

TONGDA GROUP HOLDINGS LIMITED

2019 Annual Report

Contents

Corporate Information	2
Chairman's Statement	4
Management Discussion and Analysis	6
Biographical Details of Directors and Senior Management	12
Corporate Governance Report	15
Report of the Directors	26
Independent Auditor's Report	39
Consolidated Income Statement	44
Consolidated Statement of Comprehensive Income	45
Consolidated Statement of Financial Position	46
Consolidated Statement of Changes in Equity	48
Consolidated Statement of Cash Flows	49
Notes to Financial Statements	51
Five-Year Financial Summary	146

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Ya Nan (*Chairman*)

Mr. Wang Ya Hua

(*Vice Chairman*) (*resigned on 21 October 2019*)

Mr. Wang Hung Man

(*Vice Chairman*) (*appointed on 21 October 2019*)

Mr. Wong Ah Yeung (*resigned on 21 October 2019*)

Mr. Wang Ming Che

(*subsequently resigned on 6 January 2020*)

Mr. Wong Ming Sik

(*subsequently appointed on 6 January 2020*)

Mr. Wong Ming Yuet (*appointed on 21 October 2019*)

Mr. Hui Wai Man (*appointed on 21 October 2019*)

Non-executive Directors

Mr. Wong Ah Yu (*resigned on 21 October 2019*)

Ms. Chan Sze Man

Independent Non-executive Directors

Dr. Yu Sun Say, *GBM, GBS, SBS, JP*

Mr. Cheung Wah Fung, Christopher, *SBS, JP*

Mr. Ting Leung Huel Stephen,

MH, FCCA, FCPA (PRACTISING), ACA, CTA (HK), FHKIoD

AUDIT COMMITTEE

Mr. Ting Leung Huel Stephen (*Chairman*)

Dr. Yu Sun Say

Mr. Cheung Wah Fung, Christopher

Ms. Chan Sze Man

REMUNERATION COMMITTEE

Mr. Ting Leung Huel Stephen (*Chairman*)

Mr. Wang Ya Nan

Dr. Yu Sun Say

Mr. Cheung Wah Fung, Christopher

NOMINATION COMMITTEE

Mr. Wang Ya Nan (*Chairman*)

Dr. Yu Sun Say

Mr. Cheung Wah Fung, Christopher

Mr. Ting Leung Huel Stephen

COMPANY SECRETARY

Ms. Lam Siu Wa (*resigned on 2 May 2019*)

Ms. Cheuk Tat Yee (*appointed on 2 May 2019*)

AUDITOR

Ernst & Young

Certified Public Accountants

AUTHORISED REPRESENTATIVES

Mr. Wang Ya Nan

Mr. Wang Hung Man

PRINCIPAL BANKERS

In Hong Kong:

The Hongkong and Shanghai Banking Corporation Limited

Hang Seng Bank Limited

Bank of Communication Co., Limited

MUFJ Bank Limited

KBC Bank N.V., Hong Kong Branch

China Construction Bank (Asia) Corporation Limited

Bank of China (Hong Kong) Limited

Standard Chartered Bank (Hong Kong) Limited

In the PRC:

The Hongkong and Shanghai Banking Corporation Limited

Hang Seng Bank Limited

Bank of China Limited

China Construction Bank Corporation

China Merchant Bank

LEGAL ADVISERS

As to Hong Kong laws:
Michael Li & Co.

As to PRC laws:
Fujian Rede Law Firm

As to Cayman Islands laws:
Conyers Dill & Pearman, Cayman

INVESTOR RELATIONS

Strategic Financial Relations Limited
24/F, Admiralty Centre I
18 Harcourt Road
Hong Kong

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1201-02, 12th Floor
Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong
Tel: (852) 2570 8128
Fax: (852) 2510 0991
Website: <http://www.tongda.com>
Email (Investor Relations): ir@tongda.com.hk

LISTING INFORMATION

Listed on the Hong Kong Stock Exchange (Main Board)
Stock short name: Tongda
Stock code: 698
Board lot: 10,000 shares

HONG KONG BRANCH SHARE REGISTRAR

Union Registrars Limited
Suites 3301-04, 33/F
Two Chinachem Exchange Square
338 King's Road
North Point, Hong Kong

PRINCIPAL SHARE REGISTRAR

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road
George Town
Grand Cayman KY1-1110
Cayman Islands

Chairman's Statement

I am pleased to announce the annual results of Tongda Group Holdings Limited (the "Company", together with its subsidiaries, the "Group" or "Tongda Group") for the year ended 31 December 2019 (the "Year") on behalf of the board of directors of the Company (the "Board").

During the Year, the total turnover increased by 3.2% to HK\$9,185.9 million (2018: HK\$8,899.3 million), gross profit decreased by 6.5% to HK\$1,676.9 million (2018: HK\$1,793.9 million) and profit attributable to shareholders decreased by 26.0% to HK\$401.5 million (2018: HK\$542.8 million). Gross profit margin was approximately 18.3% (2018: 20.2%) while net profit margin was approximately 4.4% (2018: 6.1%). The Board will recommend payment of a final dividend of HK0.05 cent per share (2018: HK0.8 cent). Together with the paid interim dividend of HK1.0 cent per share (2018: HK2.0 cents), the total dividend for the Year amounted to HK1.05 cents (2018: HK2.8 cents).

The increase in shipment volume in the smartphone market has reached the ceiling and the competition in the market became more intense, and therefore, the operation of the Group is inevitably being impacted. However, the Group firmly believes its enduring core competitiveness comes from its concrete technology foundation and forward-looking strategic layout. For example, new products developed by the Group, such as Glass-like plastic ("Glastic") casings, have been widely adopted by various brands and successfully increased our market share in the handset market. Meanwhile, the current handset business of the Group has covered six top global brands. Several major customers are widely distributed in Mainland China, as well as Asia Pacific, European and American markets. Thus the handset business is relatively less affected by a single geographic market.

The Group has long been focusing on the research and development ("R&D") of mainstream products with high technology entry barriers and large shipment volume that target the mass market. This can increase added value for its products. Meanwhile, mature products can be partly replaced by innovative products, which can help maintain the average unit price of the Group's overall products and the stability of gross profit margin of the Group. For instance, the Group's leading technology in 3D and uni-body Glastic casings has generated a relatively high profit margin as the entry barrier of these casings is significantly higher than that of 2.5D Glastic casings. As for the Group's tri-proof and high-precision components business, the Group's gross profit margin was under short-term pressure due to the lack of obvious upgrade in customers' handset design during the Year, however, it is expected that the Internet-of-Things ("IoT") will become trendy in the coming years. Being one of the major handset component suppliers of that customer, the Group has allocated resources to the R&D of innovative products in IoT during the Year, in order to realise the expanded horizon of multiple product lines and consolidate the long-term collaborating relationship with the customer.

It is necessary for the Group to maintain an in-depth understanding and comprehensive planning on business and market development at all times. Looking forward, the expansion of 5G market in China will stimulate a new wave of replacements in handset. The price of 5G smartphones is expected to drop rapidly, which is expected to lead overall smartphone shipments back to an increasing trend. The Group has a complete solution covering Glastic, glass, metal casings and high-precision components and would provide our customers with possible component upgrades to cope with the demand of 5G handsets in the future and enhance the added value of products.

The Group will continue to focus on handsets and high-precision components while taking the automotive sector as a highlight in long-term development and explore the diversification of peripheral industry centred around that sector. As the widespread rollout of 5G may boost the development of the AI industry, the Group has conducted business deployment in this sector in advance mainly concentrated on smart home fittings and accessories. The Group will continue to devote resources to the R&D on new products, new sectors and application of new materials, aiming to maintain profit margin of our products while developing our business.

The Group understands that the precise implementation of forward-looking strategic deployment is inextricably linked to the R&D, control and application of core technology. We have built a strong "moat" of technologies through timely investments in the past few years. In the future, we will continue to allocate resources to our principal businesses while strengthening internal management, enhancing automation and controlling cost and capital expenditure, so as to optimise each financial indicators. In the coming year, I believe, by leveraging the understanding of the market development trend in the future and the forward planning by management of the Group, we will systematically tackle the changes in the market and seek opportunities amidst the crises.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express gratitude towards the dedicated effort and valuable contribution of the management and all the staffs of the Group during the past year. We will further develop our technology and advocate changes through innovations in every business sector and the application of advanced materials, and utilise the diverse and leading technology and craftsmanship to face the changes in the market calmly.

Management Discussion and Analysis

BUSINESS REVIEW

In 2019, the global market for consumer electronics products and smartphones is under pressure from fierce competition within the industry and the trade conflict between China and the U.S.. The production chain of handsets has been adversely affected to some extent and the Group has not been excepted. However, the latest handset products developed by the Group prior to the year have been well received by the market and the shipment volume continued to grow. Therefore, despite the unfavorable market conditions, the Group has been able to maintain a growth in turnover of 3.2% to HK\$9,185.9 million (2018: HK\$8,899.3 million). As a result of fierce market competition and some of our products not having a significant upgrade during the Year, the net profit attributable to the owners of the Company decreased by 26.0% from HK\$542.8 million last year to approximately HK\$401.5 million.

Handset Casings and High-precision Components

This business is primarily engaged in the production of different kinds of handset casings for handsets, tri-proof (waterproof/dustproof/shockproof) high-precision components, high-precision insert molding parts and high-precision rubber molding parts. This business recorded an increase of 7.5% in turnover from HK\$6,621.4 million last year to HK\$7,119.9 million, representing 77.5% of the total turnover.

Despite the fact that global shipment volume for handsets have decreased in the Year, the Group tackled the challenge positively by actively expanding the market and introducing new products and focusing on the Glass-like plastic (“Glastic”) casing, thus the shipment volume during the Year increased significantly as a result. The 2.5D, 3D and uni-body Glastic casings has been quickly adopted by various models of major smartphone brands ranging from low to middle to high price brands and the annual shipment volume had reached the expected target. Although competition for the 2.5D Glastic casings intensified in the second half of the year and profit was under pressure, as the technological barriers for the Group’s new products such as the 3D and uni-body Glastic casings was substantially raised, the profit margin remained relatively high. At the same time, the Group provides 2.5D/3D glass back covers and metal middle frames for mid-to-high-end smartphone in order to meet the demand for various brands for smartphones of different price ranges.

As for the tri-proof and high-precision components business, since the new smartphone model of a major customer was under great demand, turnover during the Year has reached its target. However, as the smartphone components for the new models supplied by the Group were not a significant upgrade, the unit price and gross profit margin of the product are under pressure. As it is expected that the Internet-of-Things (“IoT”) will become a popular trend in the coming years, other than becoming one of the major smartphone components supplier of the customer during the Year, the Group proactively allocated resources to IoT product development in order to realise lateral development of multiple products and to consolidate a long-term collaborative relationship with the customer.

Smart Electrical Appliances Casings

The sales of the smart electrical appliances casings business during the Year has decreased from HK\$848.5 million in the corresponding period last year by 26.1% to HK\$627.3 million, representing 6.8% of the total turnover. The business is primarily engage in the design and production of control panels, casings and metal accessories of high-end electrical appliances, such as air-conditioners, washing machines and refrigerators for Chinese and international brands. During the Year, the Group restructured its resources and concentrated on production capacity of products with relatively high gross profits and reduced the order of low gross profits products with lengthy turnover period of capital, thus leading to a drop of sales in that business.

Household and Sports Goods

During the Year, sales of this division increased from HK\$606.8 million in the corresponding period last year by 6.8% to HK\$648.2 million, representing 7.1% of the total turnover. The Group primarily supplies durable household goods, household utensils, sports goods and healthcare goods to sizable European and American brands. The Group has announced during the Year the possible spin-off of the division and separate listing on the ChiNext Board of the Shenzhen Stock Exchange.

Network Communications Facilities and Others

The division primarily produces interior decorative parts of automotive, set-top boxes and plastic dipole antennas that are used in polarised base station antennas for 5G. With the localisation of the production of components for automotive brands of the Sino-foreign joint venture and increasing orders from local automotive brand, the automotive business grow year on year. The revenue of the division during the Year increased from HK\$739.1 million in the corresponding period last year by 7.0% to HK\$790.5 million, representing 8.6% of the total turnover.

A percentage breakdown of total revenue by product categories for the year ended 31 December 2019 and a comparison with 2018 are as follows:

	2019	2018
i. Handset Casings and High-precision Components	77.5%	74.4%
ii. Smart Electrical Appliances Casings	6.8%	9.5%
iii. Household and Sports Goods	7.1%	6.8%
iv. Network Communications Facilities and Others	8.6%	8.3%
v. Notebook Computers	Nil	1.0%

Management Discussion and Analysis

PROSPECTS

At the beginning of 2020, China-U.S. relations remain unstable and the development of the novel coronavirus epidemic remains unclear. Against this challenging backdrop, the Group's utmost concern is to maintain its competitive edge. The Group adheres to its principles of accelerating the growth in product categories and clients with innovative technologies and craftsmanship. With the introduction of Vivo, a renowned smartphone brand clientele in China, the Group's smartphone business now covers the six largest global brands, which is beneficial for continuously expanding its market share. Moreover, while actively exploring the China market, several major customers also put relative emphasis on markets outside China to avoid excessive concentration of business in a single region.

The industry research corporation IDC previously predicted that the shipment of handsets will resume its growth as a result of the development of 5G in China and that the price for 5G smartphones is expected to decrease quickly, resulting in a general increase in smartphone shipments. The Group always focuses on mid-range handsets with high shipment volume and one of its clients introduced their first 5G handset at a mid-price range at the beginning of the year, gaining considerable market attention. With the speeding up of 5G commercialisation, it is expected there will soon be a new wave of replacements in handsets. There will also be potential upgrades of conceptual design for the Group's casings, such as incorporating 5G antenna designs or upgraded heat sink components to enhance added-value of its products.

The Group's premium customer base and automated production line, which includes the vertical one-stop process from the development of moulds for the production of mainstream products in the market, such as the metal middle frames, 2.5D/3D and uni-body Glastic casings as well as glass back covers are the result of its technological capabilities accumulated over the years. Among them, the 3D and uni-body Glastic casing are the areas where the Group has put the most effort in development. These products involve high-entry barrier technologies such as development of high precision moulds, colour printing and film processing, which are ahead of the domestic industry and help enhancing the gross profit margin of its products. The Group also possesses the film processing and hot bending technology which can be applied to 3D glass back covers, as well as technologies applied to handset middle frames including compound die casting, nano molding technology, CNC processing and anodization as well as metal injection molding ("MIM"), together with the high-precision molding craftsmanship, all of which enhance its competitive edge.

The Group will continue to focus on the handset and high-precision components businesses as before and consider the automotive sector as a highlight in long-term development and explore the diversification of peripheral industry centred around that sector. In view of the fact that the increasing popularity of 5G may drive the trend for the AI industry, the Group had deployed resources in this field, with the focus on household smart appliances and mobile appliances. The Group will continue its effort in the R&D of new products, and new fields as well as the application of new materials, striving to maintain gross profit margin of its products while exploring new business opportunities.

In the past few years, the Group had been prudent in investing in technology R&D and capacity expansion, which has enabled it to develop and consolidate some new customers and businesses, and successfully diversify risks. In the coming year, the Group will diligently strive through the economic downturn to create higher returns for shareholders of the Company.

FINANCIAL REVIEW

For the Year, the Group's total revenue reached HK\$9,185.9 million, representing an increase of HK\$286.6 million or 3.2%, compared with the year ended 31 December 2018. The handset casings and high-precision components segment continued to dominate over other segments. Among the top 5 customers, handset casings and high-precision components customers contributed 64.2% in the Year, which is higher than 60.2% in 2018.

Gross profit of HK\$1,676.9 million was HK\$117.0 million, or 6.5% lower than 2018. Gross profit margin was 18.3%, representing 1.9 percentage points lower than the corresponding period last year. The decrease in gross profit margin was mainly due to the decrease in unit sale price of the tri-proof and high-precision components. Profit attributable to owners of the Company amounted to HK\$401.5 million, representing a fall of 26.0% from HK\$542.8 million reported in the corresponding period of 2018.

The selling and distribution expenses increased by HK\$4.6 million or 3.6% which is in line with the increase in sales during the Year.

The administrative expenses increased by HK\$71.0 million or 8.1% mainly due to the increase in staff costs caused by the employee compensation paid for the relocation of the Group's Shenzhen factory, additional staffs recruited assisting in the spin-off of the household and sports goods division and separate listing on the ChiNext Board of the Shenzhen Stock Exchange, and salary adjustment.

Compared with 2018, other operating expenses decreased by HK\$43.9 million or 79.3% mainly attributable to the decrease in net loss arising from exchange difference.

Basic earnings per share amounted to HK6.20 cents, down 29.2% from HK8.76 cents for 2018. As for tax, the Group's major operating subsidiaries fall under different tax regimes in Hong Kong and Mainland China where different laws and regulations, and specific concessionary incentives apply for some specific locations. During the Year, one more of the major subsidiaries is awarded as a High New Technology Enterprise and is subjected to a preferential tax rate of 15%. Other than this, there have been no major changes in these taxation laws and regulations which have impacted tax expenses for the Group.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group had a solid financial position and continued to maintain a strong and steady cash inflow from operating activities. The table below summarises the Group's cash flows for year ended 31 December 2019 and 31 December 2018:

	2019	2018
	HK\$'000	HK\$'000
Net cash flows from operating activities	1,514,488	1,037,664
Net cash flows used in investing activities	(673,097)	(1,541,868)
Net cash flows from/(used in) financing activities	(490,327)	556,019

Management Discussion and Analysis

The Group derives its working capital mainly from cash on hand and net cash generated from operating activities. The Board expects that the Group will rely on net cash generated from operating activities, bank borrowings and debt financing to meet its working capital and other capital expenditure requirements in the short run. In the long run, the Group will be funded by net cash from operating activities, and if necessary, by additional bank borrowings and debt financing. There were no material changes in the funding and financial policies of the Group for the Year.

The Group had a solid financial position and continued to maintain a strong and steady cash inflow from operating activities. During the Year, the Group's primary sources of funding included cash generated from operating activities and the credit facilities provided by the Group's principal banks. As at 31 December 2019, the Group had cash and cash equivalents and pledged deposits of HK\$1,487.5 million (31 December 2018: HK\$1,276.1 million), and without holding any structural investment contract, of which approximately HK\$409.9 million (31 December 2018: HK\$507.7 million) has been pledged to banks as security for trade financing. As at 31 December 2019, the Group had total assets of HK\$13,573.4 million (31 December 2018: HK\$13,642.1 million), net current assets of HK\$1,119.7 million (31 December 2018: HK\$1,832.7 million) and equity of HK\$5,982.4 million (31 December 2018: HK\$5,937.2 million). Management believes that the Group's current cash and cash equivalents, together with available credit facilities and expected cash flow from operations, will be sufficient to satisfy its current operational requirements.

GEARING RATIO AND INDEBTEDNESS

As at 31 December 2019, the gearing ratio of the Group (consolidated net debt/total equity) was 37.8% (31 December 2018: 48.4%). As at 31 December 2019, other than the non-current portion of bank loans of HK\$1,117.3 million (31 December 2018: HK\$1,697.0 million), the Group had bank and other borrowings of HK\$2,632.8 million (31 December 2018: HK\$2,454.9 million) which will be repayable within one year from the end of the reporting period.

CAPITAL EXPENDITURE

The Group incurred capital expenditure of HK\$925.6 million during the year ended 31 December 2019 (31 December 2018: HK\$1,255.9 million), mainly for the additions of property, plant and equipment for expansion of its capacity in handset casings and high-precision components segment. Management believes that the Group's ability to invest in capital expenditure in timely anticipation of demand is a competitive advantage of the Group. Capital expenditures are generally funded by internal resources and credit facilities.

FOREIGN EXCHANGE

Given our operations and presence become more international, the Group faces foreign exchange exposure including transaction and translation exposure. As far as possible, the Group aims to achieve natural hedging by investing and borrowing in the functional currencies. Where a natural hedge is not possible, the Group will mitigate foreign exchange risks via appropriate foreign exchange contracts. The Group has not entered nor will it enter into any derivative transactions for speculative trading purposes at 31 December 2019.

CHARGES ON GROUP ASSETS

Apart from bank deposits amounting to HK\$409.9 million (31 December 2018: HK\$507.7 million) that were pledged to banks and a leasehold building in Hong Kong together with the related right-of-use asset, with a total carrying value amount of HK\$53.5 million (31 December 2018: HK\$54.5 million) mortgaged by the Group as at 31 December 2019, no other assets of the Group were charged to any financial institutions.

EMPLOYEE INFORMATION

As at 31 December 2019, the Group employed a total of approximately 22,000 permanent employees (31 December 2018: approximately 16,000 employees). Employees of the Group are remunerated based on their individual performance, professional qualifications, experience in the industry and relevant market trends. Management regularly reviews the Group's remuneration policy and appraises the work performance of its staff. Employee remuneration includes salaries, allowances, bonuses, social insurance and mandatory pension fund contribution. As required by the relevant regulations in the PRC, the Group participates in the social insurance schemes operated by the relevant local government authorities. The Group also participates in the mandatory pension fund, labour pension and mandatory provident fund schemes for our employee in Hong Kong and Singapore respectively.

Past Performance and Forward Looking Statements

The performance and the results of operation of the Group as set out in this annual report are historical in nature and past performance is not a guarantee of future performance. This annual report may contain certain statements that are forward-looking or which use certain forward-looking terminologies. These forward-looking statements are based on the current beliefs, assumptions and expectations of the Board regarding the industry and markets in which it operates. Actual results may differ materially from expectations discussed in such forward-looking statements and opinions. The Group, the directors of the Company (the "Director(s)"), employees and agents of the Group assume (a) no obligation to correct or update the forward-looking statements or opinions contained in this annual report of the Company; and (b) no liability in the event that any of the forward-looking statements or opinions do not materialise or turn out to be incorrect.

DIVIDENDS

The Company will consider the declaration of dividends based on its earnings, financial position, debt repayment requirements, capital expenditure plans, medium to long-term business strategies and other factors as the Board may deem appropriate. The Board may also from time to time pay to shareholders of the Company (the "Shareholder(s)") such interim dividends to be justified by the profit of the Company and may recommend final dividends for approval by the Shareholders in its annual general meetings. For the year ended 31 December 2019, an interim dividend of HK1.0 cent per ordinary share for the six months ended 30 June 2019 (2018: HK2.0 cents per ordinary share) was paid to the Shareholders. The Board has declared a final dividend of HK0.05 cent (2018: HK0.8 cents) per ordinary share in respect of the year ended 31 December 2019. This proposed final dividend together with the interim dividend already paid amount to total dividends of HK1.05 cents (2018: HK2.8 cents). The payout ratio was reduced to 17% of the profit attributable to owners of the Company for the year ended 31 December 2019 (31 December 2018: 32%) such that the Group could increase its operating cash flow in response to the current relatively uncertain global economic environment and to support the potential opportunities that might be brought to the Group by 5G applications in the coming years. Subject to the Shareholders' approval at the forthcoming annual general meeting to be held on Monday, 18 May 2020, the said final dividend will be payable to the Shareholders, whose names appear on the register of members of the Company on 3 June 2020. Payment will be made on or about 12 June 2020.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wang Ya Nan, aged 62, is the Chairman and CEO of the Group. He is responsible for the overall strategic planning and business development of the Group. He is also responsible for the development of overseas markets. He is currently the Chairman and a non-executive Director of Tongda Hong Tai Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited. He joined the Group in December 1988 and has over 30 years of experience in the electronics and electrical industry. He graduated with a Executive Master of Business Administration degree in Xiamen University and serves as a member of the Standing Committee of the Chinese People's Political Consultative Conference. He is a brother of Messrs. Wong Ah Yeung, Wong Ah Yu and Wang Ya Hua, who are substantial Shareholders. He is an uncle of Messrs. Wang Hung Man, Wong Ming Sik and Wong Ming Yuet.

Mr. Wang Hung Man, aged 31, is the Vice Chairman and the general manager and/or director of the Group's major subsidiaries in Xiamen. He obtained a bachelor's degree in economics from The University of California, Davis in 2011. He also obtained an executive master of business administration (EMBA) degree at China Europe International Business School in 2019. After obtaining his bachelor's degree, he worked in various positions at the major subsidiaries of the Group in Xiamen and was responsible for plant operations management, procurement, companies' daily operations management and strategy development, etc. He is currently responsible for the supervision and strategic development of the Group's business in Xiamen and he also leads the business development between a customer in North America and the Group. He is the son of Mr. Wang Ya Hua, who is a substantial Shareholder, and the nephew of Mr. Wang Ya Nan, who is an executive Director and a substantial Shareholder, and Mr. Wong Ah Yeung and Mr. Wong Ah Yu, who are substantial Shareholders. He is also the cousin of Mr. Wong Ming Sik and Mr. Wong Ming Yuet.

Mr. Wong Ming Sik, aged 40, is the general manager of the Group's major subsidiaries in Shenzhen and Dongguan. He graduated from University of Central Lancashire in the UK with a master of science degree in business management and a bachelor of arts degree in accounting and financial studies with honours in 2005 and 2004 respectively. After graduation, he worked in various positions at the major subsidiaries of the Group in Shenzhen and Dongguan and was responsible for plant operations management, procurement, companies' daily operations management and strategy development, etc. Currently, he is responsible for the supervision and strategic development of the Group's business in Shenzhen and Dongguan. He is the son of Mr. Wong Ah Yeung, who is a substantial Shareholder, and the nephew of Mr. Wang Ya Nan, who is an executive Director and a substantial Shareholder, and Mr. Wong Ah Yu and Mr. Wang Ya Hua, who are substantial Shareholders. He is also the cousin of Mr. Wang Hung Man and Mr. Wong Ming Yuet.

Mr. Wong Ming Yuet, aged 38, is the general manager of a major subsidiary of the Group in Shishi. He graduated from Macquarie University in Australia in 2007 and majored in commerce and accounting management. He has been serving the subsidiaries of the Group since graduation and is responsible for daily operations including supply chain, procurement, warehousing and logistics. Currently, He is responsible for the sales and operation of the electrical appliance business and assisting the supervision and strategic development of the Group's business in Shishi. He is the son of Mr. Wong Ah Yu, who is a substantial Shareholder, and the nephew of Mr. Wang Ya Nan, who is an executive Director and a substantial Shareholder, and Mr. Wong Ah Yeung and Mr. Wang Ya Hua, who are substantial Shareholders. He is also the cousin of Mr. Wang Hung Man and Mr. Wong Ming Sik.

Mr. Hui Wai Man, Anthony, aged 52, obtained a bachelor of science (Hons) in electronics from Keele University in the United Kingdom in 1990 and has nearly 30 years of experience in the electronics market. After graduating, Mr. Hui joined Seagate Technology PLC (NASDAQ: STX), a company listed on the NASDAQ Stock Market and is one of the world's largest computer hard disk manufacturers. He worked as a business engineer in Singapore. He then joined Kaga Electronics Co., Ltd. (TYO: 8154) ("Kaga Electronics"), a company listed on The Tokyo Stock Exchange, in 1992, where he was responsible for business development. Before Mr. Hui left Kaga Electronics, he was a director of a subsidiary under Kaga Electronics in Asia, and was responsible for the business development of Kaga Electronics in China. Mr. Hui joined the Group in 2003 and is mainly responsible for the sales and marketing activities of the Group in Hong Kong and overseas. He is also responsible for the overall product and business development and the supply chain management of the Group.

Biographical Details of Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Ms. Chan Sze Man, aged 39, was the chief financial officer and company secretary of the Company from January 2011 to August 2018 and was responsible for the corporate finance, accounts and company secretarial functions of the Group. Ms. Chan graduated from the Hong Kong University of Science and Technology with a Bachelor's Degree in Accounting. She is a fellow member of the Hong Kong Institute of Certified Public Accountants. She joined the Company in June 2010 and has over 16 years of working experience in the field of accounting, auditing and financial management. Ms. Chan has been appointed as an independent non-executive director of Prosperous Future Holdings Limited since September 2016. She was an independent non-executive director of Millennium Pacific Group Holdings Limited from June 2014 to July 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Yu Sun Say, *G.B.M., G.B.S., S.B.S, J.P.*, aged 81, joined the Company as an independent non-executive director in October 2007. Dr. Yu is the Chairman of the H.K.I. Group of Companies and a director of a number of manufacturing and investment companies. He is an independent non-executive director of Wong's International Holdings Limited, Beijing Enterprises Holdings Limited and Fu Shek Financial Holdings Limited. He had served as member of Standing Committee of the Chinese People's Political Consultative Conference, member of the Preparatory Committee for the Hong Kong Special Administrative Region and Hong Kong Affairs Adviser. He is currently the Permanent Honorary President of the Chinese General Chamber of Commerce and Permanent Honorary President of the Chinese Manufacturers' Association of Hong Kong.

Mr. Cheung Wah Fung, Christopher, *S.B.S, JP*, aged 68, is an independent non-executive director of the Company and joined the Company in September 2004. Mr. Cheung is currently the member of Legislative Council (Functional Constituency-Financial Services) of the Hong Kong Special Administrative Region and the chairman of Christfund Securities group of companies. He serves as a member of the National Committee of the Chinese People's Political Consultative Conference, honorary president of the Hong Kong Securities Professionals Association, elected director of the Hong Kong Chinese General Chamber of Commerce, council member of the Chinese Overseas Friendship Association, deputy secretary of the Friends of Hong Kong Association, member of the Standing Committee of the Federation of Commerce and Industry of Guangdong Province, Honorary president of Hong Kong Federation of Fujian Association.

Mr. Ting Leung Huel Stephen, *MH, FCCA, FCPA (PRACTISING), ACA, CTA (HK), FHKIoD*, aged 66, is an independent non-executive director of the Company and joined the Company in December 2000. Mr. Ting is the Chairman of Ting Ho Kwan & Chan, Certified Public Accountants. He is now a non-executive director of Chow Sang Sang (Holdings) International Limited and an independent non-executive director of six listed companies, namely, China SCE Group Holdings Limited, Computer and Technologies Holdings Limited, Dongyue Group Limited, New Silkroad Culturaltainment Limited, Texhong Textile Group Limited and Tong Ren Tang Technologies Company Limited.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Venkatachalam Thangadurai, aged 43, is the general manager and chief technical officer in a major subsidiary of the Group. He joined the Group in 2015. He possesses 25 years of rich working experience for multi-national companies with fast-paced consumer electronics manufacturing environment. He is mainly responsible for business development with North American Hi-tech companies combined with costing, strategic planning, budgeting, and resource planning till execution. On technical grounds, he is accountable for implementing innovative solutions in NPI and MP programs. He obtained his post-graduation in master of business administration in project management with a graduation in tooling engineering & plastic mold design.

Mr. Pan Jianjun, aged 44, is the deputy general manager in business of the Group's major subsidiaries in Shenzhen and Dongguan. He is mainly responsible for the Group's sales and marketing activities in Shenzhen and Dongguan. He has over 20 years of experiences in electronics market and he joined the Group in 2003.

Mr. Lin Shun Jian, aged 56, is the operation officer of the Group's major subsidiaries in Shishi. He is primarily responsible for assisting the supervision of the daily business operation of operating units of our Group's major subsidiaries in Shishi. He has over 18 years of experiences in supervising corporate daily business operation, and he joined the Group in 2001.

COMPANY SECRETARY

Ms. Cheuk Tat Yee, aged 32, was appointed as a company secretary on May 2019 and is primarily responsible for overall company secretarial matters of the Group. She graduated from the Hong Kong University of Science and Technology with a Bachelor degree in Accounting. She is a member of the Hong Kong Institute of Certified Public Accountants. She has over 9 years of experience in the auditing, accounting and finance field.

CORPORATE GOVERNANCE PRACTICES

The Company and the Board are devoted to achieve and maintain the highest standards of corporate governance as the Board believes that effective corporate governance practices are fundamental to enhancing the shareholder value and safeguarding interest of the shareholders and other stakeholders. Accordingly, the Company has adopted sound corporate governance principles that emphasise a quality Board, effective internal control, stringent disclosure practices and transparency and accountability to all stakeholders.

The Company has complied with the code provisions of the Code of Best Practice (the “CG Code”) as set out in Appendix 14 to the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) throughout 2019 with certain deviations in respect of the distinctive roles of chairman and chief executive officer and the appointment of non-executive Directors with specific terms. The following summarizes the Company’s corporate governance practices and explains deviations, if any, from the CG Code.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the Model Code for Securities Transaction by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “Model Code”). Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code and the code of conduct regarding Directors’ securities transactions adopted by the Company throughout the year ended 31 December 2019.

BOARD OF DIRECTORS

The Board is responsible for leading and controlling the business operations of the Group. It formulates strategic directions, oversees the operations and monitors the financial performance of the Group. The management is delegated power and authority given by the Board for the day-to-day management and operations of the Group. The management is accountable to the Board for the Company’s overall operation.

As at 31 December 2019 and at the date of this report, the Board comprises five executive Directors (including the chairman of the Board), one non-executive Director and three independent non-executive Directors and the Board is accountable to shareholders. The management and control of the business of the Company is vested in its Board. It is the duty of the Board to create value to the shareholders of the Company. In addition, Mr. Wang Ya Hua, Mr. Wong Ah Yeung and Mr. Wong Ah Yu have resigned as Director on 21 October 2019 and have agreed to stay on as Consultant of the Company at the request of the Board and in that capacity to contribute to the Group on significant matters.

Executive directors:

Mr. Wang Ya Nan (*Chairman*)
Mr. Wang Hung Man (*Vice Chairman*) (*appointed on 21 October 2019*)
Mr. Wang Ming Che (*subsequently resigned on 6 January 2020*)
Mr. Wong Ming Sik (*subsequently appointed on 6 January 2020*)
Mr. Wong Ming Yuet (*appointed on 21 October 2019*)
Mr. Hui Wai Man (*appointed on 21 October 2019*)

Non-executive director:

Ms. Chan Sze Man

Independent non-executive directors:

Dr. Yu Sun Say
Mr. Cheung Wah Fung, Christopher
Mr. Ting Leung Huel Stephen

Corporate Governance Report

The Board is also responsible for the establishment of the risk management system and internal control of the Company. The Board discusses with the management regularly to ensure that risk management system and internal control are operating effectively.

The Board is responsible for maintaining proper account records so as to enable the Directors to monitor the Company's overall financial position. The Board updates shareholders on the operations and financial position of the Group through half yearly and annual results announcements as well as the publication of timely announcements of other matters as prescribed by the relevant rules and regulations. The Board is bound to manage the Company in a responsible and effective manner, and therefore every Director should ensure that he carries out his duty in good faith and in compliance with the standards of the applicable laws and regulations, and acts in the best interests of the Company and its shareholders at all times.

The three independent non-executive Directors are responsible for ensuring a high standard of financial and other mandatory reporting of the Board as well as to provide a balance in the Board in order to protect shareholders' interest and overall interest of the Group.

All Directors have given time and attention to the affairs of the Group. Each executive Director is suitably qualified for his position, and has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

The Group believes that the structure of the Board is most suitable for the Group's existing operation and is most beneficial to the shareholders' interest. However, a review of the structure will be done regularly to see if any change is needed.

The Board meets regularly on a quarterly basis. All Directors are provided with details of agenda items for decisions making with reasonable notice. Directors have access to the advice and services of the company secretary who is responsible for ensuring that the Board procedures are complied with and advising the Board on compliance matters. Directors are also provided with access to independent professional advice, where necessary, in carrying out their obligations as Directors, at the expenses of the Company. Directors who are considered to have conflict of interest or material interest in the proposed transactions or issues to be discussed would not be counted in the quorum of meeting and would abstain from voting on the relevant resolution.

The Board held 4 meetings during the year with attendance record as follows:

Attendance at Board meeting	Number of meetings attended (4 meetings in total)
Executive Directors:	
Mr. Wang Ya Nan	4/4
Mr. Wang Ya Hua (<i>resigned on 21 October 2019</i>)	4/4
Mr. Wong Ah Yeung (<i>resigned on 21 October 2019</i>)	4/4
Mr. Wang Ming Che (<i>subsequently resigned on 6 January 2020</i>)	4/4
Mr. Wang Hung Man (<i>appointed on 21 October 2019</i>)	1/1
Mr. Wong Ming Sik (<i>subsequently appointed on 6 January 2020</i>)	–
Mr. Wong Ming Yuet (<i>appointed on 21 October 2019</i>)	1/1
Mr. Hui Wai Man (<i>appointed on 21 October 2019</i>)	1/1
Non-Executive Directors:	
Mr. Wong Ah Yu (<i>resigned on 21 October 2019</i>)	4/4
Ms. Chan Sze Man	4/4
Independent Non-Executive Directors:	
Dr. Yu Sun Say, <i>GBM, GBS, SBS, JP</i>	4/4
Mr. Cheung Wah Fung, Christopher, <i>SBS, JP</i>	4/4
Mr. Ting Leung Huel Stephen	4/4

The Board held 4 meetings during the year ended 31 December 2019. The financial controller and company secretary attended all the scheduled Board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and finance.

During the year ended 31 December 2019, Directors had participated in different continuous professional development (the “CPD”) to develop and refresh their knowledge and skills and each Directors provided their records of training to the Company respectively. The Company is of the view that all Directors meet the A.6.5 of the CG Code and details as follows:

	Notes
Mr. Wang Ya Nan	2 and 3
Mr. Wang Hung Man	1, 2 and 3
Mr. Wong Ming Sik	1, 2 and 3
Mr. Wong Ming Yuet	1, 2 and 3
Mr. Hui Wai Man	1, 2 and 3
Ms. Chan Sze Man	1, 2 and 3
Dr. Yu Sun Say	1, 2 and 3
Mr. Cheung Wah Fung, Christopher	1, 2 and 3
Mr. Ting Leung Huel Stephen	1, 2 and 3

Notes:

1. Annual updated conferences for different regulations (including but not limited to accounting, tax and Listing Rules).
2. Attending CPD Seminars.
3. Reading related journals and/or learning materials.

All Directors, including non-executive Director and independent non-executive Directors assume the responsibilities to the shareholders of the Company for the well-being and success of the Company. They are aware of their duties to act in good faith and in the best interests of the Company.

Each of the independent non-executive Director has made an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Board has delegated a schedule of responsibilities to each of the executive directors. Mr. Wang Ya Nan, the Chairman of the Board and the Chief Executive Officer, established the Company's strategic direction, sets the Company's objectives and plans, provides leadership and ensures availability of resources in the attainment of such objectives. He is also required to control, supervise and monitor the capital, corporate finance, technical and human resources of the Group. Mr. Wang Hung Man, the Vice Chairman of the Board, implements the decisions of the Board and manages strategies and plans approved by the Board; and prepares and monitors the annual production plans and operating budget. He is also required to give direction of the day-to-day operation in one of the main operation unit of the Group in Xiamen. Mr. Wong Ming Yuet oversees the operation unit in Shishi and gives direction of the day-to-day operation. Mr. Wong Ming Sik oversees the operation unit in Shenzhen and Dongguan and to give direction of the day-to-day operation.

According to A.2.1 of the CG Code, the roles of chairman and chief executive should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. The Company does not have a separate chairman and chief executive officer and Mr. Wang Ya Nan currently holds both positions. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. In addition, vesting the roles of both chairman and chief executive officer in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies. The balance of power is further ensured by the following reasons:

- Audit Committee (the "AC") is comprised of a non-executive Director and all independent non-executive Directors; and
- The AC members have free and direct access to the Company's external auditor and independent professional advisers when considered necessary.

The Board believes that the present structure is considered to be appropriate under the current size of operation, enabling the Company to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Wang Ya Nan, and believes that his appointment to the posts of chairman and chief executive officer is beneficial to the business prospects of the Company.

NON-EXECUTIVE DIRECTOR

The Company has an non-executive Director, Ms. Chan Sze Man, who is responsible for overseeing the company and business issues in a broad perspective particularly on helping develop proposals for strategy development.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has three independent non-executive Directors, namely Dr. Yu Sun Say, *GBM, GBS, SBS, JP*, Mr. Cheung Wah Fung, Christopher, *SBS, JP*, and Mr. Ting Leung Huel Stephen respectively.

The three independent non-executive Directors are not appointed for a fixed term of office, but they are subject to the retirement by rotation and re-election of Directors in accordance with the Articles of Association of the Company, which require one-third of the Directors in office to retire from office by rotation and re-election at each annual general meeting. According to A.4.1 of the CG Code, it requires that all non-executive directors should be appointed for a specific term, subject to re-election. Since their respective appointment will be reviewed when they are due for re-election, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less than those set out in the CG Code.

REMUNERATION COMMITTEE

The remuneration committee (the "RC") was set up with written terms of reference to oversee the remuneration policy and structure for all Directors and senior management. The RC comprises the Chairman and Chief Executive Officer of the Company, Mr. Wang Ya Nan, and three independent non-executive directors, Mr. Ting Leung Huel Stephen, Dr. Yu Sun Say and Mr. Cheung Wah Fung, Christopher. Mr. Ting takes the chair of the RC. The terms of reference of RC are in compliance with the Listing Rules. The role of the RC is to recommend to the Board a framework for remunerating the Directors and senior management and to determine specific remuneration packages for them. It is provided with sufficient resources by the Company to discharge its duties.

The remuneration package for executive Directors comprises a basic salary and voluntary contributions to MPF by the Company in accordance with CG Code B.1.2(c)(ii). All revision to the remuneration packages of the Directors are subject to the review and approval of the Board. Details of Directors' remuneration are set out in note 8 to the financial statements in this annual report.

The Company operates share option schemes (the "Schemes") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Schemes are disclosed in note 26 to the financial statements.

The RC held 2 meetings during the year with attendance record as follows:

Attendance at RC meeting	Number of meetings attended (2 meetings in total)
RC members:	
Mr. Ting Leung Huel Stephen	2/2
Mr. Wang Ya Nan	2/2
Dr. Yu Sun Say, <i>GBM, GBS, SBS, JP</i>	2/2
Mr. Cheung Wah Fung, Christopher, <i>SBS, JP</i>	2/2

Corporate Governance Report

AUDIT COMMITTEE

The AC comprises all the independent non-executive Directors, Mr. Ting Leung Huel Stephen, Dr. Yu Sun Say, Mr. Cheung Wah Fung, Christopher and the non-executive Director, Ms. Chan Sze Man. Mr. Ting takes the chair of the AC. The terms of reference of the AC are aligned with the recommendations as set out in “A Guide for Effective Audit Committee” issued by the Hong Kong Institute of Certified Public Accountants and the code provisions as set out in the CG Code. The AC provides accounting and financial advices and recommendations to the Board as well as monitors and safeguards the independence of external auditor and relevant auditing matters. In addition, the AC is responsible to review and supervise the risk management and internal control systems of the Group and transactions with connected persons (if any).

The Group’s unaudited interim results for the six months ended 30 June 2019 and audited annual results for the year ended 31 December 2019 have been reviewed by the AC which was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made. The AC has also reviewed the effectiveness of the risk management and the internal control systems of the Company and considers the risk management and internal control systems to be effective and adequate.

The AC held three meetings during the year with attendance record as follows:

Attendance at AC meeting	Number of meetings attended (3 meetings in total)
AC members and attendants:	
Mr. Ting Leung Huel Stephen	3/3
Dr. Yu Sun Say, <i>GBM, GBS, SBS, JP</i>	2/3
Mr. Cheung Wah Fung, Christopher, <i>SBS, JP</i>	2/3
Ms. Chan Sze Man	3/3

NOMINATION COMMITTEE

The nomination committee (the “NC”) was set up with written terms of reference to review the structure, size, composition and diversity (including but not limited to gender, age, cultural and educational background, ethnicity or the skills, knowledge, professional experience and length of service) of the Board and make recommendations on any proposed changes to the Board to complement the Company’s corporate strategy.

The NC comprises the Chairman and Chief Executive Officer of the Company, Mr. Wang Ya Nan, and three independent non-executive directors, Dr. Yu Sun Say, Mr. Cheung Wah Fung, Christopher and Mr. Ting Leung Huel Stephen. Mr. Wang takes the chair of the NC. The terms of reference of NC are in compliance with the Listing Rules.

The role and function of the NC include to determine the policy for the nomination of directors, identify individuals suitably qualified to join the Board by the selection of individuals nominated for directorships and to make recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors, in particular the chairman of the Board and the chief executive taking into account the Company’s corporate strategy and the mix of skills, knowledge, experience and the diversity needed in the future.

The NC held 2 meetings during the year with attendance record as follows:

Attendance at NC meeting	Number of meetings attended (2 meetings in total)
NC members:	
Mr. Wang Ya Nan	2/2
Dr. Yu Sun Say, <i>GBM, GBS, SBS, JP</i>	2/2
Mr. Cheung Wah Fung, Christopher, <i>SBS, JP</i>	2/2
Mr. Ting Leung Huel Stephen	2/2

AUDITOR'S REMUNERATION

Details of fees paid or payable to the Group's external auditor for the year ended 31 December 2019 are as follows:

Services	Fees HK\$'000
Annual audit	3,864
Non-audit services	470
Total	4,334

DIVIDEND POLICY

Pursuant to the Company's dividend policy, the Company should maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value in recommending or declaring dividends. The Company does not have any pre-determined dividend distribution ratio. The proposal of payment and the amount of dividends will be made at the discretion of the Board and will depend on the Group's results of operations, earnings, financial condition, cash requirements and availability, future capital expenditure and development requirements, business conditions and strategies, interests of shareholders, any restrictions on payment of dividends and any other factors that the Board may consider relevant. The Board will review the dividend policy as appropriate from time to time.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group in accordance with statutory requirements and accounting standards. The Directors also acknowledge their responsibilities to ensure that the financial statements for the Group are published in a timely manner. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and management with an appropriate consideration to materiality. The Directors, having made appropriate enquires, confirm that they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Corporate Governance Report

The accounting systems and internal control of the Group are designed to prevent any misappropriation of the Group's assets, any unauthorised transactions as well as to ensure the accuracy of the accounting records and the true and fairness of the financial statements.

The Board also acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual and half-yearly reports, other inside information announcements and other financial disclosures required under Listing Rules, and reports to the regulators as well as to information required to be disclosed pursuant to statutory requirements.

The statement of the auditor of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 39 to 43 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Group has complied with the risk management and internal control code provisions during the reporting period. The Directors assume the responsibility for maintaining and reviewing the effectiveness of the Group's risk management and internal control systems, and through the Company's Audit Committee, kept regularly apprised of significant risks that may impact on the Group's performance. The Group's system of internal control includes a defined management structure with limits of authority. Appropriate policies and control procedures have been designed, implemented and reviewed to ensure that assets are safeguarded against improper use or disposal; established system, relevant rules and regulations are adhered to and complied with; reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements; and key risks that may impact on the Group's performance are appropriately identified and managed. Such procedures are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. These procedures can only provide reasonable, and not absolute, assurance against material misstatement, errors, losses and fraud.

The Board oversees risk management and internal controls of the Group on an on-going basis, with the risk management framework as follows:



Risk management committee is formed in 2015 by Chairman and financial controller, each manufacturing base of finance unit and operational unit included.

Our Group systematically considered the changes, since the last annual review in the nature and extent of four core risks: (1) Compliance risk – risk of exposure to legal penalties or financial loss, the Group will face when it fails to accordance with industry laws and regulations, internal policies or best practices. (2) Financial risk – it is associated with financial transactions, which covers credit risk, liquidity risk, exchange rate risk and interest rate risk etc. (3) Operational risk – it results from inadequate or failed internal processes, people and system. This includes fraud risk, vendor outage or processing errors and etc. (4) Strategic risk – the current and prospective adverse impact on earnings or capital arises from adverse business development decisions, improper strategic decision-making process, and/or lack of responsiveness to industry changes, etc. This includes reputation risk, legal risk and compliance risk.

With the system in place, the Board is able to identify and classify the key risks faced by the Group; assess the likelihood and impact of each risk factor faced by the Group; carry out review and assessment on those critical aspects of the key procedures, systems and controls of the Company to address the risk factors faced by the Group; respond to changes in its business and external environment. The Board keeps an ongoing monitoring of risks and of the internal control systems; evaluate the residual risks faced by the Group with the relevant control measures taken into account; and make recommendations, based on our observations, we can manage rather than eliminate the risk of failure to achieve business objectives.

Our Group has already adopted Policy and Procedures on Disclosure of Inside Information since 2014, details of which are disclosed in Company website and there is no material breach of the procedures and internal controls for the handling and dissemination of inside information.

In addition to the risk management and internal control function carried out internally by the Group, an external independent audit firm, BT Corporate Governance Limited, has been appointed to review and appraise the internal control system of the Group. The annual internal control review plan of the Group covers major activities and material controls (including operational, financial and compliance) of the Group's business and service units. A report on the result of assessment and recommendations from BT Corporate Governance Limited was provided to the Audit Committee in March 2020.

The Audit Committee considers that the internal audit function is adequately resourced and has appropriate standing in the Company. The internal audit function is staffed with persons with relevant qualifications and experience. The Audit Committee also considers that the internal auditor has carried out its function according to appropriate professional standards. The Audit Committee has met, at least annually, to review the adequacy and effectiveness of the internal audit function. The Board and the Audit Committee have reviewed the reports of the internal auditor and the internal controls in place, and are satisfied that there are adequate internal controls in the Company. The internal auditor reports directly to the Chairman of the Audit Committee and administratively to the Executive Directors.

Corporate Governance Report

Based on the review carried out by BT Corporate Governance Limited, the Audit Committee and the Board, the Board concluded that there are no material irregularities nor areas of concern that would have significant adverse impact on the Company's financial position or results of operations, and that the risk management and internal control systems are adequate and effective and the Company's resources, staff qualifications and experience, training programs and budget for accounting, internal audit, financial reporting function and Listing Rule compliance are adequate.

COMPANY SECRETARY

As at 31 December 2019, the company secretary of the Company is Ms. Cheuk Tat Yee and a written confirmation had been received by the Company from Ms. Cheuk to confirm she took no less than 15 hours of relevant professional training. The Company is on the view that Ms. Cheuk complied with the Rule 3.29 of the Listing Rules.

EXTERNAL AUDITOR

Currently, the Group's external auditor are Ernst & Young. Ernst & Young has been appointed as the external auditor of the Company by the shareholders of the Company at the Annual General Meeting 2019. The AC is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the authorised external auditor and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of the external auditor. The AC has given their opinion on the fee charged by the external auditor to the Company and has approved the appointment of Ernst & Young as auditor, which the Board fully concurred with such approval of the AC. The responsibilities of the external auditor on the financial statements are set out in the "Independent Auditor's Report" on pages 39 to 43 of this annual report.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an extraordinary general meeting and putting forward proposals at shareholders' meeting

Pursuant to the articles of association of the Company, any one or more member(s) of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company by mail at Room 1201-02, 12th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PROCEDURES BY WHICH ENQUIRES MAY BE PUT TO THE BOARD

Shareholders of the Company may send their enquiries and concerns to the Board by addressing them to the company secretary of the Company by mail at Room 1201-02, 12th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong. The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and customer complaints, to the chief executive officer of the Company.

COMMUNICATION WITH SHAREHOLDERS

The Directors recognise the importance of long-term support from the shareholders of the Company. The Company attaches great priority to establish effective communication with its shareholders and investors. In an effort to enhance such communications, the Company provides information relating to the Company and its business in its annual report and also disseminates such information electronically through its website at <http://www.tongda.com>.

The Company regards the annual general meeting as an important event as it provides an opportunity for direct communication between the Board and its shareholders. All Directors, senior management and external auditor make an effort to attend the annual general meeting of the Company to address shareholders' queries. All the shareholders of the Company are given a minimum of 21 clear business days' notice of the date and venue of the annual general meeting of the Company. The Company supports the CG Code's principle to encourage shareholders' participation.

The Board will review regularly the Group's operation and corporate governance of the Company in order to ensure compliance of the articles of association of the Company, the laws of the Cayman Islands and regulations and to protect the interest of its shareholders. There is no change in the Company's memorandum and articles of association during the year ended 31 December 2019.

Report of the Directors

The directors are pleased to present their report and the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company’s principal subsidiaries are set out in note 38 to the financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2019 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 44 to 145.

An interim dividend of HK1.0 cent (2018: HK2.0 cents) per ordinary share was paid on 11 October 2019.

The directors recommend the payment of a final dividend of HK0.05 cent (2018: HK0.8 cent) per ordinary share in respect of the year to shareholders whose names appear on the register of members on or about 3 June 2020. This together with the interim dividend of HK1.0 cent per ordinary share gives a total of HK1.05 cents per ordinary share for the year (2018: HK2.8 cents per ordinary share). The proposed final dividend will be paid on or about 12 June 2020 following approval at the forthcoming annual general meeting. Details are set out in note 10 to the financial statements.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 is set out in the “Management Discussion and Analysis” on pages 6 to 11 of this annual report and the cross-referenced part of the annual report forms part of the directors’ report. The Group committed to enhancing governance, promoting employee benefits and development, protecting the environment and giving back to society in order to fulfill social responsibility and achieve sustainable growth.

POSSIBLE RISKS AND UNCERTAINTIES FACING THE COMPANY

The Group's financial conditions, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The following are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties which are not known to the Group or which may not be material now but could turn out to be material in the future.

Business Risk

A substantial portion of the operating assets of the Group are located in the PRC and the Group expects that a material portion of the turnover will continue to be derived from the operations in the PRC. The results of operations and prospects are subject, to a significant degree, to economic, political and legal developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including the extent of government involvement, the level of development, the growth rate, and government control of foreign exchange. The Group cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any material adverse effect on the current or future business, results of operation or financial condition of the Group.

Financial Risk

The financial risk management of the Group are set out in note 36 to the financial statements and the cross-referenced part of the annual report forms part of the directors' report.

ENVIRONMENTAL PROTECTION POLICY

The Group has strong commitment towards environmental protection. The management will review the Group's environmental practices from time to time and will consider implementing further ecology friendly measures and practices in the operation to enhance environmental protection and sustainability. Details of which are disclosed in our Environmental, Social and Governance report, which will be issued separately by the Company.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year, as far as the Directors are aware, there was no material non-compliance with applicable laws and regulations by the Group that has a significant impact on the Group's business and operations.

RELATIONS WITH KEY STAKEHOLDERS

The Board recognises that our employees are valuable assets contributing to the Group's future success. The Group provides competitive remuneration package to attract, motivate and retain our employees. The Board also regularly reviews the remuneration package of our employees and makes necessary adjustments to conform to the prevailing market practices. The Board also treasures that maintaining good relationship with our customers and suppliers is vital to achieve the Group's long-term goals. During the year, there was no significant dispute between the Group companies and our business partners.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out on page 146. This summary does not form part of the audited financial statements.

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Details of movements in the property, plant and equipment and the investment property of the Group during the year are set out in notes 12 and 13, respectively, to the financial statements.

BORROWINGS

Particulars of borrowings of the Group as at 31 December 2019 are set out in note 22 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 25 and 26, respectively, to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2019.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 37 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2004 Revision) of the Cayman Islands, amounted to HK\$1,499,826,000, of which approximately HK\$3,240,000 has been proposed after the reporting period as a final dividend. This includes the Company's share premium account in the amount of HK\$1,063,277,000 as at 31 December 2019, which may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$60,000.

MAJOR CUSTOMERS AND SUPPLIERS

As at 31 December 2019, (i) the Group's largest customer and five largest customers accounted for approximately 34.0% and 66.3% respectively of the Group's total revenue; and (ii) the Group's largest supplier and five largest suppliers accounted for approximately 12.6% and 20.9% respectively of the Group's total purchases (not including purchases of items which are of a capital nature).

As far as the Directors are aware, none of the Directors, their associates or any Shareholders who owned more than 5% of the Company's share capital had any interest in the five largest customers or suppliers of the Group.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Wang Ya Nan (*Chairman*)
Mr. Wang Ya Hua (*Vice chairman*) (*resigned on 21 October 2019*)
Mr. Wang Hung Man (*Vice chairman*) (*appointed on 21 October 2019*)
Mr. Wong Ah Yeung (*resigned on 21 October 2019*)
Mr. Wang Ming Che (*subsequently resigned on 6 January 2020*)
Mr. Wong Ming Sik (*subsequently appointed on 6 January 2020*)
Mr. Wong Ming Yuet (*appointed on 21 October 2019*)
Mr. Hui Wai Man (*appointed on 21 October 2019*)

Non-executive directors:

Mr. Wong Ah Yu (*resigned on 21 October 2019*)
Ms. Chan Sze Man

Independent non-executive directors:

Dr. Yu Sun Say, *GBM, GBS, SBS, JP*
Mr. Cheung Wah Fung, Christopher, *SBS, JP*
Mr. Ting Leung Huel Stephen

In accordance with article 111 of the Company's articles of association, the Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at such meeting. Accordingly, Mr. Wang Hung Man, Mr. Wong Ming Sik, Mr. Wong Ming Yuet and Mr. Hui Wai Man shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the forthcoming annual general meeting.

In accordance with article 108(A) of the Company's articles of association, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to but not exceeding one-third) shall retire from office by rotation. A retiring Director shall be eligible for re-election. Accordingly, Mr. Wang Ya Nan, Dr. Yu Sun Say and Mr. Ting Leung Huel Stephen will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2019, the interests and long positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

(continued)

Long positions in ordinary shares of the Company:

Name of directors	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital (Note 3)
	Directly beneficially owned	Through controlled corporation	Note		
Mr. Wang Ya Nan	460,930,000 (L)	1,879,500,000 (L)	1, 2	2,340,430,000 (L)	36.12
Mr. Hui Wai Man	78,000,000 (L)	–		78,000,000 (L)	1.20
Mr. Wang Ming Che	3,000,000 (L)	–		3,000,000 (L)	0.05
Dr. Yu Sun Say	21,610,000 (L)	–		21,610,000 (L)	0.33
Mr. Cheung Wah Fung, Christopher	5,950,000 (L)	–		5,950,000 (L)	0.09
Mr. Ting Leung Huel Stephen	6,450,000 (L)	–		6,450,000 (L)	0.10

L: Long position

S: Short position

Long positions in share options of the Company:

Name of director	Number of share options directly beneficially owned
Mr. Wang Ya Nan	5,000,000
Mr. Hui Wai Man	2,000,000
Mr. Wang Ming Che	2,000,000
Ms. Chan Sze Man	3,000,000
Dr. Yu Sun Say, GBM, GBS, SBS, JP	2,000,000
Mr. Cheung Wah Fung, Christopher, SBS, JP	2,000,000
Mr. Ting Leung Huel Stephen	2,000,000
	18,000,000

Notes:

- 1,583,500,000 shares are held by Landmark Worldwide Holdings Limited, the issued share capital of which is beneficially owned as to 25% by each Messrs. Wang Ya Nan, Wang Ya Hua, Wong Ah Yu and Wong Ah Yeung (collectively referred to as the "Wong Brothers").
- 296,000,000 shares are held by E-Growth Resources Limited ("E-Growth"), the entire issued share capital of which is beneficially owned by Mr. Wang Ya Nan.
- The percentages have been compiled based on the total number of issued shares (i.e. 6,479,505,097 shares) as at 31 December 2019.

Save as disclosed above, as at 31 December 2019, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the section "Share option and share award schemes" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME AND SHARE AWARD

Share Option Schemes

The Company operates share option schemes (the "Schemes") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Schemes are disclosed in note 26 to the financial statements.

The following table discloses movements in the Company's share options outstanding during the year:

Name or category of participants	Date of grant	Vesting period	Exercisable period	Exercise price of share options HK\$ per share	Number of share options			
					At 1 January 2019	Granted during the period	Exercised during the period	At 31 December 2019
Directors								
Mr. Wang Ya Nan	9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	1,000,000	-	-	1,000,000
		9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	4,000,000	-	-	4,000,000
Mr. Wang Ya Hua <i>(resigned on 21 October 2019)</i>	9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	1,000,000	-	-	1,000,000
		9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	4,000,000	-	-	4,000,000
Mr. Wong Ah Yeung <i>(resigned on 21 October 2019)</i>	9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	1,000,000	-	-	1,000,000
		9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	4,000,000	-	-	4,000,000
Mr. Wong Ah Yu <i>(resigned on 21 October 2019)</i>	9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	1,000,000	-	-	1,000,000
		9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	4,000,000	-	-	4,000,000

Report of the Directors

SHARE OPTION SCHEME AND SHARE AWARD (continued)

Share Option Schemes (continued)

Name or category of participants	Date of grant	Vesting period	Exercisable period	Exercise price of share options HK\$ per share	Number of share options			
					At 1 January 2019	Granted during the period	Exercised during the period	At 31 December 2019
Mr. Hui Wai Man (appointed on 21 October 2019)	9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	500,000	-	-	500,000
		9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	1,500,000	-	-	1,500,000
Mr. Wang Ming Che (subsequently resigned on 6 January 2020)	9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	500,000	-	-	500,000
		9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	1,500,000	-	-	1,500,000
Ms. Chan Sze Man	9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	3,000,000	-	-	3,000,000
Dr. Yu Sun Say, GBM, GBS, SBS, JP	9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	500,000	-	-	500,000
		9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	1,500,000	-	-	1,500,000
Mr. Ting Leung Huel Stephen	9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	500,000	-	-	500,000
		9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	1,500,000	-	-	1,500,000
Mr. Cheung Wah Fung, Christopher, SBS, JP	9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	500,000	-	-	500,000
		9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	1,500,000	-	-	1,500,000
Other employees								
In aggregate	9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	4,700,000	-	-	4,700,000
		9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	20,300,000	-	-	20,300,000
					58,000,000	-	-	58,000,000

SHARE OPTION SCHEME AND SHARE AWARD *(continued)*

Share Option Schemes *(continued)*

Notes to the table of share options outstanding during the year:

- * The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- ** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- *** The weighted average exercise price of the share options outstanding as at the end of the reporting period was HK\$1.8 per share.

Share Award

During the year ended 31 December 2019, certain employees (the "Employees"), who are not a director, chief executive or substantial shareholder of the Company, nor an associate (as defined under the Listing Rules) of any of them, were invited to contribute capital of Xiamen Smart Tech, a subsidiary of the Group.

The fair value of the share awards granted during the year ended 31 December 2019 was determined with reference to the difference between the fair value of Xiamen Smart Tech at the date of grant and the cash consideration contributed by the Employees, and amounted to HK\$6,409,000.

EQUITY-LINKED AGREEMENTS

Save as disclosed under the section headed "Share Option and Share Award Schemes" above, there were no equity-linked agreements entered into by the Group, or existed during the year ended 31 December 2019.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2019, the following parties were interested in 5% or more of the Company's issued share capital as recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Landmark Worldwide Holdings Limited	Note Directly beneficially owned	1,583,500,000 (L)	24.44

Note:

The issued share capital of Landmark Worldwide Holdings Limited is held and beneficially owned as to 25% each by the Wong Brothers.

Save as disclosed above, as at 31 December 2019, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

SPECIFIC PERFORMANCE COVENANT ON CONTROLLING SHAREHOLDERS

Facility Agreement dated 18 February 2020

On 18 February 2020, the Company as borrower, certain of its subsidiaries as guarantors, the Hongkong and Shanghai Banking Corporation Limited (the “HSBC”) as coordinator, Hang Seng Bank Limited (“HSB”) as agent and various financial institutions as lenders entered into a facility agreement (the “2020 Facility Agreement”) in relation to a term loan facility of up to a principal amount of HK\$700,000,000 for a term of three years (the “2020 Facility”). Pursuant to the 2020 Facility Agreement, it is an event of default if (i) Landmark Worldwide Holdings Limited (“Landmark Worldwide”) is not or ceases to be the single largest shareholder of the Company; (ii) Mr. Wang Ya Nan (“Mr. Wang”), Mr. Wang Ya Hua, Mr. Wong Ah Yu and Mr. Wong Ah Yeung (collectively, the “Majority Shareholders”) collectively do not or cease to own, directly or indirectly (a) 100% of the legal and beneficial interest in Landmark Worldwide, carrying 100% of the voting right; and/or (b) at least 35% of the legal and beneficial interest in the Company, carrying at least 35% of the voting right; (iii) Mr. Wang is not or ceases to be the Chairman of the Company; (iv) Mr. Wang is not or ceases to be actively involved in the board, management and business of the Group; and (v) The Company does not or ceases to own, directly or indirectly, 100% of the beneficial interest in any guarantor, carrying 100% of the voting right, free from any mortgage, charge, assignment, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect. Details of the 2020 Facility are set out in the announcement of the Company dated 18 February 2020.

Facility Agreement dated 14 January 2019

On 14 January 2019, the Company as borrower, certain of its subsidiaries as guarantors and HSB as lender entered into a facility letter (the “2019 Facility Letter”) in relation to a committed non-revolving term loan facility of HK\$500,000,000 for a term of 3.5 years (the “2019 Facility”). Pursuant to the 2019 Facility Letter, it is an event of default if the Company does not comply with the undertaking to procure that (i) the Majority Shareholders collectively remain the single largest shareholder and maintain not less than 35% of the issued share capital of the Company and (ii) Mr. Wang remain Chairman of the Company and the Major Shareholders remain actively involved in the board, management and business of the Company. Details of the 2019 Facility are set out in the announcement of the Company dated 14 January 2019.

Facility Agreement dated 24 December 2018

On 24 December 2018, Tong Da General Holdings (H.K.) Limited as borrower, certain of its subsidiaries as guarantors and HSBC as lender entered into a facility letter (the “2018 Facility Letter”) in relation to a committed non-revolving term loan facility of HK\$200,000,000 for a term of three years (the “2018 Facility”). Pursuant to the 2018 Facility Letter, it is an event of default if (i) the Majority Shareholders collectively do not or cease to have management control over the Group; (ii) Landmark Worldwide is not or ceases to be the single largest shareholder of the Company; (iii) the Majority Shareholders collectively do not or ceases to own, directly or indirectly, 100% of the legal and beneficial interest in Landmark Worldwide, carrying 100% of the voting right of Landmark Worldwide; and/or at least 35% of the legal and beneficial interest in the Company carrying at least 35% of the voting right; (iv) Mr. Wang is not or ceases to be the chairman of the Company; and (v) any one or more of the Majority Shareholders do not or ceases to actively involve in the board of directors of the Company, management and business of the Group. Details of the 2018 Facility are set out in the announcement of the Company dated 24 December 2018.

SPECIFIC PERFORMANCE COVENANT ON CONTROLLING SHAREHOLDERS *(continued)*

Facility Agreement dated 15 June 2018

On 15 June 2018, the Company as borrower, certain of its subsidiaries as guarantors and HSBC as lender entered into a facility letter (the “2018 Second Facility Letter”) in relation to a committed non-revolving term loan facility of HK\$500,000,000 for a term of three years (the “2018 Second Facility”). Pursuant to the 2018 Second Facility Letter, it is an event of default if (i) the Majority Shareholders collectively do not or cease to have management control over the Group; (ii) Landmark Worldwide is not or ceases to be the single largest shareholder of the Company; (iii) the Majority Shareholders collectively do not or ceases to own, directly or indirectly, 100% of the legal and beneficial interest in Landmark Worldwide, carrying 100% of the voting right of Landmark Worldwide; and/or at least 35% of the legal and beneficial interest in the Company carrying at least 35% of the voting right; (iv) Mr. Wang is not or ceases to be the chairman of the Company; and (v) any one or more of the Majority Shareholders do not or ceases to actively involve in the board of directors of the Company, management and business of the Group. Details of the 2018 Second Facility are set out in the announcement of the Company dated 15 June 2018.

Facility Agreement dated 25 September 2017

On 25 September 2017, the Company as borrower, certain of its subsidiaries as guarantors, HSBC as coordinator and agent, and various financial institutions as lenders entered into a facility agreement (the “2017 Facility Agreement”) in relation to a term loan facility of up to HK\$400,000,000 for a term of three years (the “2017 Facility”). Pursuant to the 2017 Facility Agreement, it is an event of default if (i) the Majority Shareholders collectively do not or cease to have management control over the Group; (ii) Landmark Worldwide is not or ceases to be the single largest shareholder of the Company; (iii) the Majority Shareholders collectively do not or ceases to own, directly or indirectly, 100% of the legal and beneficial interest in Landmark Worldwide, carrying 100% of the voting right of Landmark Worldwide; (iv) Mr. Wang is not or ceases to be the chairman of the Company; and (v) any one or more of the Majority Shareholders do not or ceases to actively involve in the board of directors of the Company, management and business of the Group. Details of the 2017 Facility are set out in the announcement of the Company dated 25 September 2017.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

Mr. Wang Ya Nan, being the executive director of the Company, has entered into a service agreement with the Company for an initial fixed term of three years commencing from 1 December 2000, and which will continue thereafter until terminated by not less than three months' notice in writing served by either party to the other. The service agreements with Mr. Wang Ya Hua, Mr. Wong Ah Yeung and Mr. Wong Ah Yu have been terminated on 21 October 2019, but they have agreed to stay on as consultant of the Company at the request of the Board and in that capacity to contribute to the Group on significant matters.

Mr. Wang Ming Che, an executive director, has entered into a service contract with the Company for an initial term of three years commencing from 18 March 2008, renewable automatically for successive terms of one year and may be terminated by either party by giving not less than three months' written notice at the end of the initial term or any time thereafter. The service contract with Mr. Wang Ming Che has been subsequently terminated on 6 January 2020.

Mr. Wang Hung Man, Mr. Wong Ming Yuet and Mr. Hui Wai Man, being the executive directors of the Company, each of them has entered into a service contract with the Company for an initial term of three years commencing from 21 October 2019, renewable automatically for successive term of one year and may be terminated by either party by giving one month's notice in writing at the end of the initial term or any time thereafter.

Mr. Wong Ming Sik, subsequently appointed to be an executive director on 6 January 2020, has entered into a service contract with the Company for an initial term of three years commencing from 6 January 2020, renewable automatically for successive term of one year and may be terminated by either party by giving one month's notice in writing at the end of the initial term or any time thereafter.

Ms. Chan Sze Man, an non-executive director, has entered into a letter of appointment with the Company for a term of three years commencing from 31 August 2018, subject to retirement by rotation and may be terminated by giving one month's notice in writing by either party.

Dr. Yu Sun Say and Mr. Cheung Wah Fung have been appointed as independent non-executive Director of the Company in October 2007 and September 2004 respectively. Both of them do not have a fixed term of office with the Company.

Mr. Ting Leung Huel Stephen has been appointed as independent non-executive Director of the Company in December 2000 and he has a service contract with the Company with an initial term of 3 years and renewable automatically for successive term of one year, subject to retirement by rotation and re-election.

Saved for Mr. Wang Hung Man, Mr. Wong Ming Sik and Mr. Wong Ming Yuet, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

DIRECTORS' INTEREST IN CONTRACT OF SIGNIFICANCE

No contract of significance in relation to the Group's business in which the Company, or any of its subsidiaries, or was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

COMPETITION AND CONFLICT OF INTERESTS

As at 31 December 2019, none of the Directors of the Company or any of their respective associates have engaged in any business that competes or may compete with the business of the Group, or have any other conflict of interests with the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiries of the Company's directors, the directors have complied with the required standard set out in the Model Code throughout the accounting period covered by the annual report.

EMOLUMENT POLICY

The emolument policy for the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

Details of Directors' remuneration are set out in note 8 to the financial statements.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 26 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report and maintained a sufficient public float throughout the year ended 31 December 2019.

AUDITOR

Ernst & Young retire and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

Report of the Directors

PERMITTED INDEMNITY PROVISIONS

The articles of associations of the Company provides that the directors shall be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts.

The Company has taken out and maintained directors' liability insurance which provides appropriate cover for the directors and directors of the subsidiaries of the Group.

EVENTS AFTER THE REPORTING YEAR

Due to the outbreak of novel coronavirus epidemics in early 2020, the PRC government has implemented various immediate and ongoing measures for anti-epidemic control, so as to mitigate the impacts from the epidemics. The major production bases of our Group are located in Xiamen city and Shishi city, Fujian province. At the beginning of the outbreak of epidemics, a leader team for epidemics prevention and control (the "anti-epidemic team") has been formed immediately, which was led by the general managers from each major production base in coordination with supervisors from each division, in order to impose a series of preventive and controlling measures within the plants, including more frequent attempts of sanitisation within the plant, canteen and staff quarters areas everyday, stringent management and control on the health conditions of all personnel getting in or out the plants and assured provision for corresponding anti-epidemic supplies to all on-site staff, prevention on unnecessary flows of visitors, etc. Meanwhile, the anti-epidemic team closely reports to the Board on any real-time anti-epidemic conditions in each production base, the progress of staff's return to works, as well as the demand and supply of anti-epidemic supplies, while adjustments are immediately made to anti-epidemic efforts in response to the developments of epidemics. As of the date of this Report, major operating plants under our Group has substantially restored to their normal operation.

Nevertheless, it is expected that the epidemics will bring about uncertain factors to various economic activities in China and globally in the short term, and our Group will be affected to a certain extent.

The Company will continue to closely monitor the relevant circumstances and take timely and corresponding measures.

ON BEHALF OF THE BOARD

Wang Ya Nan

TONGDA GROUP HOLDINGS LIMITED

Chairman

Hong Kong

17 March 2020



To the shareholders of Tongda Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Tongda Group Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 44 to 145, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAs”) issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA’s *Code of Ethics for Professional Accountants* (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Independent Auditor's Report

KEY AUDIT MATTERS (continued)

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter

How our audit addressed the key audit matter

Impairment of trade receivables

As at 31 December 2019, the Group had a gross trade receivables balance of HK\$2,898,369,000 and impairment allowances of HK\$38,371,000. Management evaluates the estimated provision for impairment of trade receivables based on specific review of customers' accounts as well as experience with collection trends, current business conditions and expected future market conditions.

The accounting policies and disclosures for allowances for trade receivables are included in notes 2.4, 3 and 18 to the consolidated financial statements.

Our audit procedures included, among others, selecting samples for the circularisation of debtor confirmations, checking subsequent settlements of trade receivables, and reviewing trade receivables ageing reports to identify any long overdue debts and their historical pattern of settlements. In addition, we inspected the published economic indices that management applied in their assessment of the loss allowance of trade receivables.

Provision against inventories

As at 31 December 2019, the Group had a gross inventory balance of HK\$2,282,756,000 and inventory obsolescence of HK\$37,866,000. As the technology for the production of electrical fittings is constantly changing, the Group's inventories are subject to significant risk of obsolescence because market prices may drop as a result of the change in industry trend. Management considers various factors, including the conditions and ageing of inventories, the latest invoice prices and current market conditions when determining inventory provision for surplus inventories or obsolete stocks.

The accounting policies and disclosures for provision against inventories are included in notes 2.4, 3 and 17 to the consolidated financial statements.

Our audit procedures included, among others, performing lower of cost and net realisable value tests by reviewing gross profit margin analysis of products during the year and discussing with management regarding their pricing policy and provision basis, performing obsolescence review by reviewing the subsequent usage of raw materials, work in progress and delivery of finished goods to customers and attending physical inventory count and performing compilation test.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Law Fu Yuen, Patrick.

Ernst & Young

Certified Public Accountants

22/F, CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

17 March 2020

Consolidated Income Statement

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
REVENUE	5	9,185,866	8,899,306
Cost of sales		(7,508,982)	(7,105,412)
Gross profit		1,676,884	1,793,894
Other income and gains, net	5	103,879	117,660
Selling and distribution expenses		(133,326)	(128,694)
General and administrative expenses		(945,683)	(874,742)
Other operating expenses, net		(11,478)	(55,394)
Finance costs	6	(206,765)	(174,348)
Share of profit/(loss) of a jointly-controlled entity		1,324	(2,602)
PROFIT BEFORE TAX	7	484,835	675,774
Income tax expense	9	(83,954)	(113,016)
PROFIT FOR THE YEAR		400,881	562,758
Attributable to:			
Owners of the Company		401,521	542,821
Non-controlling interests		(640)	19,937
		400,881	562,758
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
– Basic	11	HK6.20 cents	HK8.76 cents
– Diluted		HK6.20 cents	HK8.61 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000
PROFIT FOR THE YEAR		400,881	562,758
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Gain on property revaluation		199	5,557
Income tax effect	24	(32)	(917)
		167	4,640
Other comprehensive income/(expense) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations			
– subsidiaries		(288,974)	(201,395)
– jointly-controlled entity		(2,423)	(1,929)
		(291,397)	(203,324)
Release of exchange reserve upon disposal of a subsidiary		2,378	(116)
Release of exchange reserve upon deregistration of a subsidiary		(1,612)	–
		(290,631)	(203,440)
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR, NET OF TAX		(290,464)	(198,800)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		110,417	363,958
Attributable to:			
Owners of the Company		112,054	344,059
Non-controlling interests		(1,637)	19,899
		110,417	363,958

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	5,088,849	4,849,684
Right-of-use assets	14	410,606	–
Investment property	13	–	68,037
Prepaid land lease payments	14	–	261,635
Investment in a jointly-controlled entity	15	61,981	63,080
Prepayments	14	–	49,677
Long term deposits	16	531,145	626,029
Lease receivable		13,067	–
Deferred tax assets	24	3,703	3,703
Total non-current assets		6,109,351	5,921,845
CURRENT ASSETS			
Inventories	17	2,244,890	2,528,950
Trade and bills receivables	18	2,946,188	3,114,793
Prepayments, deposits and other receivables		545,077	547,103
Due from a jointly-controlled entity	15	65,973	33,768
Loans to a jointly-controlled entity	15	134,871	140,260
Loan receivable	21	3,154	47,581
Lease receivable		7,721	–
Tax recoverable		28,607	31,751
Pledged deposits	19	409,872	507,684
Cash and cash equivalents	19	1,077,676	768,404
Total current assets		7,464,029	7,720,294
CURRENT LIABILITIES			
Trade and bills payables	20	2,948,445	2,625,725
Accrued liabilities and other payables		514,299	458,980
Interest-bearing bank and other borrowings	22	2,632,800	2,454,895
Lease liabilities	14	18,345	–
Due to a jointly-controlled entity	15	65,997	200,584
Due to a former non-controlling shareholder of a subsidiary		30,034	–
Tax payable		134,416	147,371
Total current liabilities		6,344,336	5,887,555
NET CURRENT ASSETS		1,119,693	1,832,739
TOTAL ASSETS LESS CURRENT LIABILITIES		7,229,044	7,754,584

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	22	1,117,339	1,696,963
Lease liabilities	14	37,827	–
Due to a former non-controlling shareholder of a subsidiary		–	30,034
Deferred tax liabilities	24	91,500	90,430
Total non-current liabilities		1,246,666	1,817,427
Net assets		5,982,378	5,937,157
EQUITY			
Equity attributable to owners of the Company			
Share capital	25	64,795	64,795
Reserves	27	5,881,425	5,898,022
		5,946,220	5,962,817
Non-controlling interests		36,158	(25,660)
Total equity		5,982,378	5,937,157

Wang Ya Nan

Director

Wang Hung Man

Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Notes	Attributable to owners of the Company									Non-controlling interests	Total equity	
		Share capital	Share premium account	Share option reserve	Capital reserve	Asset revaluation reserve	Statutory reserve	Capital redemption reserve	Exchange fluctuation reserve	Retained profits			Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 31 December 2018		64,795	1,179,908	30,781	(189,106)	42,568	364,324	884	(266,958)	4,735,621	5,962,817	(25,660)	5,937,157
Effect of adoption of HKFRS 16	2.2	-	-	-	-	-	-	-	-	(2,294)	(2,294)	-	(2,294)
At 1 January 2019 (restated)		64,795	1,179,908	30,781	(189,106)	42,568	364,324	884	(266,958)	4,733,327	5,960,523	(25,660)	5,934,863
Profit for the year		-	-	-	-	-	-	-	-	401,521	401,521	(640)	400,881
Other comprehensive income for the year:													
Gain on property revaluation, net of tax		-	-	-	-	167	-	-	-	-	167	-	167
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	(290,400)	-	(290,400)	(997)	(291,397)
Release of exchange reserve upon disposal of a subsidiary	30	-	-	-	-	-	-	-	2,378	-	2,378	-	2,378
Release of exchange reserve upon deregistration of a subsidiary		-	-	-	-	-	-	-	(1,612)	-	(1,612)	-	(1,612)
Total comprehensive income for the year		-	-	-	-	167	-	-	(289,634)	401,521	112,054	(1,637)	110,417
Transfer to statutory reserve		-	-	-	-	-	66,011	-	-	(66,011)	-	-	-
Acquisition of a non-controlling interest		-	-	-	(11,218)	-	-	-	-	-	(11,218)	11,218	-
Capital contribution from non-controlling interests		-	-	-	1,492	-	-	-	-	-	1,492	52,237	53,729
Final 2018 dividend declared and paid	10	-	(51,836)	-	-	-	-	-	-	-	(51,836)	-	(51,836)
Interim 2019 dividend declared and paid	10	-	(64,795)	-	-	-	-	-	-	-	(64,795)	-	(64,795)
At 31 December 2019		64,795	1,063,277*	30,781*	(198,832)*	42,735*	430,335*	884*	(556,592)*	5,068,837*	5,946,220	36,158	5,982,378

	Notes	Attributable to owners of the Company											Non-controlling interests	Total equity
		Share capital	Share premium account	Equity component of convertible bonds	Share option reserve	Capital reserve	Asset revaluation reserve	Statutory reserve	Capital redemption reserve	Exchange fluctuation reserve	Retained profits	Total		
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2018		60,517	1,340,928	3,541	22,708	(125,657)	37,928	297,507	884	(64,364)	4,260,425	5,834,417	50,880	5,885,297
Profit for the year		-	-	-	-	-	-	-	-	-	542,821	542,821	19,937	562,758
Other comprehensive income for the year:														
Gain on property revaluation, net of tax		-	-	-	-	-	4,640	-	-	-	-	4,640	-	4,640
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	(203,286)	-	(203,286)	(38)	(203,324)
Release of exchange fluctuation reserve upon disposal of a subsidiary	30	-	-	-	-	-	-	-	-	(116)	-	(116)	-	(116)
Total comprehensive income for the year		-	-	-	-	-	4,640	-	-	(203,402)	542,821	344,059	19,899	363,958
Transfer to statutory reserve		-	-	-	-	-	-	81,895	-	-	(81,895)	-	-	-
Shares issued upon conversion of convertible bonds	23, 25(i)	2,455	405,753	(3,208)	-	-	-	-	-	-	-	405,000	-	405,000
Redemption of convertible bonds	23, 25(i)	-	333	(333)	-	-	-	-	-	-	-	-	-	-
Acquisition of a non-controlling interest	25(iii)	1,823	154,977	-	-	(63,449)	-	-	-	-	-	93,351	(84,351)	9,000
Release upon distribution of Tongda Hong Tai Holdings Limited		-	-	-	-	-	-	(15,078)	-	808	14,270	-	-	-
Equity-settled share option arrangements	26	-	-	-	8,073	-	-	-	-	-	-	8,073	-	8,073
Dividend paid to a non-controlling shareholder		-	-	-	-	-	-	-	-	-	-	-	(12,088)	(12,088)
Final 2017 dividend declared and paid	10	-	(229,965)	-	-	-	-	-	-	-	-	(229,965)	-	(229,965)
Interim 2018 dividend declared and paid	10	-	(125,944)	-	-	-	-	-	-	-	-	(125,944)	-	(125,944)
Special interim dividend	10	-	(366,174)	-	-	-	-	-	-	-	-	(366,174)	-	(366,174)
At 31 December 2018		64,795	1,179,908*	-	30,781*	(189,106)*	42,568*	364,324*	884*	(266,958)*	4,735,621*	5,962,817	(25,660)	5,937,157

* These reserve accounts comprise the consolidated reserves of HK\$5,881,425,000 (2018: HK\$5,898,022,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		484,835	675,774
Adjustments for:			
Finance costs		206,765	174,348
Share of profit/(loss) of a jointly-controlled entity		(1,324)	2,602
Depreciation of property, plant and equipment	7	467,618	390,448
Depreciation of right-of-use assets	7	23,818	–
Amortisation of prepaid land lease payments	7	–	6,505
Amortisation of prepayments	7	–	1,490
Bank interest income	5	(6,419)	(5,610)
Interest income from a jointly-controlled entity	5	(2,697)	(4,239)
Interest income from a loan receivable	5	(1,309)	(2,187)
Equity-settled share option expenses	26	–	8,073
Share-based expenses	7	6,409	–
Loss on disposal of items of property, plant and equipment	7	5,366	12,429
Changes in fair value of an investment property	7	–	(6,050)
Impairment of trade receivables	7	4,410	10,406
Reversal of impairment of trade receivables	7	(4,259)	(11,440)
Provision against inventories	7	15,701	198,905
Write-back of provision against inventories	7	(1,617)	–
Write-off of inventories	7	391	17,553
Loss/(gain) on disposal of a subsidiary	7	2,323	(3,568)
Gain on inception of sublease agreements	5	(6,972)	–
Finance income	5	(1,060)	–
Loss on deregistration of associates	7	–	134
		1,191,979	1,465,573
Decrease/(increase) in inventories		269,585	(443,265)
Decrease in trade and bills receivables		168,454	580,707
Increase in prepayments, deposits and other receivables		(35,272)	(71,741)
Decrease in lease receivable		7,855	–
Increase in an amount due from a jointly-controlled entity		(32,205)	(14,824)
Increase/(decrease) in trade and bills payables		322,816	(23,410)
Increase/(decrease) in accrued liabilities and other payables		55,355	(36,231)
Decrease in an amount due to a jointly-controlled entity		(134,587)	(10,502)
Cash generated from operations		1,813,980	1,446,307
Interest paid		(206,765)	(183,618)
Hong Kong profits tax paid		(1,957)	(72,014)
Overseas taxes paid		(90,770)	(153,011)
Net cash flows from operating activities		1,514,488	1,037,664

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
CASH FLOWS USED IN INVESTING ACTIVITIES			
Interest received		9,116	9,849
Purchases of items of property, plant and equipment		(516,391)	(911,177)
Payments of right-of-use assets		(3,053)	–
Increase in prepaid land lease prepayments		–	(3,932)
Proceeds from disposal of items of property, plant and equipment		3,218	16,104
Disposal of a subsidiary	30	30,620	6,988
Repayment of loans to a jointly-controlled entity		5,389	4,120
Increase in long term deposits		(345,418)	(626,029)
Decrease/(increase) in pledged bank deposits		97,812	(25,984)
Decrease in a loan receivable		45,610	10,892
Spin-off of Tongda Hong Tai Holdings Limited		–	(22,699)
Net cash flows used in investing activities		(673,097)	(1,541,868)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		3,133,998	5,177,572
Repayment of bank loans		(3,535,717)	(4,230,615)
Dividends paid		(116,631)	(355,909)
Repayment of convertible bonds		–	(35,029)
Capital contribution from non-controlling interests		47,320	–
Principal element of lease payments		(19,297)	–
Net cash flows from/(used in) financing activities		(490,327)	556,019
NET INCREASE IN CASH AND CASH EQUIVALENTS		351,064	51,815
Cash and cash equivalents at beginning of year		768,404	792,494
Effect of foreign exchange rate changes, net		(41,792)	(75,905)
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,077,676	768,404
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	1,077,676	768,404
Non-pledged time deposits with original maturity of less than three months when required		–	–
Cash and cash equivalents as stated in the consolidated statement of financial position	19	1,077,676	768,404

1. CORPORATE AND GROUP INFORMATION

Tongda Group Holdings Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, Cayman Islands.

The principal activity of the Company is investment holding. The principal activities of the Company’s subsidiaries are set out in note 38. There were no significant changes in the nature of the subsidiaries’ principal activities during the year.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for a leasehold building in Hong Kong classified as property, plant and equipment and the related right-of-use assets, and financial assets at fair value through other comprehensive income which have been measured at fair value. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Notes to Financial Statements

31 December 2019

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements to HKFRSs 2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

- (a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC) – Int 15 *Operating Leases – Incentives* and HK(SIC) – Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC) – Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

Notes to Financial Statements

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of land, plant and buildings. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less (“short-term leases”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were recognised based on the carrying amount as if the standard had always been applied, except for the incremental borrowing rate where the Group applied the incremental borrowing rate at 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedient when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) HK\$'000
Assets	
Increase in right-of-use assets	431,278
Decrease in prepayments	(49,677)
Decrease in prepaid land lease payments	(261,635)
Decrease in prepayments, deposits and other receivables	(6,603)
Decrease in property, plant and equipment	(73,710)
	<hr/>
Increase in total assets	39,653
Liabilities	
Increase in lease liabilities	41,947
	<hr/>
Increase in total liabilities	41,947
	<hr/>
Decrease in retained profits	(2,294)
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The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	HK\$'000
Operating lease commitments as at 31 December 2018	52,636
Weighted average incremental borrowing rate as at 1 January 2019	4.84%
	<hr/>
Discounted operating lease commitments and lease liabilities as at 1 January 2019	41,947
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Notes to Financial Statements

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

- (b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.
- (c) HK(IFRIC) – Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i> ¹
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ No mandatory effective date yet determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(continued)

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated income statement and consolidated statement of comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of operation disposed of and the portion of the cash-generating unit retained.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement

The Group measures its leasehold building and the related right-of-use asset in Hong Kong, investment property and financial assets at fair value through other comprehensive income at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value, over the following estimated useful lives:

Leasehold building in Hong Kong	Over the lease terms
Leasehold buildings in Mainland China	Over the lease terms
Leasehold improvements	Over the lease terms or 5 years, whichever is shorter
Plant and machinery	10 – 12 years
Furniture, fixtures and office equipment	3 – 10 years
Motor vehicles	5 – 10 years

Estimated residual values are determined as 5% to 10% of the original purchase cost of each individual underlying asset.

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Construction in progress represents leasehold buildings under construction, plant and machinery and furniture and fixtures and motor vehicles which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment property

An investment property is an interest in a land and a building (including the leasehold property held as a right-of-use assets (2018: leasehold property under an operating lease) which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such property is measured initially at cost, including transaction costs. Subsequent to initial recognition, an investment property is stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair value of an investment property are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at fair value or at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Land	Over the lease terms
Plant	Over the lease terms
Buildings	Over the lease terms

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable from 1 January 2019) *(continued)*

Group as a lessee (continued)

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of building, machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the income statement due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases. At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms. When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

Leases (applicable before 1 January 2019)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable before 1 January 2019) *(continued)*

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the income statement and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

General approach (continued)

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are more than 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade and bills receivables which apply the simplified approach as detailed below.

- Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade and bills receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, financial liabilities included in accrued liabilities and other payables, interest-bearing bank and other borrowings, and amounts due to a jointly-controlled entity and a former non-controlling shareholder of a subsidiary.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing bank and other borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and a jointly-controlled entity, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and a jointly-controlled entity, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities of the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on retranslation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries and joint ventures are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Revenue from contracts with customers (continued)

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Rental income is recognised on a time proportion basis over the lease terms.

Notes to Financial Statements

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial option pricing model.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Share-based payments (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Retirement benefit schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Notes to Financial Statements

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision against inventories

The management of the Group reviews the condition and ageing analysis of inventories at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. Management estimates the net realisable value for such finished goods and work in progress based primarily on the latest invoice prices and current market conditions. The carrying amount of inventories at 31 December 2019 was HK\$2,244,890,000 (2018: HK\$2,528,950,000). Further details are given in note 17.

Provision for expected credit losses on trade and bills receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e. by customer type).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Provision for expected credit losses on trade and bills receivables (continued)

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The carrying amounts of trade and bills receivables at 31 December 2019 were HK\$2,946,188,000 (2018: HK\$3,114,793,000). Further details of the trade and bills receivables are given in note 18.

Estimation of fair value of a leasehold building in Hong Kong

As described in notes 12 and 13 to the financial statements, the leasehold building and the related right-of-use asset located in Hong Kong were revalued at the end of the reporting period by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period. The carrying amounts of a leasehold building and the related right-of-use asset in Hong Kong at 31 December 2019 were HK\$53,500,000 (2018: HK\$54,500,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 13 to the financial statements.

Notes to Financial Statements

31 December 2019

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has five reportable operating segments as follows:

- (a) the handset casings and high-precision components segment consists of various handset casings, tri-proof (waterproof/dustproof/shockproof) high-precision components, high-precision insert molding parts and high-precision rubber molding parts;
- (b) the smart electrical appliances casings segment engages in manufacturing control panels, metal accessories and casings for high-end electrical appliances, and its products include smart home appliances, such as air-conditioners, washing machines and refrigerators;
- (c) the household and sports goods segment consists of durable household goods, household utensils and sports goods;
- (d) the network communications facilities and others segment produces set-top box casings and interior decorations of automotive; and
- (e) the notebook computers segment produces notebook and tablet casings made of precision metal and plastics. The Group has spun off its notebook computers business, which was listed on the Main Board of The Stock Exchange of Hong Kong Limited, on 16 March 2018, and has not been involved in the notebook computers business since then.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that other income and gains, net, corporate and other unallocated expenses, non-lease-related finance costs and share of profit/(loss) of a jointly-controlled entity are excluded from such measurement.

Segment assets exclude an investment in a jointly-controlled entity, loan receivable, deferred tax assets, tax recoverable, loans to a jointly-controlled entity, an amount due from a jointly-controlled entity, pledged deposits, and cash and cash equivalents as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, an amount due to a former non-controlling shareholder of a subsidiary and a jointly-controlled entity, tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. OPERATING SEGMENT INFORMATION (continued)

	Handset casings and high-precision components		Smart electrical appliances casings		Household and sports goods		Network communications facilities and others		Notebook computers [#]		Eliminations		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue														
Sales to external customers ^{##}														
(note 5)	7,119,904	6,621,420	627,254	848,498	648,175	606,811	790,533	739,136	-	83,441	-	-	9,185,866	8,899,306
Intersegment sales	1,364	17,789	18,804	32,894	3,715	202	472	36,381	-	-	(24,355)	(87,266)	-	-
Total	7,121,268	6,639,209	646,058	881,392	651,890	607,013	791,005	775,517	-	83,441	(24,355)	(87,266)	9,185,866	8,899,306
Segment results before														
depreciation and amortisation	933,900	894,957	(21,897)	57,278	93,976	129,400	93,016	105,574	-	1,009	-	-	1,098,995	1,188,218
Depreciation of property, plant and equipment	(352,522)	(280,950)	(33,521)	(38,025)	(14,788)	(12,482)	(66,787)	(56,038)	-	(2,953)	-	-	(467,618)	(390,448)
Depreciation of right-of-use assets	(13,622)	-	(1,990)	-	-	-	(8,206)	-	-	-	-	-	(23,818)	-
Amortisation	-	(1,899)	-	(3,358)	-	-	-	(2,738)	-	-	-	-	-	(7,995)
Segment results	567,756	612,108	(57,408)	15,895	79,188	116,918	18,023	46,798	-	(1,944)	-	-	607,559	789,775
Unallocated income													103,879	117,660
Corporate and other unallocated expenses													(24,414)	(54,711)
Finance costs (other than interest expenses on lease liabilities)													(203,513)	(174,348)
Share of profit/(loss) of a jointly-controlled entity													1,324	(2,602)
Profit before tax													484,835	675,774
Income tax expense													(83,954)	(113,016)
Profit for the year													400,881	562,758
Other segment information:														
Impairment losses/write-down recognised in the income statement, net [*]	(4,159)	(211,553)	(13,241)	(7,472)	-	(144)	(3,102)	(7,695)	-	-	-	-	(20,502)	(226,864)
Impairment losses reversed in the income statement ^{**}	4,496	11,440	-	-	-	-	1,380	-	-	-	-	-	5,876	11,440
Capital expenditure ^{***}	800,819	869,858	805	214,588	52,386	25,364	71,571	146,116	-	-	-	-	925,581	1,255,926

[#] The Group has spun off its notebook computers business, which was listed on the Main Board of The Stock Exchange of Hong Kong Limited, on 16 March 2018, and has not been involved in the notebook computers business since then.

^{##} Sales to external customers are also revenue from contracts with customers.

^{*} Included impairment of trade receivables, provision against inventories and write-off of inventories.

^{**} Included reversal of impairment of trade receivables and write-back of provision against inventories.

^{***} Capital expenditure consists of additions to property, plant and equipment and right-of-use assets.

Notes to Financial Statements

31 December 2019

4. OPERATING SEGMENT INFORMATION (continued)

	Handset casings and high-precision components		Smart electrical appliances casings		Household and sports goods		Network communications facilities and others		Notebook computers		Eliminations		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	8,134,648	8,442,317	924,907	1,850,197	577,909	330,766	2,150,079	1,422,628	-	-	-	-	11,787,543	12,045,908
Unallocated assets													1,785,837	1,596,231
Total assets													13,573,380	13,642,139
Segment liabilities	2,773,735	2,196,913	223,312	372,537	210,744	159,617	311,125	355,638	-	-	-	-	3,518,916	3,084,705
Unallocated liabilities													4,072,086	4,620,277
Total liabilities													7,591,002	7,704,982

Geographical information

During the year, management amended the geographical classification to (i) PRC, (ii) Asia Pacific (excluding PRC), (iii) United States and (iv) Others to better present the Group's geographical information. Accordingly, the related comparative amounts have been reclassified to conform with the current year's presentation.

	PRC*		Asia Pacific (excluding PRC)		United States		Others		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(a) Revenue from customers										
Segment revenue:										
Sales to external customers [#]	7,788,497	7,905,861	1,068,785	299,651	112,112	410,500	216,472	283,294	9,185,866	8,899,306
(b) Non-current assets	6,043,667	5,855,062	-	-	-	-	-	-	6,043,667	5,855,062

The revenue information above is based on the locations of the customers.

* People's Republic of China ("PRC") including Hong Kong and Macau.

Sales to external customers are also revenue from contracts with customers.

The non-current assets information above is based on the locations of the assets and excludes an investment in a jointly-controlled entity and deferred tax assets.

4. OPERATING SEGMENT INFORMATION *(continued)*

Information about major customers

Revenues from the following customers contributed over 10% of the total sales to the Group:

	2019 HK\$'000	2018 HK\$'000
Customer A	3,119,226	3,392,063
Customer B	1,456,193	1,394,987
	4,575,419	4,787,050

Revenues from Customer A and Customer B were mainly derived from sales by the handset casings and high-precision components segment, including sales to a group of entities which are known to be under common control of the respective customers.

5. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2019 HK\$'000	2018 HK\$'000
<i>Revenue from contracts with customers</i>		
Sale of goods	9,185,866	8,899,306

The performance obligation is satisfied upon delivery of the goods and the payment is generally due within three to six months from delivery, except for new customers, where payment in advance is normally required.

Revenue from sale of goods is recognised at a point in time when control of goods is transferred to customers, generally on delivery of goods.

Notes to Financial Statements

31 December 2019

5. REVENUE, OTHER INCOME AND GAINS, NET *(continued)*

An analysis of other income and gains, net is as follows:

	2019 HK\$'000	2018 HK\$'000
Other income and gains, net		
Bank interest income	6,419	5,610
Interest income from a jointly-controlled entity	2,697	4,239
Interest income from a loan receivable	1,309	2,187
Utilities income	4,424	9,671
Sale of scrap materials	2,283	19,056
Government grants*	71,488	54,005
Fair value gain on an investment property (note 13)	–	6,050
Gain on disposal of a subsidiary (note 30)	–	3,568
Gain on inception of sublease agreements	6,972	–
Finance income	1,060	–
Others	7,227	13,274
	103,879	117,660

* Various government grants have been received for setting up research activities. There are no unfulfilled conditions or contingencies relating to these grants.

6. FINANCE COSTS

	2019 HK\$'000	2018 HK\$'000
Interest expenses on bank and other borrowings (including convertible bonds)	195,798	169,683
Less: Interest capitalised	–	(3,461)
	195,798	166,222
Interest expenses on discounted bills	7,715	8,126
Interest expenses on lease liabilities	3,252	–
	206,765	174,348

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2019 HK\$'000	2018 HK\$'000
Cost of inventories sold	7,508,982	7,105,412
Depreciation of property, plant and equipment	467,618	390,448
Depreciation of right-of-use assets	23,818	–
Amortisation of prepaid land lease payments	–	6,505
Amortisation of prepayments	–	1,490
Research and development costs	412,144	409,442
Minimum lease payments under operating leases	–	55,613
Lease payments not included in the measurement of lease liabilities	21,703	–
Employee benefit expense (excluding directors' remuneration – note 8):		
Salaries and wages	1,920,144	1,934,387
Share-based expenses	6,409	–
Equity-settled share option expense	–	3,702
Pension scheme contributions	83,914	78,135
Less: Amounts included in research and development costs	(94,778)	(145,187)
	1,915,689	1,871,037
Auditor's remuneration	3,864	3,680
Loss on disposal of items of property, plant and equipment	5,366	12,429
Foreign exchange differences, net	272	33,371
Changes in fair value of an investment property	–	(6,050)
Impairment of trade receivables	4,410	10,406
Reversal of impairment of trade receivables	(4,259)	(11,440)
Provision against inventories	15,701	198,905
Write-back of provision against inventories	(1,617)	–
Write-off of inventories	391	17,553
Loss/(gain) on disposal of a subsidiary	2,323	(3,568)
Loss on deregistration of associates	–	134

Cost of inventories sold includes HK\$2,038,688,000 (2018: HK\$2,208,390,000) relating to staff costs, operating lease rentals of leasehold land and buildings, provision against inventories, write-off of inventories, amortisation of prepayments and depreciation of property, plant and equipment and right-of-use assets, which are also included in the respective total amounts disclosed above for each of these types of expenses.

Notes to Financial Statements

31 December 2019

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group	
	2019	2018
	HK\$'000	HK\$'000
Fees	4,484	4,213
Other emoluments:		
Salaries, allowances and benefits in kind	1,834	1,853
Equity-settled share option expense	–	4,371
Pension scheme contributions	144	166
	1,978	6,390
	6,462	10,603

During the year ended 31 December 2016, directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 26 to the financial statements. The fair value of these options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

	Fees	Total
	HK\$'000	remuneration
		HK\$'000
2019		
Mr. Ting Leung Huel, Stephen	360	360
Mr. Cheung Wah Fung, Christopher, SBS, JP	300	300
Dr. Yu Sun Say, GBM, GBS, SBS, JP	300	300
	960	960

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

Directors' remuneration (continued)

(a) Independent non-executive directors (continued)

	Fees HK\$'000	Equity-settled share option expense HK\$'000	Total remuneration HK\$'000
2018			
Mr. Ting Leung Huel, Stephen	287	279	566
Mr. Cheung Wah Fung, Christopher, SBS, JP	233	279	512
Dr. Yu Sun Say, GBM, GBS, SBS, JP	233	279	512
	753	837	1,590

(b) Executive directors and non-executive directors

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2019				
<i>Executive directors:</i>				
Mr. Wang Ya Nan	870	360	60	1,290
Mr. Wang Ya Hua (resigned on 21 October 2019)	506	289	30	825
Mr. Wang Hung Man (appointed on 21 October 2019)	118	–	3	121
Mr. Wong Ah Yeung (resigned on 21 October 2019)	506	289	15	810
Mr. Wang Ming Che (subsequently resigned on 6 January 2020)	600	–	–	600
Mr. Wong Ming Yuet (appointed on 21 October 2019)	118	–	3	121
Mr. Hui Wai Man (appointed on 21 October 2019)	–	607	3	610
	2,718	1,545	114	4,377
<i>Non-executive directors:</i>				
Mr. Wong Ah Yu (resigned on 21 October 2019)	506	289	15	810
Ms. Chan Sze Man	300	–	15	315
	806	289	30	1,125
	3,524	1,834	144	5,502

Notes to Financial Statements

31 December 2019

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

Directors' remuneration (continued)

(b) Executive directors and non-executive directors (continued)

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Equity-settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2018					
<i>Executive directors:</i>					
Mr. Wang Ya Nan	870	360	744	60	2,034
Mr. Wang Ya Hua	630	360	744	36	1,770
Mr. Wong Ah Yeung	630	360	744	18	1,752
Mr. Choi Wai Sang (resigned on 31 August 2018)	240	173	279	24	716
Mr. Wang Ming Che	360	240	279	–	879
	2,730	1,493	2,790	138	7,151
<i>Non-executive directors:</i>					
Mr. Wong Ah Yu (re-designated on 16 March 2018)	630	360	744	23	1,757
Ms. Chan Sze Man (appointed on 31 August 2018)	100	–	–	5	105
	730	360	744	28	1,862
	3,460	1,853	3,534	166	9,013

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)**Five highest paid employees**

The five highest paid employees during the year included two (2018: four) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2018: one) non-director highest paid employees are as follows:

	Group	
	2019	2018
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	7,336	1,603
Equity-settled share option expense	–	273
Pension scheme contributions	118	18
	7,454	1,894

During the year ended 31 December 2016, share options were granted to the non-director and non-chief executive highest paid employee in respect of her services to the Group, further details of which are included in the disclosures in note 26 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the last year was included in the above non-director and non-chief executive highest paid employee's remuneration disclosures.

The number of non-director highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2019	2018
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,500,001 – HK\$3,000,000	1	–
HK\$3,500,001 – HK\$4,000,000	1	–
	3	1

Notes to Financial Statements

31 December 2019

9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for the Company which is a qualifying entity under the two-tier profits tax requires effective from the year of assessment 2018/2019. The first HK\$2,000,000 (2018: Nil) of assessable profits of the Company is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2019 HK\$'000	2018 HK\$'000
Current – Hong Kong		
Charge for the year	18,906	61,470
Under/(overprovision) in prior years	5	(97)
	18,911	61,373
Current – Elsewhere		
Charge for the year	64,005	54,349
Overprovision in prior years	–	(4,955)
	64,005	49,394
Deferred (note 24)	1,038	2,249
Total tax charge for the year	83,954	113,016

A reconciliation of the tax expense applicable to profit before tax using the applicable statutory rates for the countries/jurisdictions in which the Company and the majority of its subsidiaries operate to the tax expense at the effective tax rate is as follows:

	Group 2019 HK\$'000	2018 HK\$'000
Profit before tax	484,835	675,774
Tax at the applicable tax rates	108,739	145,273
Lower applicable tax rates enjoyed by the Group	(82,050)	(88,381)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	1,077	530
Adjustments in respect of current tax of prior years	5	(5,052)
Profit/(loss) attributable to a jointly-controlled entity	(331)	650
Income not subject to tax	(7,052)	(16,506)
Expenses not deductible for tax	30,504	50,421
Tax losses utilised from previous years	(10,368)	(892)
Tax losses not recognised	43,430	26,973
Tax charge at the Group's effective rate	83,954	113,016

9. INCOME TAX (continued)

Pursuant to the Corporate Income Tax Law of the PRC being effective on 1 January 2008, the corporate income tax rate for all enterprises in Mainland China is 25%.

During the year ended 31 December 2019, 福建省石獅市通達電器有限公司 (Tongda Electrics Company Limited, Shishi City, Fujian) (“TD Electrics”), 通達(廈門)科技有限公司 (Tongda (Xiamen) Technology Limited) (“Xiamen Technology”), 深圳通達電子有限公司 (Shenzhen Tongda Electronic Company Limited) (“Shenzhen Electronic”), 廈門市通達創智實業有限公司 (Tongda (Xiamen) Smart Tech Industry Company Limited) (“Xiamen Smart Tech”), 通達(廈門)精密橡塑有限公司 (Tongda (Xiamen) Elastomers Company Limited) (“Xiamen Elastomers”) and 通達揚帆科技(東莞)有限公司 (Tongda Yangfan Technology (Dongguan) Company Limited) were subject to a preferential tax rate of 15% under High New Technology Enterprises.

During the year ended 31 December 2018, TD Electrics, Xiamen Technology, Shenzhen Electronic, 通達五金(深圳)有限公司 (Tongda Ironware (Shenzhen) Company Limited), Xiamen Smart Tech and Xiamen Elastomers were subject to a preferential tax rate of 15% under High New Technology Enterprises.

The share of tax attributable to a jointly-controlled entity amounting to HK\$441,000 was included in “Share of profit/(loss) of a jointly-controlled entity” on the face of the consolidated income statement during the year ended 31 December 2019.

10. DIVIDENDS

	2019 HK\$'000	2018 HK\$'000
Dividends paid during the year:		
Final in respect of the financial year ended		
31 December 2018 – HK0.8 cent per ordinary share		
(2018: final dividend of HK3.8 cents per ordinary share, in respect of the financial year ended 31 December 2017)	51,836	229,965
Interim – HK1.0 cent (2018: HK2.0 cents) per ordinary share	64,795	125,944
	116,631	355,909
Proposed final dividend:		
Final – HK0.05 cent (2018: HK0.8 cent) per ordinary share	3,240	51,836
Special interim dividend (Note)	–	366,174

The proposed final dividend of HK0.05 cent per ordinary share (2018: HK0.8 cent per ordinary share) for the year is subject to the approval of the Company’s shareholders at the forthcoming annual general meeting. These financial statements do not reflect the final dividend payable.

Note: Upon the completion of the spin-off of Tongda Hong Tai Holdings Limited (“THT”), the Company distributed its entire interests in THT as a special interim dividend by way of distribution in specie to the Company’s qualifying shareholders (the “Distribution”). The qualifying shareholders were entitled to one THT Share for every 40 Shares of the Company and THT ceased to be a subsidiary of the Company thereafter.

Notes to Financial Statements

31 December 2019

11. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to owners of the Company, and the number of ordinary shares of 6,479,505,000 (2018: weighted average number of ordinary shares of 6,195,494,000) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to owners of the Company, adjusted to reflect the interest on convertible bonds, where applicable. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2019 HK\$'000	2018 HK\$'000
Earnings:		
Profit for the year attributable to owners of the Company used in the basic earnings per share calculation	401,521	542,821
Interest on convertible bonds	–	1,369
<hr/>		
Profit for the year attributable to owners of the Company before interest on convertible bonds	401,521	544,190
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	6,479,505	6,195,494
Effect of dilutive potential ordinary shares arising from – convertible bonds*	–	123,995
<hr/>		
Weighted average number of ordinary shares for the purpose of diluted earnings per share	6,479,505	6,319,489

* The convertible bonds matured on 25 June 2018.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold building in Hong Kong HK\$'000	Leasehold buildings in Mainland China HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2019								
Cost or valuation:								
At 1 January 2019	54,500	769,675	372,373	4,903,660	131,566	48,012	375,086	6,654,872
Additions	-	3,123	24,023	397,941	26,154	3,067	468,220	922,528
Deficit on revaluation	(1,000)	-	-	-	-	-	-	(1,000)
Disposals	-	-	(6,535)	(41,869)	(4,420)	(1,434)	(762)	(55,020)
Transfer	-	247,481	9,800	349,964	(85)	-	(607,160)	-
Transfer from investment property	-	68,037	-	-	-	-	-	68,037
Transfer to right-of-use assets	(18,500)	(55,210)	-	-	-	-	-	(73,710)
Exchange realignment	-	(32,148)	(14,374)	(190,646)	(4,591)	(1,789)	(27,427)	(270,975)
At 31 December 2019	35,000	1,000,958	385,287	5,419,050	148,624	47,856	207,957	7,244,732
Accumulated depreciation:								
At 1 January 2019	-	176,445	82,530	1,455,000	59,974	31,239	-	1,805,188
Provided for the year	1,199	23,368	51,255	371,249	17,219	3,328	-	467,618
Disposals	-	-	(2,700)	(38,962)	(3,540)	(1,234)	-	(46,436)
Reversal upon revaluation	(1,199)	-	-	-	-	-	-	(1,199)
Exchange realignment	-	(6,779)	(2,949)	(56,364)	(2,008)	(1,188)	-	(69,288)
At 31 December 2019	-	193,034	128,136	1,730,923	71,645	32,145	-	2,155,883
Net book value:								
At 31 December 2019	35,000	807,924	257,151	3,688,127	76,979	15,711	207,957	5,088,849

Notes to Financial Statements

31 December 2019

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold building in Hong Kong HK\$'000	Leasehold buildings in Mainland China HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2018								
Cost or valuation:								
At 1 January 2018	50,200	723,519	205,313	4,391,928	111,362	51,640	306,142	5,840,104
Additions	-	6,076	132,574	707,479	39,714	3,145	366,467	1,255,455
Surplus on revaluation	4,300	-	-	-	-	-	-	4,300
Disposals	-	(2,512)	(496)	(51,992)	(3,294)	(1,657)	-	(59,951)
Disposal of a subsidiary	-	(4,803)	(765)	(845)	(672)	(603)	(550)	(8,238)
Spin-off of THT	-	-	(27,734)	(178,211)	(13,333)	(3,254)	-	(222,532)
Transfer	-	68,001	68,117	152,618	-	-	(288,736)	-
Exchange realignment	-	(20,606)	(4,636)	(117,317)	(2,211)	(1,259)	(8,237)	(154,266)
At 31 December 2018	54,500	769,675	372,373	4,903,660	131,566	48,012	375,086	6,654,872
Accumulated depreciation:								
At 1 January 2018	-	163,583	56,913	1,288,976	59,188	32,779	-	1,601,439
Provided for the year	1,257	17,660	43,061	310,535	14,637	3,298	-	390,448
Disposals	-	-	(470)	(26,986)	(2,561)	(1,401)	-	(31,418)
Disposal of a subsidiary	-	(137)	(147)	(41)	(123)	(26)	-	(474)
Spin-off of THT	-	-	(15,923)	(83,477)	(10,192)	(2,639)	-	(112,231)
Reversal upon revaluation	(1,257)	-	-	-	-	-	-	(1,257)
Exchange realignment	-	(4,661)	(904)	(34,007)	(975)	(772)	-	(41,319)
At 31 December 2018	-	176,445	82,530	1,455,000	59,974	31,239	-	1,805,188
Net book value:								
At 31 December 2018	54,500	593,230	289,843	3,448,660	71,592	16,773	375,086	4,849,684

Except for the leasehold building in Hong Kong which is stated at valuation, all other property, plant and equipment are stated at cost less depreciation.

The Group's leasehold building and the related right-of-use asset situated in Hong Kong were revalued at the end of the reporting period based on valuations performed by Asset Appraisal Ltd., an independent firm of professionally qualified valuers, at HK\$53,500,000 (2018: HK\$54,500,000). The land portion of HK\$18,500,000 has been reclassified to right-of-use assets as at 1 January 2019. In the opinion of the directors, the current use of the leasehold building in Hong Kong and the related right-of-use asset is its highest and best use.

12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

A revaluation surplus of HK\$199,000 (2018: HK\$5,557,000), resulting from the above valuation, has been credited to other comprehensive income. Further details of the fair value measurement of the Group's leasehold building situated in Hong Kong are disclosed in note 13 below.

Had the Group's leasehold building and the related right-of-use asset situated in Hong Kong been carried at historical cost less accumulated depreciation, the carrying amount would have been approximately HK\$9,585,000 (2018: HK\$9,844,000).

As at 31 December 2019, the Group's leasehold building and the related right-of-use asset in Hong Kong with a net carrying amount of HK\$53,500,000 (2018: HK\$54,500,000) were pledged to secure bank loans granted to the Group (note 22).

As at 31 December 2019, the Group had not yet obtained the title ownership certificates for certain of its buildings situated in Xiamen city and Shishi city, Fujian, Shanghai and Dongguan, the PRC with net book values of nil (2018: HK\$68,439,000), HK\$112,927,000 (2018: HK\$121,298,000), HK\$4,831,000 (2018: HK\$5,170,000 (note 13)) and HK\$16,995,000 (2018: nil), respectively. The Company's directors confirmed that there is no legal barrier or otherwise for the Group to obtain the relevant title ownership certificates for these buildings from the relevant PRC authority.

13. INVESTMENT PROPERTY

	2019	2018
	HK\$'000	HK\$'000
Carrying amount at 1 January	68,037	63,807
Transfer to property, plant and equipment	(68,037)	–
Changes in fair value	–	6,050
Exchange realignment	–	(1,820)
	<hr/>	<hr/>
Carrying amount at 31 December	–	68,037

The Group's investment property in Shanghai was revalued on 31 December 2018 based on valuations performed by Asset Appraisal Ltd., an independent firm of professionally qualified valuers at RMB59,600,000, equivalent to HK\$68,037,000. In the opinion of the directors, the current use of the investment property in Shanghai is its highest and best use.

As at 31 December 2018, the Group has not yet obtained the title ownership certificates for certain of its buildings situated in Shanghai, the PRC with a fair value of RMB4,529,000, equivalent to HK\$5,170,000. The Company's directors confirmed that there is no legal barrier or otherwise for the Group to obtain the relevant title ownership certificates for these buildings from the relevant PRC authority.

On 1 January 2019, the Group's property in Shanghai was reclassified from investment property to owner-occupied property. The carrying amount of the property was approximately HK\$68,037,000, which was the fair value at the date of change in use.

Notes to Financial Statements

31 December 2019

13. INVESTMENT PROPERTY (continued)

Valuation processes for the leasehold building in Hong Kong and the investment property

The Group's finance department includes a team which directly reports to senior management and reviews the valuations performed by the external valuers for financial reporting purposes. Each year, senior management decides to appoint which external valuer to be responsible for the external valuations of the Group's properties, including a leasehold building situated in Hong Kong for own use and an investment property in Shanghai. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's team has discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's leasehold building situated in Hong Kong for own use (note 12) and an investment property in Shanghai:

	Fair value measurement as at 31 December 2019 using			
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	Total HK\$'000
Recurring fair value measurement for:				
Leasehold building in Hong Kong				
for own use (note (a))	-	-	35,000	35,000
Right-of-use asset (note (a))	-	-	18,500	18,500
	-	-	53,500	53,500

13. INVESTMENT PROPERTY (continued)

Fair value hierarchy (continued)

	Fair value measurement as at 31 December 2018 using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Recurring fair value measurement for:				
Leasehold building in Hong Kong for own use (note (a))	–	–	54,500	54,500
Investment property in Shanghai (note (b))	–	–	68,037	68,037
	–	–	122,537	122,537

During the year, there were no transfers of fair value measurements between Level 1 and Level 2.

During the year, the investment property in Shanghai was transferred out of Level 3 upon it was reclassified from investment property to owner-occupied property.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Leasehold building and the related right-of-use asset HK\$'000	Investment property HK\$'000
Net carrying amount at 1 January 2018	50,200	63,807
Depreciation	(1,257)	–
Gain from a fair value adjustment recognised in:		
other income and gains, net, in the income statement (note 5)	–	6,050
other comprehensive income in the statement of comprehensive income	5,557	–
Exchange realignment	–	(1,820)
Net carrying amount at 31 December 2018 and 1 January 2019	54,500	68,037
Depreciation	(1,199)	–
Gain from a fair value adjustment recognised in other comprehensive income in the statement of comprehensive income	199	–
Transfer to property, plant and equipment	–	(68,037)
Net carrying amount at 31 December 2019	53,500	–

Notes to Financial Statements

31 December 2019

13. INVESTMENT PROPERTY (continued)

Fair value hierarchy (continued)

Below is a summary of the valuation technique used and the key inputs to the valuation of a leasehold building and the related right-of-use asset in Hong Kong and an investment property:

	Valuation technique	Significant unobservable inputs	Range 2019	2018
Leasehold building and the related right-of-use asset in Hong Kong for own use	Direct comparison approach	Market transaction price (per square foot)	HK\$21,946 to HK\$26,818	HK\$18,102 to HK\$29,173
		Adjustment on quality of the building	1% to 7%	1% to 25%
Investment property	Direct comparison approach	Asking price per square metre	–	HK\$4,606 to HK\$6,969
		Discount factor	–	10%

Notes:

- (a) The valuation of the leasehold building and the related right-of-use asset in Hong Kong for own use was determined using the direct comparison approach. The most significant inputs to this valuation approach are the market transaction prices of comparable properties nearby and the adjustment on quality of the building.

The fair value measurement is positively correlated to the market transaction price and negatively correlated to the adjustment on quality of the building.

- (b) The valuation of the investment property in Shanghai was determined using the direct comparison approach. Since no recent transaction history of the comparable properties nearby was publicly available, the asking price per square metre of comparable properties nearby and currently on sale with a discount factor of 10% was used in the determination of the fair value of the investment property. The most significant inputs to this valuation approach are the asking price per square metre and the discount factor.

The fair value measurement is positively correlated to the asking price per square metre and negatively correlated to the discount on quality of the building.

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of plant and buildings used in its operations. Lump sum payments were made upfront to lease certain pieces of land from the owners with lease periods of 33 to 50 years. Leases of plant generally have lease terms between 2 and 6 years, while buildings generally have lease terms between 2 and 47 years.

(a) Prepaid land lease payments (before 1 January 2019)

	HK\$'000
Carrying amount at 1 January 2018	278,757
Additions	3,932
Amortisation recognised during the year	(6,505)
Exchange realignment	(7,946)
	<hr/>
Carrying amount at 31 December 2018	268,238
	<hr/>
Current portion included in prepayments, deposits and other receivables	(6,603)
	<hr/>
Non-current portion	261,635
	<hr/>

(b) Prepayments (before 1 January 2019)

	HK\$'000
Cost:	
At 1 January 2018	71,549
Exchange realignment	(2,042)
	<hr/>
At 31 December 2018	69,507
	<hr/>
Amortisation:	
At 1 January 2018	18,880
Amortised during the year	1,490
Exchange realignment	(540)
	<hr/>
At 31 December 2018	19,830
	<hr/>
Net book value:	
At 31 December 2018	49,677
	<hr/>

Notes to Financial Statements

31 December 2019

14. LEASES (continued)

The Group as a lessee (continued)

(c) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Land lease payments HK\$'000	Plant HK\$'000	Buildings HK\$'000	Total HK\$'000
As at 1 January 2019	343,360	28,585	59,333	431,278
Additions	3,053	36,237	229	39,519
Depreciation charge	(8,270)	(13,116)	(2,432)	(23,818)
Derecognition for sublease	–	(13,334)	(7,277)	(20,611)
Exchange realignment	(12,456)	(1,044)	(2,262)	(15,762)
As at 31 December 2019	325,687	37,328	47,591	410,606

(d) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 Lease liabilities HK\$'000
Carrying amount at 1 January	41,947
New leases	35,114
Accretion of interest recognised during the year	3,252
Payments	(22,549)
Exchange realignment	(1,592)
Carrying amount at 31 December	56,172
Analysed into:	
Current portion	18,345
Non-current portion	37,827

The maturity analysis of lease liabilities is disclosed in note 36 to the financial statements.

14. LEASES (continued)**The Group as a lessee** (continued)

(e) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 HK\$'000
Interest expenses on lease liabilities	3,252
Depreciation charge of right-of-use assets	23,818
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales and general and administrative expenses)	21,703
Total amount recognised in profit or loss	48,773

(f) The total cash outflow for leases is disclosed in note 32(c) to the financial statements.

The Group as a lessor

The Group subleases its plant and building in the PRC. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Finance income on sublease recognised by the Group during the year was HK\$1,060,000.

At 31 December 2019, the undiscounted lease payments receivable by the Group in future periods under non-cancellable leases with its tenants are as follows:

	2019 HK\$'000	2018 HK\$'000
Within one year	8,542	–
After one year but within two years	7,619	–
After two years but within three years	6,048	–
	22,209	–

As at 31 December 2019, the Group had not yet obtained the land use right certificates of certain land use right acquired situated in Xiamen city and Shishi city, Fujian, the PRC with net book values of HK\$5,049,000 (2018: HK\$27,702,000) and HK\$2,432,000 (2018: HK\$2,583,000), respectively. The Company's directors confirmed that there is no legal barrier or otherwise for the Group to obtain the relevant land use right certificates from the relevant PRC authority.

Notes to Financial Statements

31 December 2019

15. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	2019 HK\$'000	2018 HK\$'000
Share of net assets	61,981	63,080
Loans to a jointly-controlled entity	134,871	140,260
Due from a jointly-controlled entity	65,973	33,768
Due to a jointly-controlled entity	65,997	200,584

The loans to a jointly-controlled entity of HK\$134,871,000 (2018: HK\$140,260,000) are unsecured, interest-bearing at 2% (2018: 2%) per annum and repayable on demand.

The amounts due from/to a jointly-controlled entity are unsecured, interest-free and repayable on demand.

Particulars of the principal jointly-controlled entity are as follows:

Name	Place of incorporation/ registration and business	Particulars of issued shares held	Percentage of ownership interest indirectly attributable to the Group		Principal activities
			2019	2018	
石獅市通達精雕制造有限公司 ("Jingdiao")	PRC/Mainland China	Registered RMB50,000,000	50	50	Manufacture and sale of electrical appliance products

As at 31 December 2019, the Group's shareholding in Jingdiao was held through a wholly-owned subsidiary of the Company.

Jingdiao, which is considered a material jointly-controlled entity of the Group, acts as the Group's sub-contractor of the manufacture of electronic components in Mainland China and is accounted for using the equity method.

15. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY *(continued)*

The following table illustrates the summarised financial information in respect of Jingdiao adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2019 HK\$'000	2018 HK\$'000
Current assets	244,592	224,053
Non-current assets	489,603	391,625
Current liabilities	(610,234)	(489,518)
Non-current liabilities	–	–
Net assets	123,961	126,160
Reconciliation to the Group's interest in the jointly-controlled entity:		
Proportion of the Group's ownership	50%	50%
Group's share of net assets of the jointly-controlled entity, excluding goodwill	61,981	63,080
Carrying amount of the investment	61,981	63,080
Revenue	288,132	233,907
Profit/(loss) for the year	2,648	(5,204)
Other comprehensive expense	(4,846)	(3,858)
Total comprehensive expense for the year	(2,198)	(9,062)

16. LONG TERM DEPOSITS

	2019 HK\$'000	2018 HK\$'000
Deposits for acquisitions of property, plant and equipment	531,145	626,029

Notes to Financial Statements

31 December 2019

17. INVENTORIES

	2019 HK\$'000	2018 HK\$'000
Raw materials	557,946	614,982
Work in progress	524,918	503,845
Finished goods	1,162,026	1,410,123
	2,244,890	2,528,950

As at 31 December 2019, moulds of HK\$448,733,000 (2018: HK\$486,978,000) are included in the finished goods.

18. TRADE AND BILLS RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Trade receivables	2,898,369	3,020,622
Impairment allowances	(38,371)	(41,818)
	2,859,998	2,978,804
Bills receivable	86,190	135,989
	2,946,188	3,114,793

As at 31 December 2019, gross trade receivables of certain customers of HK\$1,202,704,000 (2018: HK\$714,027,000) and bills receivable of HK\$23,025,000 (2018: HK\$62,178,000) were measured at fair value through other comprehensive income as these trade and bills receivables are managed within a business model with the objective of both holding to collect contractual cash flows and selling for working capital management and the contractual terms of these receivables give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

It is the general policy of the Group to allow a credit period of three to six months. In addition, for certain customers with long-established relationships and good repayment histories, a longer credit period may be granted in order to maintain a good relationship. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by management. Trade receivables are non-interest-bearing. At the end of the reporting period, 32.2% (2018: 22.6%) and 53.8% (2018: 56.2%) of the total trade and bills receivables were due from the Group's largest customer and the five largest customers, respectively.

18. TRADE AND BILLS RECEIVABLES (continued)

An ageing analysis of the Group's trade and bills receivables as at 31 December 2019, based on the invoice date and issuance date, respectively, is as follows:

	2019	2018
	HK\$'000	HK\$'000
Within 3 months	2,733,957	2,916,025
4 to 6 months, inclusive	183,509	192,167
7 to 9 months, inclusive	12,816	9,435
10 to 12 months, inclusive	9,422	6,170
More than 1 year	44,855	32,814
	2,984,559	3,156,611
Impairment allowances	(38,371)	(41,818)
	2,946,188	3,114,793

The movements in the loss allowances for impairment of trade receivables are as follows:

	2019	2018
	HK\$'000	HK\$'000
At 1 January	41,818	53,266
Impairment of trade receivables (note 7)	4,410	10,406
Reversal of impairment of trade receivables (note 7)	(4,259)	(11,440)
Write-off of impairment of trade receivables	(2,940)	(9,869)
Exchange realignment	(658)	(545)
At 31 December	38,371	41,818

An impairment analysis is performed at the reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Notes to Financial Statements

31 December 2019

18. TRADE AND BILLS RECEIVABLES *(continued)*

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019

	Current	Past due					Total
		Within 3 months	4 to 6 months	7 to 9 months	10 to 12 months	More than 1 year	
Expected credit loss rate	-	0.05%	18.17%	100%	100%	100%	1.33%
Gross carrying amount excluding specific trade receivable (HK\$'000)	2,477,318	347,261	15,922	1,344	1,352	32,602	2,875,799
Expected credit losses excluding specific trade receivable (HK\$'000)	-	180	2,893	1,344	1,352	32,602	38,371
Gross carrying amount of specific trade receivable (HK\$'000)	-	13	848	9,297	8,659	3,753	22,570

As at 31 December 2018

	Current	Past due					Total
		Within 3 months	4 to 6 months	7 to 9 months	10 to 12 months	More than 1 year	
Expected credit loss rate	-	-	27.56%	97.41%	100%	100%	1.38%
Gross carrying amount (HK\$'000)	2,827,613	143,876	10,013	2,398	4,601	32,121	3,020,622
Expected credit losses (HK\$'000)	-	-	2,760	2,336	4,601	32,121	41,818

19. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	2019	2018
	HK\$'000	HK\$'000
Cash and cash equivalents	1,077,676	768,404
Time deposits	409,872	507,684
	1,487,548	1,276,088
Less: Pledged deposits*	(409,872)	(507,684)
	1,077,676	768,404

* Pledged deposits as at 31 December 2019 included HK\$409,872,000 (2018: HK\$507,684,000) for the bank facilities granted to the Group (note 22).

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to HK\$554,614,000 (2018: HK\$470,521,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks and pledged deposits earn interest at floating rates based on daily bank deposit rates. Short term deposits are made for approximately from one month to three months depending on the immediate cash requirement of the Group, and earn interest at the respective short term time deposit rates.

The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Notes to Financial Statements

31 December 2019

20. TRADE AND BILLS PAYABLES

	2019 HK\$'000	2018 HK\$'000
Trade payables	1,611,979	1,144,985
Bills payable	1,336,466	1,480,740
	2,948,445	2,625,725

The trade payables are non-interest-bearing and are normally settled on 60 to 90-days terms. An ageing analysis of the Group's trade and bills payables as at 31 December 2019, based on the invoice date, is as follows:

	2019 HK\$'000	2018 HK\$'000
Within 3 months	2,240,609	1,817,144
4 to 6 months, inclusive	665,114	777,987
7 to 9 months, inclusive	17,345	3,680
10 to 12 months, inclusive	6,466	6,591
More than 1 year	18,911	20,323
	2,948,445	2,625,725

21. LOAN RECEIVABLE

	Note	2019 HK\$'000	2018 HK\$'000
Other loan	(a)	3,154	47,581

- (a) A loan to a supplier of HK\$3,154,000 (2018: HK\$47,581,000) bears interest at 4.35% per annum. The loan is secured by a parcel of land and three buildings in Mainland China and repayable on demand.

22. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019			2018		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
Current						
Other loans, unsecured	2.7%-3.16%	2020	22,005	4.1%-6.7%	2019	19,448
Current portion of long term bank loans, secured	HIBOR+1.85%*	2020	77,848	HIBOR+1.85%*	2019	145,573
Current portion of long term bank loans, unsecured	HIBOR+1.27% to 1.55%*/ COF+1.55% to 1.65%**/ 5.7%-6.175%	2020	970,479	HIBOR+1.27% to 1.55%*/ COF+1.55% to 1.65%**	2019	704,640
Bank loans, unsecured	4.567%-6.0%/ HIBOR+1.5%*/ COF+1% to 1.25%**	2020	1,562,468	4.2%-6.2%/ HIBOR+1.5%*/ COF+1% to 1.25%**/ LIBOR+1.75%***	2019	1,585,234
			2,632,800			2,454,895
Non-current						
Bank loans, secured	HIBOR+1.85%*	2021-2022	474,786	HIBOR+1.85%*	2020	77,845
Bank loans, unsecured	HIBOR+1.5% to 2.05%*/ COF+1.55% to 1.6%**	2021-2022	642,553	HIBOR+1.27% to 2.05%*/ COF+1.55% to 1.65%**/ 5.7%-6.175%	2020-2022	1,619,118
			1,117,339			1,696,963
Total			3,750,139			4,151,858

* "HIBOR" means the Hong Kong Interbank Offered Rate.

** "COF" means the cost of funding.

*** "LIBOR" means the London Interbank Offered Rate.

Notes to Financial Statements

31 December 2019

22. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	2019 HK\$'000	2018 HK\$'000
Analysed into:		
Bank and other borrowings repayable:		
Within one year	2,632,800	2,454,895
In the second year	656,431	1,054,477
In the third year	460,908	642,486
	3,750,139	4,151,858
Analysed into:		
HK\$	2,445,666	2,796,222
RMB	1,304,473	1,339,212
US\$	–	16,424
	3,750,139	4,151,858

Notes:

At the end of the reporting period, the Group's banking facilities were supported by:

- (a) the pledge of bank deposits of approximately HK\$409,872,000 (2018: HK\$507,684,000) (note 19);
- (b) corporate guarantees from the Company and certain of its subsidiaries; and
- (c) mortgages over the Group's leasehold building and the related right-of-use asset in Hong Kong with a carrying amount of approximately HK\$53,500,000 (2018: HK\$54,500,000) (note 12).

23. CONVERTIBLE BONDS

On 15 June 2015, the Company and Pa Macro Opportunity VIII Limited (the “Subscriber”) entered into a subscription agreement (the “Subscription Agreement”) in relation to the issue and subscription of the Company’s listed and secured convertible bonds due in 2018 in an aggregate principal amount of HK\$880,000,000.

On 25 June 2015 (the “Issue Date”), the Company issued 1% convertible bonds with an aggregate principal amount of HK\$880,000,000.

The bonds were convertible at the option of the bondholders into ordinary shares at any time during the conversion period from 5 August 2015 to 18 June 2018 on the basis of one ordinary share for each HK\$1.75 bond held. The convertible bonds matured on 25 June 2018 (the “Maturity Date”).

During the years ended 31 December 2015, 2016, 2017 and 2018, the conversion price was adjusted from HK\$1.88 to HK\$1.65 as the Company declared interim and final dividends during these years.

Any convertible bonds not converted will be redeemed on the Maturity Date at 112.78% of their principal amount. An early redemption option is granted to the Company to redeem the convertible bonds in whole, but not in part at any time at a gross yield of 5% per annum of the principal amount to the bondholders on the Maturity Date, if 90% or more in the principal amount of the convertible bonds are converted. The bonds carry interest at a rate of 1% per annum, which is payable half-yearly in arrears on 25 June and 25 December.

The proceeds from the issuance of the convertible bonds on the Issue Date of HK\$880,000,000 have been split into liability and equity components. On the issuance of the convertible bonds, the fair value of the liability component was determined based on the valuation performed by Grant Sherman Appraisal Limited, an independent firm of professionally qualified valuers, using a binomial option pricing model with the consideration of dilution impact. The residual amount was assigned as the equity component and was included in shareholders’ equity.

During the year ended 31 December 2017, the convertible bonds with a principal amount of HK\$432,999,000 were converted into 240,555,553 shares of HK\$0.01 each at the conversion price of HK\$1.80 per share, of which HK\$2,405,000 was credited to share capital and HK\$434,025,000 was credited to share premium.

During the year ended 31 December 2018, the convertible bonds with a principal amount of HK\$405,000,000 were converted into 245,454,544 shares of HK\$0.01 each at the conversion price of HK\$1.65 per share, of which HK\$2,455,000 was credited to share capital and HK\$405,753,000 was credited to share premium. Upon the maturity of the convertible bonds, HK\$333,000 was credited to share premium and HK\$333,000 was debited to the equity component of convertible bonds.

Notes to Financial Statements

31 December 2019

23. CONVERTIBLE BONDS (continued)

The convertible bonds issued had been split into the liability and equity components as follows:

	2018 HK\$'000
Principal amount of convertible bonds issued during the year	880,000
Equity component	(6,972)
<hr/>	
Liability component at the issuance date	873,028
Conversion	(837,999)
Interest expense	20,437
Interest paid	(20,437)
Repayment upon maturity	(35,029)
<hr/>	
Liability component at 31 December	–

Pursuant to the terms and conditions of the convertible bonds, so long as any convertible bonds remain outstanding, the Company will not, and will ensure that none of its subsidiaries will, create, or have outstanding, any mortgage, charge, lien, pledge or other security interest upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any relevant indebtedness, without at the same time or before according to the convertible bonds the same security as is created or is outstanding to secure any such relevant indebtedness, guarantee or indemnity equally and rateably or such other security as either:

- the trustee shall in its absolute discretion deem not materially less beneficial to the interests of the bondholders, or
- shall be approved by an extraordinary resolution of the bondholders.

24. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Withholding taxes HK\$'000	Revaluation of properties/ Depreciation allowance in excess of related depreciation HK\$'000	Total HK\$'000
At 1 January 2018	66,831	20,811	87,642
Debited to the income statement during the year (note 9)	530	1,719	2,249
Deferred tax debited to equity during the year	–	917	917
Exchange realignment	–	(378)	(378)
At 31 December 2018 and 1 January 2019	67,361	23,069	90,430
Debited/(credited) to the income statement during the year (note 9)	1,077	(39)	1,038
Deferred tax debited to equity during the year	–	32	32
At 31 December 2019	68,438	23,062	91,500

Deferred tax assets

	Accelerated tax depreciation HK\$'000
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	3,703

The Group has estimated tax losses arising in Hong Kong of approximately HK\$99,142,000 (2018: HK\$72,529,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in companies that have been loss-making for some time and in the opinion of the directors, it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Notes to Financial Statements

31 December 2019

24. DEFERRED TAX (continued)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement became effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

However, deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of certain subsidiaries of the Group established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$3,830,322,000 at 31 December 2019 (2018: HK\$3,476,869,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

25. SHARE CAPITAL

	2019 HK\$'000	2018 HK\$'000
Authorised:		
20,000,000,000 (2018: 20,000,000,000) ordinary shares	200,000	200,000
Issued and fully paid:		
6,479,505,097 (2018: 6,479,505,097) ordinary shares	64,795	64,795

25. SHARE CAPITAL (continued)

A summary of movements in the Company's share capital is as follows:

	Notes	Number of ordinary shares in issue	Issued capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
Issued:					
As at 1 January 2018		6,051,725,553	60,517	1,340,928	1,401,445
Conversion of convertible bonds	(i)	245,454,544	2,455	405,753	408,208
Redemption of convertible bonds	(ii)	–	–	333	333
Issue of shares	(iii)	182,325,000	1,823	154,977	156,800
		6,479,505,097	64,795	1,901,991	1,966,786
Final 2017 dividend (note 10)		–	–	(229,965)	(229,965)
Interim 2018 dividend (note 10)		–	–	(125,944)	(125,944)
Special interim dividend (note 10)		–	–	(366,174)	(366,174)
As at 31 December 2018 and 1 January 2019		6,479,505,097	64,795	1,179,908	1,244,703
Final 2018 dividend (note 10)		–	–	(51,836)	(51,836)
Interim 2019 dividend (note 10)		–	–	(64,795)	(64,795)
As at 31 December 2019		6,479,505,097	64,795	1,063,277	1,128,072

Notes:

- (i) During the year ended 31 December 2018, the convertible bonds with a principal amount of HK\$405,000,000 was converted into 245,454,544 shares of HK\$0.01 each at the conversion price of HK\$1.65 per share, of which HK\$2,455,000 was credited to share capital and HK\$405,753,000 was credited to share premium.
- (ii) During the year ended 31 December 2018, HK\$333,000 was credited to share premium and HK\$333,000 was debited to the equity component of convertible bonds upon the maturity of the convertible bonds.
- (iii) On 5 December 2018, the Group issued 182,325,000 ordinary shares to acquire the remaining 30% interest of Tongda Precision Technology Company Limited.

All new ordinary shares issued in the current and prior years rank pari passu with the existing shares in all respects.

Share option schemes

Details of the Company's share option schemes and the share options issued under the schemes are included in note 26 to the financial statements.

Notes to Financial Statements

31 December 2019

26. SHARE OPTION SCHEME AND SHARE AWARD

Share Option Schemes

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 10 June 2002, a share option scheme of the Company (the “Old Scheme”) was adopted by the Company. The Old Scheme became effective on 24 June 2002, and unless otherwise cancelled or amended, will remain in force for 10 years from that date. The Old Scheme expired during the year ended 31 December 2012 and no further share options can be granted under the Old Scheme.

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 25 June 2013, a share option scheme of the Company (the “New Scheme”) was adopted by the Company. The Company operates the New Scheme for the purpose of providing incentives or rewards to selected eligible participants who contribute to the success of the Group’s operations. Selected eligible participants of the New Scheme include directors, employees of the Company or any of its subsidiaries and any officers or consultants who will provide or have provided services to the Group.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company may not exceed 30% of the relevant class of shares in issue from time to time. No options may be granted under the New Scheme or any other share option scheme of the Company if it will result in this limit being exceeded. The maximum number of shares issued and which may fall to be issued upon exercise of the options granted under the New Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each selected eligible participant in any 12-month period and up to the date of grant shall not exceed 1% of the shares of the Company in issue.

Share options granted to a director, chief executive or substantial shareholder of the Company, or any of their respective associates, under the New Scheme must be approved by the independent non-executive directors of the Company (excluding an independent non-executive director who is the proposed grantee of the Company). In addition, any share options granted to a substantial shareholder or any independent non-executive director of the Company, or any of their respective associates, which would result in the shares issued and to be issued upon exercise of all share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant (i) representing an aggregate value of over 0.1% of the shares of the Company in issue on that date; and (ii) having an aggregate value, based on the closing price of the Company’s shares as stated in the daily quotation sheet of the Stock Exchange on the date of each grant, in excess of HK\$5 million, are subject to shareholders’ approval in a general meeting.

The period within which the options must be exercised will be determined by the board of directors of the Company at its absolute discretion. This period will expire no later than 10 years from the date on which the New Scheme is conditionally adopted by an ordinary resolution of the shareholders. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 21 days from the date of the offer, and a non-refundable nominal consideration of HK\$1 is payable upon acceptance of an option.

The subscription price for the shares of the Company under the New Scheme may be determined by the board of directors at its absolute discretion but in any event will not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a business day; (ii) the average of the closing prices of the shares of the Company as shown in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share of the Company on the date of grant.

26. SHARE OPTION SCHEME AND SHARE AWARD (continued)

Share Option Schemes (continued)

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Old Scheme and New Scheme during the year:

	2019		2018	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January and 31 December	1.8	58,000	1.8	58,000

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2019 and 2018

Number of options '000	Exercise price* HK\$ per share	Exercise period
14,200	1.8000	9 September 2017 to 8 September 2020
43,800	1.8000	9 September 2018 to 8 September 2020
58,000		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

At the end of the reporting period and date of approval of these financial statements, the Company had 58,000,000 (2018: 58,000,000) share options outstanding under the New Scheme which represented approximately 1% of the Company's shares in issue as at these dates. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 58,000,000 additional ordinary shares of the Company and additional share capital of HK\$580,000 and share premium of HK\$103,820,000 (before issue expenses).

Share Award

During the year ended 31 December 2019, certain employees (the "Employees"), who are not a director, chief executive or substantial shareholder of the Company, nor an associate (as defined under the Listing Rules) of any of them, were invited to contribute capital of Xiamen Smart Tech, a subsidiary of the Group.

The fair value of the share awards granted during the year ended 31 December 2019 was determined with reference to the difference between the fair value of Xiamen Smart Tech at the date of grant and the cash consideration contributed by the Employees, and amounted to HK\$6,409,000.

Notes to Financial Statements

31 December 2019

27. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

(i) Capital reserve

The capital reserve of the Group represents principally (1) the excess fair values ascribed to the net underlying assets of certain subsidiaries acquired prior to the Group's reorganisation completed on 7 December 2000 in preparation for the listing of the Company's shares, over the purchase consideration paid therefor; (2) the difference between the consideration paid and the net assets acquired for the further acquisition of Xiamen Optic Conduct Cable Company Limited during the year ended 31 December 2010; (3) the difference between the consideration received and the net liabilities disposed of for the partial disposal of Tongda Optical Company Limited ("Tongda Optical") during the year ended 31 December 2010; (4) the difference between the net consideration paid and the net assets acquired arose from the step acquisition of Tongda Optical during the year ended 31 December 2013; (5) the difference between the net consideration and the net assets acquired arose from the acquisition of Grand Prosper Investments Limited during the year ended 31 December 2015; (6) the difference between the net consideration paid and the net assets acquired arose from the acquisition of Tongda Precision Technology Company Limited during the year ended 31 December 2018; and (7) the difference between the net consideration paid and the net assets acquired arose from the acquisition of remaining 20% interest of Tongda (Xiamen) Communications Company Limited during the year ended 31 December 2019.

(ii) Statutory reserve

In accordance with the Macau Commercial Codes, Tongda Overseas Macao Commercial Offshore Limited ("Tongda Macao"), a wholly-owned subsidiary of the Company, whose principal operation is conducted in Macau, is required to appropriate annually not less than 25% of its profit after tax to the statutory reserve, until the balance of the reserve reaches 50% of the entity's capital fund. The statutory reserve may be utilised by the entity for certain restricted purposes including the set-off against accumulated losses, if any, arising under certain specified circumstances. As the reserve has already reached 50% of Tongda Macao's capital fund, no transfer was made in the current year (2018: Nil).

In accordance with the relevant regulations applicable in the PRC, subsidiaries established in the PRC are required to transfer a certain percentage of their profit after tax, if any, to the statutory reserve funds, which are non-distributable, before profit distributions to shareholders. The amount of the transfer is subject to the approval of the boards of directors of these subsidiaries.

28. COMMITMENTS

- (a) The Group had the following capital commitments contracted, but not provided for, at the end of the reporting period:

	2019 HK\$'000	2018 HK\$'000
Contracted for commitments in respect of		
– Purchases of property, plant and equipment	226,626	327,787
– Construction of leasehold buildings in Mainland China	–	284,898
	226,626	612,685

The Company had no significant commitments at the end of the reporting period (2018: Nil).

- (b) Operating lease commitments as at 31 December 2018

The Group leased certain of its use of land under operating lease arrangements which are negotiated for a lease term of 50 years. In addition, the Group leased certain of its office properties under operating lease arrangements for terms of over five years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK\$'000
Within one year	13,549
In the second to fifth years, inclusive	28,894
After five years	10,193
	52,636

Notes to Financial Statements

31 December 2019

29. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2019 HK\$'000	2018 HK\$'000
Related companies controlled by directors of the Company:			
Rental expense	(i)	–	4,521
Rental income	(ii)	168	133
Consultancy fee	(iii)	1,317	2,202
A jointly-controlled entity:			
Management fee and utility charges	(iv)	7,107	10,135
Subcontracting fee	(v)	290,469	233,907
Interest income	(vi)	2,697	4,239
Purchase of property, plant and equipment	(vii)	–	110,711

Notes:

- (i) The Group entered into an agreement with a related company controlled by a director of the Company on 1 January 2019 to lease a plant at a monthly rate of RMB324,000 (HK\$356,000 equivalent) for the year ended 31 December 2019 (2018: RMB330,000 (HK\$377,000 equivalent)). Right-of-use asset of HK\$17,178,000 and lease liability of HK\$15,626,000 were recognised in respect of such lease at 31 December 2019. During the year ended 31 December 2019, depreciation of right-of-use asset of HK\$3,436,000 and interest expense on lease liability of HK\$886,000 were charged to the consolidated statement of profit or loss.
- (ii) The rental income from a related company controlled by directors of the Company was charged at a monthly rate of HK\$11,000 for the year ended 31 December 2019 (2018: HK\$11,000) by reference to a lease agreement entered into by the related company and the Group on 8 February 2018.
- (iii) The consultancy fee paid to a related company controlled by a director of the Company was made on a basis mutually agreed by both parties.
- (iv) The management fee and utility charges from a jointly-controlled entity represented the management fee charged for factory premises at a monthly rate of RMB9.6 per square metre for the year ended 31 December 2019 and the related utility charges.
- (v) The subcontracting fee to the jointly-controlled entity was made on a basis mutually agreed by both parties.
- (vi) The interest income was charged at 2% per annum on the loan balances to the jointly-controlled entity.
- (vii) The purchase of property, plant and equipment from the jointly-controlled entity was made on a basis mutually agreed by both parties.

29. RELATED PARTY TRANSACTIONS (continued)**(b) Outstanding balances with related parties**

- (i) Details of the Group's balances with a jointly-controlled entity as at the end of the reporting period are disclosed in note 15 to the financial statements.
- (ii) Included in prepayments, deposits and other receivables is a prepayment to a related company of HK\$2,568,000 (2018: HK\$4,553,000) directly controlled by a director, Mr. Wong Ah Yu, who has resigned on 21 October 2019. The maximum amount outstanding during the year was HK\$4,553,000 (2018: HK\$5,643,000).
- (iii) Included in prepayments, deposits and other receivables is an amount due from a related company of HK\$84,000 (2018: HK\$84,000) directly controlled by Mr. Wang Ya Nan, a director of the Company, which is unsecured, interest-free and repayable on demand. The maximum amount outstanding during the year was HK\$168,000 (2018: HK\$110,000).
- (iv) Included in accrued liabilities and other payables is an amount due to a related company of HK\$241,000 (2018: HK\$1,040,000) controlled by a director, Mr. Wang Ya Nan, which is unsecured, interest-free and repayable on demand.

(c) Compensation of key management personnel of the Group

	2019	2018
	HK\$'000	HK\$'000
Short term employee benefits	4,651	5,033
Post-employment benefits	99	–
Equity-settled share option expense	–	273
Total compensation paid to key management personnel	4,750	5,306

The above compensation does not include directors' remuneration which is disclosed in note 8 to the financial statements.

Notes to Financial Statements

31 December 2019

30. DISPOSAL OF SUBSIDIARIES

	Notes	2019 HK\$'000	2018 HK\$'000
Net assets disposed of:			
Property, plant and equipment	12	–	7,764
Inventories		–	2,058
Prepayments, deposits and other receivables		30,696	14,632
Cash and cash equivalents		113	512
Trade and bills payables		(95)	(5,587)
Accrued liabilities and other payables		(36)	(7,831)
		30,678	11,548
Exchange fluctuation reserve		2,378	(116)
		33,056	11,432
Gain/(loss) on disposal of a subsidiary	5,7	(2,323)	3,568
		30,733	15,000
Satisfied by:			
Cash consideration		30,733	15,000

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	Note	2019 HK\$'000	2018 HK\$'000
Consideration received	32(a)(iii)	30,733	7,500
Cash and cash equivalents disposed of		(113)	(512)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary		30,620	6,988

31. SPIN-OFF OF THT

During the year ended 31 December 2018, the Group completed the spin-off of THT.

Details of the aggregate net assets of THT distributed by the Company under the Distribution are as follows:

	Notes	2018 HK\$'000
Net assets distributed:		
Property, plant and equipment	12	110,301
Long term deposits		3,934
Trade and bills receivables		196,343
Tax recoverable		583
Prepayments, deposits and other receivables		31,604
Inventories		372,318
Pledged deposits		4,795
Cash and cash equivalents		17,904
Trade payable		(101,210)
Interest-bearing bank borrowings		(270,398)
		366,174
Special interim dividend	10	(366,174)

An analysis of the net outflow of cash and cash equivalents in respect of the Distribution is as follows:

	2018 HK\$'000
Net outflow of cash and cash equivalents in respect of the Distribution	(22,699)

Notes to Financial Statements

31 December 2019

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

- (i) Save as disclosed elsewhere in the financial statements, during the year ended 31 December 2019, deposits for the acquisition of property, plant and equipment of HK\$406,137,000 (2018: HK\$340,817,000) were utilised as additions to property, plant and equipment (note 16).
- (ii) As at 31 December 2019, accrued interest of HK\$1,309,000 (2018: HK\$2,187,000) was included in a loan receivable which will be paid upon repayment of the loan during the year ending 31 December 2020.
- (iii) As at 31 December 2018, HK\$7,500,000 of the consideration for disposal of a subsidiary of HK\$15,000,000 remained unsettled and was recorded in "Prepayments, deposits and other receivables" in the consolidated statement of financial position.
- (iv) As at 31 December 2018, dividend to a non-controlling shareholder of HK\$12,088,000 was offset against the loan to a non-controlling shareholder.
- (v) During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK\$36,466,000 and HK\$35,114,000, respectively, in respect of lease arrangements (2018: Nil).

(b) Changes in liabilities arising from financing activities

	2019	
	Interest-bearing bank and other borrowings HK\$'000	Lease liabilities HK\$'000
As at 31 December 2018	4,151,858	–
Effect of adoption of HKFRS 16	–	41,947
As at 1 January 2019 (restated)	4,151,858	41,947
New bank loans	3,133,998	–
Repayment of bank loans	(3,535,717)	–
New leases	–	35,115
Interest expense	–	3,252
Interest paid classified as operating cash flows	–	(3,252)
Changes from financing cash flows	–	(19,297)
Exchange realignment	–	(1,593)
As at 31 December 2019	3,750,139	56,172

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Changes in liabilities arising from financing activities (continued)

	2018	
	Interest-bearing bank and other borrowings HK\$'000	Convertible bonds HK\$'000
As at 1 January 2018	3,475,299	445,838
New bank loans	5,177,572	–
Repayment of bank loans	(4,230,615)	–
Spin-off of THT	(270,398)	–
Conversion	–	(405,000)
Interest paid	–	(5,809)
Redemption of convertible bonds	–	(35,029)
As at 31 December 2018	4,151,858	–

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 HK\$'000
Within operating activities	3,252
Within financing activities	19,297
	22,549

Notes to Financial Statements

31 December 2019

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2019

Financial assets

	Financial assets at fair value through other comprehensive income HK\$'000	Financial assets at amortised cost HK\$'000	Total HK\$'000
Trade and bills receivables	1,225,729	1,720,459	2,946,188
Financial assets included in prepayments, deposits and other receivables	-	14,575	14,575
Due from a jointly-controlled entity	-	65,973	65,973
Loans to a jointly-controlled entity	-	134,871	134,871
Loan receivable	-	3,154	3,154
Pledged deposits	-	409,872	409,872
Cash and cash equivalents	-	1,077,676	1,077,676
	1,225,729	3,426,580	4,652,309

Financial liabilities

	Financial liabilities at amortised cost HK\$'000
Trade and bills payables	2,948,445
Financial liabilities included in accrued liabilities and other payables	152,194
Interest-bearing bank and other borrowings	3,750,139
Due to a jointly-controlled entity	65,997
Due to a former non-controlling shareholder of a subsidiary	30,034
	6,946,809

33. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2018

Financial assets

	Financial assets at fair value through other comprehensive income HK\$'000	Financial assets at amortised cost HK\$'000	Total HK\$'000
Trade and bills receivables	776,205	2,338,588	3,114,793
Financial assets included in prepayments, deposits and other receivables	–	20,886	20,886
Due from a jointly-controlled entity	–	33,768	33,768
Loans to a jointly-controlled entity	–	140,260	140,260
Loan receivable	–	47,581	47,581
Pledged deposits	–	507,684	507,684
Cash and cash equivalents	–	768,404	768,404
	776,205	3,857,171	4,633,376

Financial liabilities

	Financial liabilities at amortised cost HK\$'000
Trade and bills payables	2,625,725
Financial liabilities included in accrued liabilities and other payables	153,288
Interest-bearing bank and other borrowings	4,151,858
Due to a jointly-controlled entity	200,584
Due to a former non-controlling shareholder of a subsidiary	30,034
	7,161,489

Notes to Financial Statements

31 December 2019

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, an amount due from a jointly-controlled entity, loans to a jointly-controlled entity, loan receivable, financial liabilities included in accrued liabilities and other payables, an amount due to a jointly-controlled entity and the current portion of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the financial controller. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following method and assumptions were used to estimate the fair values:

The fair values of the non-current portion of the interest-bearing bank borrowings and an amount due to a former non-controlling shareholder have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2019 were assessed to be insignificant. The fair values of the interest-bearing bank borrowings approximate to their carrying amounts as at the end of the reporting period.

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			Total HK\$'000
	Quoted prices	Significant	Significant	
	in active	observable	unobservable	
	markets	inputs	inputs	
(Level 1)	(Level 2)	(Level 3)		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Trade and bills receivables	–	1,225,729	–	1,225,729

As at 31 December 2018

	Fair value measurement using			Total HK\$'000
	Quoted prices	Significant	Significant	
	in active	observable	unobservable	
	markets	inputs	inputs	
(Level 1)	(Level 2)	(Level 3)		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Trade and bills receivables	–	776,205	–	776,205

Notes to Financial Statements

31 December 2019

35. TRANSFERRED FINANCIAL ASSETS

- (i) Transferred financial assets that are not derecognised in their entirety

The following table provides a summary of financial assets that have been transferred in such a way that part of the transferred financial assets does not qualify for derecognition, together with the associated liabilities:

2019

	Trade receivables Note (a) HK\$'000	Bills receivable Notes (b) and (c) HK\$'000	Total HK\$'000
Carrying amount of assets that continued to be recognised	23,030	59,509	82,539
Carrying amount of associated liabilities	20,727	59,509	80,236

2018

	Trade receivables Note (a) HK\$'000	Bills receivable Notes (b) and (c) HK\$'000	Total HK\$'000
Carrying amount of assets that continued to be recognised	46,318	97,635	143,953
Carrying amount of associated liabilities	44,929	97,635	142,564

35. TRANSFERRED FINANCIAL ASSETS *(continued)***(i) Transferred financial assets that are not derecognised in their entirety** *(continued)*

Notes:

(a) Trade receivables factoring

As part of its normal business, the Group entered into a trade receivable factoring arrangement (the "Factoring Arrangement") and transferred certain trade receivables to a bank. Under the Factoring Arrangement, the Group may be required to reimburse the bank for loss of interest if any trade debtors have late payment up to 30 days. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to the Factoring Arrangement. The original carrying value of the trade receivables transferred under the Factoring Arrangement that have not been settled as at 31 December 2019 was HK\$23,030,000 (2018: HK\$46,318,000). The carrying amount of the assets that the Group continued to recognise as at 31 December 2019 was HK\$23,030,000 (2018: HK\$46,318,000) and that of the associated liabilities as at 31 December 2019 was HK\$20,727,000 (2018: HK\$44,929,000).

(b) Discounting of bills receivable

At 31 December 2019, the Group discounted certain bills receivable (the "Discounted Bills") with a carrying amount of HK\$22,005,000 (2018: HK\$25,156,000) to a local bank and certain local financial institutions in the PRC for cash. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to the Discounted Bills, and accordingly, it continued to recognise the full carrying amount of the Discounted Bills and the respective bank and other loans. Subsequent to the discounting, the Group does not retain any rights on the use of the Discounted Bills, including sale, transfer or pledge of the Discounted Bills to any other third parties. The aggregate carrying amount of the bank and other loans recognised due to the Discounted Bills was HK\$22,005,000 (2018: HK\$25,156,000) as at 31 December 2019.

(c) Bills endorsement under the Law of Negotiable Instruments of the PRC

At 31 December 2019, the Group endorsed certain bills receivable issued by certain local banks and certain local financial institutions in the PRC (the "Endorsed Bills") with a carrying amount of HK\$37,504,000 (2018: HK\$72,479,000) to certain of its suppliers in order to settle the trade payables due to such suppliers. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to the Endorsed Bills, and accordingly, it continued to recognise the full carrying amount of the Endorsed Bills and the associated trade payables settled. Subsequent to the endorsement, the Group does not retain any rights on the use of the Endorsed Bills, including sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the year to which the suppliers have recourse was HK\$37,504,000 (2018: HK\$72,479,000) as at 31 December 2019.

Notes to Financial Statements

31 December 2019

35. TRANSFERRED FINANCIAL ASSETS (continued)

(ii) Transferred financial assets that are derecognised in their entirety

(a) Discounting of bills receivable

At 31 December 2019, the Group discounted certain bills receivable (the “Derecognised Discounted Bills”) with a carrying amount of HK\$185,587,000 (2018: HK\$220,777,000) to certain reputable banks and a financial institution in the PRC. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Discounted Bills have a right of recourse against the Group if the bills default (the “Continuing Involvement”). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Discounted Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Discounted Bills. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Discounted Bills and the undiscounted cash flows to repurchase these Derecognised Discounted Bills is equal to their carrying amounts of HK\$185,587,000 (2018: HK\$220,777,000). In the opinion of the directors, the fair values of the Group’s Continuing Involvement in the Derecognised Discounted Bills are not significant. All Derecognised Discounted Bills have a maturity period from three to six months.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Discounted Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The discounting of bills has been made evenly throughout the year.

(b) Bills endorsement under the Law of Negotiable Instruments of the PRC

At 31 December 2019, the Group endorsed certain bills receivable issued by certain reputable banks in the PRC (the “Derecognised Endorsed Bills”) to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of HK\$192,274,000 (2018: HK\$265,103,000). The Derecognised Endorsed Bills have a maturity from one to six months at the end of the reporting period. In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Endorsed Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Endorsed Bills and the associated trade payables. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Endorsed Bills and the undiscounted cash flows to repurchase these Derecognised Endorsed Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group’s Continuing Involvement in the Derecognised Endorsed Bills are not significant.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Endorsed Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the year.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, commodity price risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The interest rates of the interest-bearing bank and other borrowings of the Group are disclosed in note 22 to the financial statements.

The following table demonstrates the sensitivity to a reasonably possible change in the Hong Kong dollar interest rate, with all other variables held constant, of the Group's profit after tax and equity through the impact on floating rate borrowings and the Group's equity.

	Increase/ (decrease) in percentage points	Increase/ (decrease) in profit after tax and equity HK\$'000
2019		
Hong Kong dollars	0.5%	(10,211)
Hong Kong dollars	(0.5%)	10,211
2018		
Hong Kong dollars	0.5%	(11,674)
Hong Kong dollars	(0.5%)	11,674

Notes to Financial Statements

31 December 2019

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Commodity price risk

The major raw materials used in the production of the Group's products included plastic materials and aluminum. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group has not historically entered into any commodity derivative instruments to hedge the potential commodity price changes.

Foreign currency risk

The Group carries on its trading transactions mainly in Hong Kong dollars, United States dollars and RMB. As the foreign currency risk arising from the sales and purchases can be set off with each other given that the Hong Kong dollar is pegged to the United States dollar, the related foreign currency risk is minimal for the Group. It is the policy of the Group to continue maintaining the balance of its sales and purchases in the same currency.

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Hong Kong dollar and RMB exchange rate, with all other variables held constant, of the Group's net profit.

	Increase/ (decrease) in RMB rate %	Increase/ (decrease) in the Group's net profit HK\$'000
2019		
If the Hong Kong dollar weakens against RMB	5	18,102
If the Hong Kong dollar strengthens against RMB	(5)	(18,102)
2018		
If the Hong Kong dollar weakens against RMB	5	25,565
If the Hong Kong dollar strengthens against RMB	(5)	(25,565)

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Credit risk**

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and on an individual basis. Each of the customers has been attached with a trading limit and any excess to the limit must be approved by the director of the operation unit.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2019

	12-month	Lifetime ECLs			Total HK\$'000
	ECLs	Stage 2	Stage 3	Simplified	
	Stage 1 HK\$'000	HK\$'000	HK\$'000	approach HK\$'000	
Debt investments at fair value through other comprehensive income:					
– Trade receivables*	–	–	–	1,202,704	1,202,704
– Bills receivable					
– Normal**	23,025	–	–	–	23,025
Trade and bills receivables*	–	–	–	1,758,830	1,758,830
Financial assets included in prepayments, deposits and other receivables					
– Normal**	14,575	–	–	–	14,575
Due from a jointly-controlled entity					
– Not yet past due	65,973	–	–	–	65,973
Loans to a jointly-controlled entity					
– Not yet past due	134,871	–	–	–	134,871
Loan receivable					
– Not yet past due	3,154	–	–	–	3,154
Lease receivable					
– Normal**	–	–	–	20,788	20,788
Pledged deposits					
– Not yet past due	409,872	–	–	–	409,872
Cash and cash equivalents					
– Not yet past due	1,077,676	–	–	–	1,077,676
	1,729,146	–	–	2,982,322	4,711,468

Notes to Financial Statements

31 December 2019

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

As at 31 December 2018

	12-month	Lifetime ECLs			Total
	ECLs				
	Stage 1	Stage 2	Stage 3	Simplified	
	HK\$'000	HK\$'000	HK\$'000	approach	HK\$'000
				HK\$'000	
Debt investments at fair value through other comprehensive income:					
– Trade receivables*	–	–	–	714,027	714,027
– Bills receivable					
– Normal**	62,178	–	–	–	62,178
Trade and bills receivables*	–	–	–	2,380,406	2,380,406
Financial assets included in prepayments, deposits and other receivables					
– Normal**	20,886	–	–	–	20,886
Due from a jointly-controlled entity					
– Not yet past due	33,768	–	–	–	33,768
Loans to a jointly-controlled entity					
– Not yet past due	140,260	–	–	–	140,260
Loan receivable					
– Not yet past due	47,581	–	–	–	47,581
Pledged deposits					
– Not yet past due	507,684	–	–	–	507,684
Cash and cash equivalents					
– Not yet past due	768,404	–	–	–	768,404
	1,580,761	–	–	3,094,433	4,675,194

* For trade and bills receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 18 to the financial statements.

** The credit policy of the bills receivable included in trade and bills receivables and the financial assets included in prepayments, deposits and other receivables, and lease receivable is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Liquidity risk**

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, lease liabilities and other banking facilities such as trust receipt loans.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	2019					Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	less than 3 to 12 months HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	
Lease liabilities	-	5,433	15,257	39,460	7,869	68,019
Trade and bills payables	-	2,948,445	-	-	-	2,948,445
Financial liabilities included in accrued liabilities and other payables	152,194	-	-	-	-	152,194
Due to a former non-controlling shareholder of a subsidiary	-	-	30,034	-	-	30,034
Due to a jointly-controlled entity	65,997	-	-	-	-	65,997
Interest-bearing bank and other borrowings	-	1,095,330	1,580,475	1,211,200	-	3,887,005
	218,191	4,049,208	1,625,766	1,250,660	7,869	7,151,694
	2018					
	On demand HK\$'000	Less than 3 months HK\$'000	less than 3 to 12 months HK\$'000	1 to 5 years HK\$'000	Total HK\$'000	
Trade and bills payables	-	2,625,725	-	-	-	2,625,725
Financial liabilities included in accrued liabilities and other payables	153,288	-	-	-	-	153,288
Due to a former non-controlling shareholder of a subsidiary	-	-	-	30,034	-	30,034
Due to a jointly-controlled entity	200,584	-	-	-	-	200,584
Interest-bearing bank and other borrowings	-	954,501	1,539,082	1,817,825	-	4,311,408
	353,872	3,580,226	1,539,082	1,847,859	7,321,039	

Notes to Financial Statements

31 December 2019

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to the equity holders through the optimisation of the debt and equity balance.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt over total equity. Net debt includes interest-bearing bank and other borrowings, less cash and cash equivalents and pledged deposits. The gearing ratio as at the end of the reporting period was as follows:

	2019	2018
	HK\$'000	HK\$'000
Interest-bearing bank and other borrowings	3,750,139	4,151,858
Less: Cash and cash equivalents	(1,077,676)	(768,404)
Less: Pledged deposits	(409,872)	(507,684)
Net debt	2,262,591	2,875,770
Total equity	5,982,378	5,937,157
Gearing ratio	38%	48%

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019	2018
	HK\$'000	HK\$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	117,862	117,862
Loan to a subsidiary	12,610	12,610
Total non-current assets	130,472	130,472
CURRENT ASSETS		
Due from subsidiaries	2,732,985	2,734,956
Prepayments, deposits and other receivables	941	680
Loan to a subsidiary	7,857	7,857
Cash and cash equivalents	6,411	1,693
Total current assets	2,748,194	2,745,186
CURRENT LIABILITIES		
Accrued liabilities and other payables	1,950	2,460
Interest-bearing bank borrowings	492,868	480,933
Due to subsidiaries	71,237	–
Tax payable	75,600	61,927
Total current liabilities	641,655	545,320
NET CURRENT ASSETS	2,106,539	2,199,866
TOTAL ASSETS LESS CURRENT LIABILITIES	2,237,011	2,330,338
NON-CURRENT LIABILITY		
Interest-bearing bank borrowings	640,725	634,009
Net assets	1,596,286	1,696,329
EQUITY		
Issued capital	64,795	64,795
Reserves (Note)	1,531,491	1,631,534
Total equity	1,596,286	1,696,329

Notes to Financial Statements

31 December 2019

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account HK\$'000	Share option reserve HK\$'000	Equity component of convertible bonds HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	(Accumulated losses)/ retained profits HK\$'000	Total HK\$'000
At 1 January 2018	1,340,928	22,708	3,541	79,179	884	(48,184)	1,399,056
Profit for the year	-	-	-	-	-	267,792	267,792
Shares issued upon conversion of convertible bonds (notes 23 and 25(i))	405,753	-	(3,208)	-	-	-	402,545
Redemption of convertible bonds (notes 23 and 25(ii))	333	-	(333)	-	-	-	-
Equity-settled share option arrangements (note 26)	-	8,073	-	-	-	-	8,073
Issue of shares (note 25(iii))	154,977	-	-	-	-	-	154,977
Release upon the Distribution of THT	-	-	-	-	-	121,174	121,174
Final 2017 dividend declared and paid (note 10)	(229,965)	-	-	-	-	-	(229,965)
Interim 2018 dividend declared and paid (note 10)	(125,944)	-	-	-	-	-	(125,944)
Special interim dividend (note 10)	(366,174)	-	-	-	-	-	(366,174)
At 31 December 2018 and 1 January 2019	1,179,908	30,781	-	79,179	884	340,782	1,631,534
Profit for the year	-	-	-	-	-	16,588	16,588
Final 2018 dividend declared and paid (note 10)	(51,836)	-	-	-	-	-	(51,836)
Interim 2019 dividend declared and paid (note 10)	(64,795)	-	-	-	-	-	(64,795)
At 31 December 2019	1,063,277	30,781	-	79,179	884	357,370	1,531,491

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*Note: *(continued)*

- (i) Under the Companies Law (2001 Revision) of the Cayman Islands, the share premium account of the Company is distributable to its shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.
- (ii) As at 31 December 2019, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to HK\$1,499,826,000 (2018: HK\$1,599,869,000) subject to the restriction stated in note (i) above.
- (iii) The contributed surplus of the Company arose as a result of the Group's reorganisation completed on 7 December 2000 in preparation for the listing of the Company's shares, and represents the excess of the combined net assets of the subsidiaries then acquired by the Company, over the nominal value of the share capital of the Company issued in exchange therefor.
- (iv) The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will be transferred to the share premium account when the related options are exercised, or transferred to retained profits should the related options expire or be forfeited.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary share/ paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			2019	2018	
Directly held					
Tong Da Holdings (BVI) Limited	British Virgin Islands ("BVI")	Ordinary US\$10,000	100	100	Investment holding
Indirectly held					
Tong Da General Holdings (H.K.) Limited	Hong Kong	Ordinary HK\$880,000	100	100	Investment holding, raw material sourcing and trading of electrical appliances and ironware products
福建省石獅市通達電器有限公司 (Tongda Electrics Company Limited, Shishi City, Fujian) ¹⁻³	PRC/Mainland China	Registered HK\$1,096,000,000 (2018: HK\$720,000,000)	100	100	Manufacture and sale of accessories for electrical appliance products

Notes to Financial Statements

31 December 2019

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary share/ paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			2019	2018	
Indirectly held (continued)					
福建省石獅市通達電子有限公司 (Tongda Electronic Company Limited, Shishi, Fujian) ^{1,3}	PRC/Mainland China	Registered Renminbi ("RMB") 32,000,000	100	100	Manufacture and sale of resistors and other electronic products
通達五金(深圳)有限公司 (Tongda Ironware (Shenzhen) Company Limited) ^{1,3}	PRC/Mainland China	Registered HK\$100,000,000	100	100	Manufacture and sale of ironware products
通達(廈門)科技有限公司 (Tongda (Xiamen) Technology Limited) ^{2,3}	PRC/Mainland China	Registered RMB213,776,300	100	100	Manufacture and sale of precise injection and printing parts
深圳通達電子有限公司 (Shenzhen Tongda Electronic Company Limited) ^{2,3}	PRC/Mainland China	Registered HK\$45,000,000	100	100	Manufacture and sale of plastic injection and printing parts
Tongda Precision Technology Company Limited ³	Hong Kong	Ordinary HK\$5,000,000	100	100	Investment holding and trading of high-precision components
通達(廈門)精密橡塑有限公司 Tongda (Xiamen) Elastomers Company Limited ^{1,3}	PRC/Mainland China	Registered HK\$30,000,000	100	100	Manufacture and sale of high-precision components

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes:

1. Registered as wholly-foreign-owned enterprises under PRC law.
2. Registered as foreign-invested enterprises under PRC law.
3. The statutory financial statements of these entities are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

39. EVENTS AFTER THE REPORTING PERIOD

The outbreak of novel coronavirus epidemics in early 2020 brought about uncertain factors to various economic activities in China, including the operation of the Group. The directors are paying close attention to the development of the epidemics and consider that it is not practicable to quantify the financial impact to the Group at the date of these financial statements.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 March 2020.

Five-Year Financial Summary

A summary of the results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below. This summary does not form part of the audited financial statements.

RESULTS

	2019	2018	2017	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	9,185,866	8,899,306	8,562,830	7,825,077	6,074,061
Gross profit	1,676,884	1,793,894	2,231,094	1,885,355	1,512,029
Profit for the year attributable to:					
Owners of the Company	401,521	542,821	1,006,125	1,003,996	702,839
Non-controlling interests	(640)	19,937	52,530	16,478	35,136

EARNINGS PER SHARE

	2019	2018	2017	2016	2015
Basic	HK6.20 cents	HK8.76 cents	HK16.82 cents	HK17.50 cents	HK12.60 cents
Diluted	HK6.20 cents	HK8.61 cents	HK16.03 cents	HK16.14 cents	HK11.97 cents

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	2019	2018	2017	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets	6,109,351	5,921,845	5,102,899	3,876,065	3,053,854
Current assets	7,464,029	7,720,294	8,520,803	6,713,928	5,535,008
Total assets	13,573,380	13,642,139	13,623,702	10,589,993	8,588,862
Non-current liabilities	(1,246,666)	(1,817,427)	(1,357,977)	(1,590,928)	(1,484,465)
Current liabilities	(6,344,336)	(5,887,555)	(6,380,428)	(4,332,760)	(3,065,079)
Total liabilities	(7,591,002)	(7,704,982)	(7,738,405)	(5,923,688)	(4,549,544)
Net assets	5,982,378	5,937,157	5,885,297	4,666,305	4,039,318
Total assets less current liabilities	7,229,044	7,754,584	7,243,274	6,257,233	5,523,783
Equity attributable to owners of the Company	(5,946,220)	(5,962,817)	(5,834,417)	(4,667,898)	(4,057,186)
Non-controlling interests	(36,158)	25,660	(50,880)	1,593	17,868