Directors are Ms. Chong Siw Yin, Mr. Liu Zhuo Ming and Mr. Tse Siu Sze; and the independent non-executive Directors are Dr. Low Seow Chay, Dr. Lui Ming Wah, SBS, JP, and Mr. Tsang Yiu Keung, Paul.