

TONGDA GROUP HOLDINGS LIMITED

# Interim Report 2020

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

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

### Non-executive Director

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. Cheuk Tat Yee

## 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](mailto: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

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Interim Report 2020 contains certain forward-looking statements with respect to the financial conditions, results of operations and business of Tongda Group Holdings Limited (the “Company”, and together with its subsidiaries the “Group”). These forward-looking statements represent the Group’s expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Certain statements, that include wordings like “potential”, “estimated”, “expects”, “anticipates”, “objective”, “intends”, “plans”, “believes”, “estimates”, and similar expressions or variations on such expressions may be considered “forward-looking statements”.

Forward-looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ in some instances materially, from those anticipated or implied in any forward-looking statement. Forward-looking statements speak only at the date they are made, and it should not be assumed that they have been reviewed or updated in the light of new information or future events. Trends and factors that are expected to affect the Group’s results of operations are described in the section headed “Management Discussion and Analysis” below.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

For the Period, the Group's turnover increased from HK\$3,908.9 million in the same period last year by 2.1% to HK\$3,990.3 million. Profit attributable to owners of the Company decreased from HK\$315.8 million in the same period last year by 90.8% to HK\$29.0 million during the Period.

### Revenue

During the Period, given the impacts of the outbreak of the novel coronavirus pandemic (the "Pandemic"), global mobile phone shipments recorded a year-on-year decline. However, as the Group's products continued to be adopted by more major mobile phone models, the Group's revenue still recorded a growth of 2.1%, from HK\$3,908.9 million in the same period last year to HK\$3,990.3 million during the Period.

### Gross Profit and Margin

The Group's gross profit for the Period decreased by 26.5% to HK\$607.2 million and the gross profit margin was 15.2%, which was 5.9 percentage points lower than that of the same period last year. The decrease in gross profit margin was mainly due to the keen competition faced by the Group's existing products and the spread of the Pandemic throughout the world during the Period, resulting in the delay of the Group's expected product upgrades.

### Other Income and Gains, net

During the Period, other income and gains, net decreased by 14.6% or HK\$10.9 million, to HK\$63.7 million compared with the same period last year. The decrease in other income and gains, net was mainly due to the decrease in government grants.

## Selling and Distribution Expenses

During the Period, selling and distribution expenses increased by 5.7% or HK\$3.3 million, to HK\$61.9 million, accounting for 1.6% of the Group's revenue, which was 0.1 percentage point higher than that of the same period last year. The increase was in line with the increase in sales during the Period.

## Administrative Expenses

During the Period, administrative expenses increased by 5.8% or HK\$24.6 million, to HK\$451.7 million, accounting for 11.3% of the Group's revenue, which was 0.4 percentage point higher than that of the same period last year. The increase in administrative expenses was mainly attributable to the increase in research and development ("R&D") expenses for continuous investment in R&D projects and further business development.

## Other Operating Income/(Expenses), net

During the Period, the Group recorded net other operating expenses of HK\$29.7 million, compared with net other operating income of HK\$74.5 million for the same period last year. The decline was mainly due to the booking of an exchange loss of HK\$11.2 million during the Period, versus an exchange gain of HK\$85.6 million recorded in the same period last year.

## Finance Costs

During the Period, finance costs decreased by 13.4% or HK\$13.7 million, to HK\$88.4 million. The decrease was mainly due to the lower average interest rate during the Period.

## Profit Attributable to Owners of the Company for the Period

Profit attributable to owners of the Company decreased by 90.8% from HK\$315.8 million in the same period last year to HK\$29.0 million during the Period, and the net profit margin attributable to owners of the Company decreased to 0.7% (30 June 2019: 8.1%), which was mainly due to the decrease in gross profit and the Group recorded a net loss arising from exchange difference during the Period, versus a net gain from exchange difference in the same period last year.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group is in a healthy financial position. 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 six months ended 30 June 2020.

As at 30 June 2020, the Group has cash and cash equivalents and pledged deposits balance of HK\$1,296.0 million (31 December 2019: HK\$1,487.5 million) without holding any structural investment contract.

HK\$427.3 million (31 December 2019: HK\$409.9 million) of the Group's cash and bank balances of HK\$1,296.0 million (31 December 2019: HK\$1,487.5 million) has been pledged to banks as security for trade financing.

As at 30 June 2020, the Group had total assets of HK\$13,256.2 million (31 December 2019: HK\$13,573.4 million), net current assets of HK\$1,549.9 million (31 December 2019: HK\$1,119.7 million) and equity of HK\$5,994.3 million (31 December 2019: HK\$5,982.4 million).



The management of the Group 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 the current operational requirements of the Group.

## CAPITAL EXPENDITURE

The total capital expenditure incurred for the Period was HK\$579.9 million (31 December 2019: HK\$925.6 million), which was mainly used in the acquisition of production equipment and the construction of new manufacturing plants.

## TREASURY POLICY

The Group's sales were principally denominated in Hong Kong dollars, Renminbi and US dollars while purchases were transacted mainly in Hong Kong dollars, Renminbi, US dollars and Japanese Yen. As the foreign currency risks generated from the sales and purchases can be off set against each other and the fluctuation of Renminbi did not materially affect the costs and operations of the Group during the Period, the Directors do not foresee significant risks in exchange rate fluctuations. Currently, the Group has not entered into any financial instrument for hedging purposes. However, the Group will closely monitor its overall foreign exchange exposure and interest rate exposure, and consider hedging against the exposure should the need arises.

## CHARGES ON GROUP ASSETS

Apart from bank deposits amounting to HK\$427.3 million (31 December 2019: HK\$409.9 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 amount of HK\$51.0 million (31 December 2019: HK\$53.5 million) mortgaged by the Group as at 30 June 2020, the Group had not pledged its assets to any financial institutions.

## HUMAN RESOURCES

As at 30 June 2020, the Group employed a total of approximately 21,000 (30 June 2019: 19,000) permanent employees in Hong Kong and the PRC. The total salaries and wages for the six months ended 30 June 2020 amounted to HK\$845.0 million (30 June 2019: HK\$944.4 million).

The Group offers remuneration packages for employees mainly based on their performance and experiences, and with reference to prevailing industry practices. In addition to enrolling our new employees into the mandatory provident fund scheme in Hong Kong and state-managed pension scheme in mainland China and making contributions for them on a periodic basis, the Group also provides medical coverage, internal and external training programs and grants share options and discretionary bonuses to employees based on employees' individual performance and the Group's overall performance. The Group reviews the remuneration policies and packages on a regular basis.

## GEARING RATIO AND INDEBTEDNESS

As at 30 June 2020, the gearing ratio of the Group (consolidated net borrowings/total equity) was 45.5% (31 December 2019: 37.8%).

As at 30 June 2020, other than the non-current portion of bank borrowings of HK\$1,748.1 million (31 December 2019: HK\$1,117.3 million), the Group had bank and other borrowings of HK\$2,276.9 million (31 December 2019: bank loans of HK\$2,632.8 million) which will be repayable within one year from the end of the Period.

Bank borrowings carry interest rate ranging from 1.70% per annum ("p.a.") to 6.18% p.a. (31 December 2019: carry interest rate ranging from 2.06% p.a. to 6.18% p.a.).

## BUSINESS REVIEW

The Group is a world-leading solution provider of high-precision components for smart mobile communications and consumer electronics products, and provides customers with one-stop solutions from product design, technological R&D to manufacturing. Its products cover handsets, smart electrical appliances, automotive, household and sports goods and network communications facilities.

Despite the inevitable impacts affected by the Pandemic during the Period, the Group still recorded revenue amounting to HK\$3,990.3 million, an increase of 2.1% from HK\$3,908.9 million compared with the same period last year. However, as the expected product upgrade was delayed during the Period and the existing products encountered keen competition, gross profit margin of the Group decreased to 15.2%. In addition, the Group recorded a net exchange loss of HK\$11.2 million during the Period (a net exchange gain of HK\$85.6 million was recorded in the same period last year), leading the net profit attributable to owners of the Company decreased by 90.8% during the Period, from HK\$315.8 million in the same period last year to HK\$29.0 million during the Period.

### Handset Casings and High-precision Components

This segment primarily comprises various handset casings, waterproof/dustproof/shockproof (“tri-proof”) high-precision components, high-precision insert molding parts and high-precision rubber molding parts. This segment recorded an increase of 10.3% in turnover from HK\$2,856.2 million in the same period last year to HK\$3,149.3 million, representing 78.9% of the Group’s total turnover.

The global shipment volume for handsets recorded a year-on-year decline due to the impacts of the Pandemic during the Period. The progress of launching new products by various handset brands was therefore being affected and the expected product upgrade was also delayed accordingly. Despite the fierce competition, the main products developed by the Group such as 2.5D, 3D and uni-body Glastic casings are quickly adopted by various models of smartphone brands so that there was still growth in market shares by the Group during the Period. At the same time, the Group provides 2.5D/3D glass back covers and metal middle frames in order to meet the demand for different price ranges in the market.

As for the high-precision components, the unit prices and gross profit margin of the order were under short-term pressure due to the lack of obvious upgrade in high-precision components provided by the Group for new handset models of international customers and the impacts of the Pandemic on the downstream assembly process during the Period.

### **Smart Electrical Appliances Casings**

This segment primarily engages in the production of control panels, metal accessories and casings for high-end electrical appliances for Chinese and international brands. During the Period, as the Group continued to restructure its resources and reduced the order with lengthy turnover period of capital, the sales of that business decreased by 21.7% from HK\$342.5 million in the same period last year to HK\$268.1 million, representing 6.7% of the total turnover.

### **Household and Sports Goods**

The Group primarily supplies durable household goods, household utensils, sports goods and healthcare goods to sizable European and American brands. Given the impacts of the Pandemic, customer orders were delayed. Sales of this division decreased by 11.5% from HK\$327.8 million in the same period last year to HK\$290.0 million during the Period, representing 7.3% of the total turnover. The Group has announced the possible spin-off of that business and separate listing on the ChiNext Board of the Shenzhen Stock Exchange.

### **Network Communications Facilities and Others**

During the Period, segment revenue decreased by 26.0% from HK\$382.4 million in the same period last year to HK\$282.9 million, representing 7.1% of the turnover. The Group mainly produces casings of set-top boxes and routers as well as automotive interior decorations. During the Period, the automotive market was weak due to the impacts of the Pandemic, which affected the automotive business of the Group.

The proportion of total revenue by product categories for the Period and a comparison with the same period last year are as follows:

	<b>2020</b>	2019
i. Handset casings and high-precision components	<b>78.9%</b>	73.1%
ii. Smart electrical appliances casings	<b>6.7%</b>	8.7%
iii. Household and sports goods	<b>7.3%</b>	8.4%
iv. Network communications facilities and others	<b>7.1%</b>	9.8%

## Prospects

As global economic activities gradually resume to normal operations, the Group expects demand in the handset market to be recovering steadily as a result of the revitalising consumption power driven by the gradual lifting of lockdowns in various countries. Since the introduction of 5G handsets to China's handset market in 2019, dozens of 5G handset models have been competing in the market after the launch of a series of joint promotion by telecommunication companies and handset brands. Though 5G handsets are still at their beginning stage in the global market, and the progress of the roll out of 5G base station still requires further observation, it is expected that 5G handsets will continue to be the highlight of growth in the market in the coming two to three years. While the market expects that the shipment volume of 5G handsets can increase swiftly, there will also be potential upgrades of conceptual design for the Group's casings from 2.5D Glastic casings to the 3D and uni-body Glastic casings, thereby increasing the pricing of product mix and the profit margins.

In terms of pricing, various handset brands are still actively launching middle to low-end handsets and the marketing promotion of 5G handsets tends to highlight “4G price in exchange for 5G-enabled devices”. The Group’s new market-leading products with relatively high technological entry barriers such as 3D and uni-body Glastic casings can meet the demand for mid-range casings with “high texture and highly competitive pricing”. Given that the six largest global handset brands are already the customers of the Group, this will help the Group to increase its market share in the handset market.

The Group will continue to focus on its handset and high-precision components businesses. Apart from striving to capture handset product orders from each customer, the Group will also develop peripheral industry encompassing the production lines of its existing brands. Given that the popularity of 5G may drive the trend for the artificial intelligence industry in the long run, the Group has diversified its resources deployment for business development relating to that sector, which mainly focuses on household smart appliances and mobile appliances. The Group is aware that the international environment will be complicated and changeable in coming years. In the future, the Group will continue to focus on the R&D of new products, new sectors and the application of new materials. Meanwhile, the Group will continue to optimise its organisational structure, recruit and train talents in different fields, while engaging in sophistication of production line management and enhancement of various cost controls on and off the production lines, as well as improving automation, in order to strengthen its own competitiveness while flexibly responding to the ever-changing market conditions, and explore business opportunities.

## CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
		2020	2019
	Notes	HK\$'000	HK\$'000
REVENUE	4	<b>3,990,306</b>	3,908,942
Cost of sales		<b>(3,383,091)</b>	(3,083,099)
Gross profit		<b>607,215</b>	825,843
Other income and gains, net		<b>63,705</b>	74,607
Selling and distribution expenses		<b>(61,853)</b>	(58,534)
Administrative expenses		<b>(451,725)</b>	(427,101)
Other operating income/(expenses), net		<b>(29,653)</b>	74,495
Finance costs		<b>(88,375)</b>	(102,123)
Share of profit/(loss) of a jointly- controlled entity		<b>(1,652)</b>	928
PROFIT BEFORE TAX	5	<b>37,662</b>	388,115
Income tax expense	6	<b>(6,851)</b>	(72,113)
PROFIT FOR THE PERIOD		<b>30,811</b>	316,002
Attributable to:			
Owners of the Company		<b>29,025</b>	315,777
Non-controlling interests		<b>1,786</b>	225
		<b>30,811</b>	316,002
EARNINGS PER SHARE			
ATTRIBUTABLE TO OWNERS OF THE COMPANY	8		
– Basic		<b>HK0.45 cent</b>	HK4.87 cents
– Diluted		<b>HK0.45 cent</b>	HK4.87 cents

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
PROFIT FOR THE PERIOD	<b>30,811</b>	316,002
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(expense) that will not be reclassified to profit or loss in subsequent periods:		
Loss on property revaluation	<b>(2,424)</b>	(252)
Income tax effect	<b>343</b>	42
	<b>(2,081)</b>	(210)
Other comprehensive income/(expense) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations		
– subsidiaries	<b>(13,385)</b>	174,015
– jointly-controlled entity	<b>(136)</b>	1,701
	<b>(13,521)</b>	175,716
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD, NET OF TAX	<b>(15,602)</b>	175,506
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<b>15,209</b>	491,508
ATTRIBUTABLE TO:		
Owners of the Company	<b>13,427</b>	492,142
Non-controlling interests	<b>1,782</b>	(634)
	<b>15,209</b>	491,508



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	<b>5,361,536</b>	5,088,849
Right-of-use assets		<b>424,989</b>	410,606
Investment in a jointly-controlled entity		<b>60,193</b>	61,981
Long term deposits		<b>452,911</b>	531,145
Lease receivable		<b>8,721</b>	13,067
Deferred tax assets		<b>3,703</b>	3,703
<b>Total non-current assets</b>		<b>6,312,053</b>	6,109,351
<b>CURRENT ASSETS</b>			
Inventories	10	<b>2,001,467</b>	2,244,890
Trade and bills receivables	11	<b>2,923,360</b>	2,946,188
Prepayments, deposits and other receivables		<b>503,785</b>	545,077
Due from a jointly-controlled entity		<b>74,085</b>	65,973
Loans to a jointly-controlled entity		<b>134,576</b>	134,871
Loan receivable		<b>–</b>	3,154
Lease receivable		<b>8,216</b>	7,721
Tax recoverable		<b>2,649</b>	28,607
Pledged deposits		<b>427,307</b>	409,872
Cash and cash equivalents		<b>868,703</b>	1,077,676
<b>Total current assets</b>		<b>6,944,148</b>	7,464,029
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	12	<b>2,509,213</b>	2,948,445
Accrued liabilities and other payables		<b>414,179</b>	514,299
Interest-bearing bank and other borrowings	13	<b>2,276,885</b>	2,632,800
Lease liabilities		<b>19,776</b>	18,345
Due to a jointly-controlled entity		<b>48,939</b>	65,997
Due to a former non-controlling shareholder of a subsidiary		<b>30,034</b>	30,034
Tax payable		<b>95,212</b>	134,416
<b>Total current liabilities</b>		<b>5,394,238</b>	6,344,336

		<b>Unaudited 30 June 2020 HK\$'000</b>	Audited 31 December 2019 HK\$'000
NET CURRENT ASSETS		<b>1,549,910</b>	1,119,693
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>7,861,963</b>	7,229,044
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	13	<b>1,748,125</b>	1,117,339
Lease liabilities		<b>28,627</b>	37,827
Deferred tax liabilities		<b>90,864</b>	91,500
Total non-current liabilities		<b>1,867,616</b>	1,246,666
Net assets		<b>5,994,347</b>	5,982,378
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	14	<b>64,795</b>	64,795
Reserves		<b>5,891,491</b>	5,881,425
		<b>5,956,286</b>	5,946,220
NON-CONTROLLING INTERESTS		<b>38,061</b>	36,158
Total equity		<b>5,994,347</b>	5,982,378

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited six months ended 30 June 2020  
Attributable to owners of the Company

	Share capital HK\$'000	Share premium account HK\$'000	Share option reserve HK\$'000	Capital reserve HK\$'000	Asset revaluation reserve HK\$'000	Statutory reserve HK\$'000	Capital redemption reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2020	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
Profit for the period	-	-	-	-	-	-	-	-	29,025	29,025	1,786	30,811
Other comprehensive expense for the period:												
Loss on property revaluation, net of tax	-	-	-	-	(2,081)	-	-	-	-	(2,081)	-	(2,081)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(13,517)	-	(13,517)	(4)	(13,521)
Total comprehensive income for the period	-	-	-	-	(2,081)	-	-	(13,517)	29,025	13,427	1,782	15,209
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	(121)	(121)	121	-
Final 2019 dividend declared (note 7)	-	(3,240)	-	-	-	-	-	-	-	(3,240)	-	(3,240)
At 30 June 2020	64,795	1,060,037*	30,781*	(198,832)*	40,654*	430,335*	884*	(570,109)*	5,097,741*	5,956,286	38,061	5,994,347

Unaudited six months ended 30 June 2019  
Attributable to owners of the Company

	Share capital HK\$'000	Share premium account HK\$'000	Share option reserve HK\$'000	Capital reserve HK\$'000	Asset revaluation reserve HK\$'000	Statutory reserve HK\$'000	Capital redemption reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2019	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 on adoption of HKFRS 16	-	-	-	-	-	-	-	-	(2,294)	(2,294)	-	(2,294)
Restated total equity at 1 January 2019	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 period	-	-	-	-	-	-	-	-	315,777	315,777	225	316,002
Other comprehensive income/(expense) for the period:												
Loss on property revaluation, net of tax	-	-	-	-	(210)	-	-	-	-	(210)	-	(210)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	176,575	-	176,575	(859)	175,716
Total comprehensive income for the period	-	-	-	-	(210)	-	-	176,575	315,777	492,142	(634)	491,508
Final 2018 dividend declared (note 7)	-	(51,836)	-	-	-	-	-	-	-	(51,836)	-	(51,836)
At 30 June 2019	64,795	1,128,072*	30,781*	(189,106)*	42,358*	364,324*	884*	(90,383)*	5,049,104*	6,400,829	(26,294)	6,374,535

\* These reserve accounts comprise the consolidated reserves of HK\$5,891,491,000 (30 June 2019: HK\$6,336,034,000) in the consolidated statement of financial position.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
NET CASH FLOWS USED IN OPERATING ACTIVITIES	<b>(46,413)</b>	(109,427)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Interest received	<b>5,770</b>	4,986
Purchases of items of property, plant and equipment	<b>(150,598)</b>	(223,784)
Payments of right-of-use assets	<b>(26,601)</b>	–
Proceeds from disposal of items of property, plant and equipment	<b>1,326</b>	14,041
Increase in loans to a jointly-controlled entity	<b>–</b>	(3,782)
Decrease in a loan receivable	<b>3,154</b>	–
Increase in long term deposits	<b>(239,895)</b>	(117,532)
Decrease/(increase) in pledged deposits	<b>(17,435)</b>	160,931
NET CASH FLOWS USED IN INVESTING ACTIVITIES	<b>(424,279)</b>	(165,140)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	<b>2,265,954</b>	2,109,543
Repayment of bank loans	<b>(1,991,083)</b>	(1,830,817)
Principal elements of lease payments	<b>(9,394)</b>	(5,538)
Dividends paid (note 7)	<b>(3,240)</b>	(51,836)
NET CASH FLOWS FROM FINANCING ACTIVITIES	<b>262,237</b>	221,352

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
NET DECREASE IN CASH AND CASH EQUIVALENTS	<b>(208,455)</b>	(53,215)
Cash and cash equivalents at beginning of period	<b>1,077,676</b>	768,404
Effect of foreign exchange rate changes, net	<b>(518)</b>	51,410
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>868,703</b>	766,599
 <b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents as stated in the condensed consolidated statement of financial position and condensed consolidated statement of cash flows	<b>868,703</b>	766,599

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

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 2681 GT, George Town, Grand Cayman, Cayman Islands.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are manufacture and sale of components of handset casings and high-precision components, smart electrical appliances casings, household and sports goods and network communications facilities and others. There were no significant changes in the nature of the subsidiaries' principal activities during the Period.

## 2. BASIS OF PRESENTATION

The unaudited condensed consolidated interim financial statements (the "Interim Financial Statements") have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standards ("HKASs") No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 31 December 2019.

### 3. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 3	<i>Definition of Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

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



#### 4. OPERATING SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by reportable and operating segments:

	Unaudited six months ended 30 June									
	Handset casings and high-precision components		Smart electrical appliances casings		Household and sports goods		Network communications facilities and others		Consolidated	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment revenue:</b>										
Sales to external customers	3,149,336	2,856,176	268,094	342,517	289,966	327,843	282,910	382,406	3,990,306	3,908,942
Segment results before depreciation	317,202	552,507	(20,407)	26,592	38,583	56,140	20,706	42,714	356,084	677,953
Depreciation of property, plant and equipment	(197,294)	(177,757)	(17,655)	(20,385)	(11,872)	(7,677)	(39,618)	(35,029)	(266,439)	(240,848)
Depreciation of right-of-use assets	(6,855)	(2,441)	(816)	(1,809)	(693)	-	(4,293)	(5,832)	(12,657)	(10,082)
<b>Segment results</b>	<b>113,053</b>	<b>372,309</b>	<b>(38,878)</b>	<b>4,398</b>	<b>26,018</b>	<b>48,463</b>	<b>(23,205)</b>	<b>1,853</b>	<b>76,988</b>	<b>427,023</b>
Unallocated income									63,705	74,607
Corporate and other unallocated expenses									(14,313)	(13,312)
Finance costs (other than interest expenses on lease liabilities)									(87,066)	(101,131)
Share of profit/(loss) of a jointly-controlled entity									(1,652)	928
Profit before tax									37,662	388,115
Income tax expense									(6,851)	(72,113)
<b>Profit for the period</b>									<b>30,811</b>	<b>316,002</b>

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

	Unaudited 30 June 2020				Consolidated HK\$'000
	Handset casings and high-precision components HK\$'000	Smart electrical appliances casings HK\$'000	Household and sports goods HK\$'000	Network communications facilities and others HK\$'000	
Segment assets	8,085,151	848,380	524,863	2,226,592	11,684,986
Unallocated assets					1,571,215
Total assets					13,256,201
Segment liabilities	2,278,926	194,488	171,291	327,091	2,971,796
Unallocated liabilities					4,290,058
Total liabilities					7,261,854
	31 December 2019				Consolidated HK\$'000
	Handset casings and high-precision components HK\$'000	Smart electrical appliances casings HK\$'000	Household and sports goods HK\$'000	Network communications facilities and others HK\$'000	
Segment assets	8,134,648	924,907	577,909	2,150,079	11,787,543
Unallocated assets					1,785,837
Total assets					13,573,380
Segment liabilities	2,773,735	223,312	210,744	311,125	3,518,916
Unallocated liabilities					4,072,086
Total liabilities					7,591,002

## Geographical information

During the Period, 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 current period's presentation.

The following table presents unaudited revenue for the Group's geographical information for the six months ended 30 June 2020 and 2019.

	Unaudited six months ended 30 June									
	PRC*		Asia Pacific (excluding PRC)		United States		Others		Consolidated	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from customers										
Segment revenue:										
Sales to external customers <sup>#</sup>	<b>3,300,014</b>	3,059,191	<b>426,111</b>	651,075	<b>92,027</b>	84,891	<b>172,154</b>	113,785	<b>3,990,306</b>	3,908,942

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.

## Information about major customers

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

	Unaudited	
	Six months ended 30 June 2020	2019
	HK\$'000	HK\$'000
Customer A	<b>1,609,921</b>	1,262,520
Customer B	<b>N/A*</b>	560,949
Customer C	<b>398,228</b>	407,687
	<b>2,008,149</b>	2,231,156

Revenues from Customer A, B and C 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.

\* Revenue from Customer B individually accounted for less than 10% of the total revenue of the Group for the six months ended 30 June 2020.

## 5. PROFIT BEFORE TAX

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
Depreciation of property, plant and equipment	<b>266,439</b>	240,848
Depreciation of right-of-use assets	<b>12,657</b>	10,082
Research and development costs	<b>202,279</b>	171,236
Salaries and wages	<b>845,012</b>	944,419
Impairment of trade receivables	<b>17,479</b>	8,435
Write-back of impairment of trade receivables	<b>(70)</b>	(1,197)
Provision against obsolete inventories	<b>1,869</b>	13,081
Foreign exchange differences, net	<b>11,180</b>	(85,562)
Loss on disposal of items of property, plant and equipment	<b>196</b>	72
Interest income	<b>(4,424)</b>	(3,546)

## 6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the Period, except for the Company which is a qualifying entity under the two-tier profits tax rates regime effective from the year of assessment 2018/2019. The first HK\$2,000,000 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.

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

During the six months ended 30 June 2020, 福建省石獅市通達電器有限公司 (Tongda Electrics Company Limited, Shishi City, Fujian), 通達(廈門)科技有限公司 (Tongda (Xiamen) Technology Limited), 深圳通達電子有限公司 (Shenzhen Tongda Electronic Company Limited), 通達創智(廈門)股份有限公司 (Tongda Smart Tech (Xiamen) Co., LTD) (previously named as "廈門市通達創智實業有限公司 (Tongda (Xiamen) Smart Tech Industry Company Limited)"), 通達(廈門)精密橡膠有限公司 (Tongda (Xiamen) Elastomers Company Limited) 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.

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
Current – Hong Kong		
Charge for the period	<b>4,740</b>	13,003
Under/(overprovision) in prior years	<b>(13,242)</b>	5
	<b>(8,502)</b>	13,008
Current – Elsewhere	<b>15,646</b>	56,549
Deferred	<b>(293)</b>	2,556
<b>Total tax charge for the period</b>	<b>6,851</b>	72,113

## 7. DIVIDENDS

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
Dividends paid during the period:		
Final dividend declared of HK0.05 cent per ordinary share in respect of the financial year ended 31 December 2019 (2019: final dividend declared and paid in respect of the financial year ended 31 December 2018–HK0.8 cent per ordinary share)	<b>3,240</b>	51,836

At the board meeting held on 20 August 2020, the Board did not recommend the payment of any interim dividend for the Period (six months ended 30 June 2019: declared and approved an interim dividend of HK1.0 cent per ordinary share totalling HK\$64,795,000).

## 8. EARNINGS PER SHARE

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
Earnings:		
Profit for the period attributable to owners of the Company used in the basic and diluted earnings per share calculation	<b>29,025</b>	315,777
	<b>'000</b>	'000
Number of shares:		
Number of ordinary shares for the purpose of basic and diluted earnings per share	<b>6,479,505</b>	6,479,505

## 9. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired property, plant and equipment of approximately HK\$552,748,000 (30 June 2019: HK\$570,182,000). In addition, the Group disposed of certain items of property, plant and equipment with a carrying amount of approximately HK\$1,522,000 (30 June 2019: HK\$14,113,000) for proceeds of approximately HK\$1,326,000 (30 June 2019: HK\$14,041,000).

At 30 June 2020, 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\$51,000,000 (31 December 2019: HK\$53,500,000). 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.

A revaluation loss of HK\$2,424,000 (30 June 2019: loss of HK\$252,000), resulting from the above valuation, has been debited to asset revaluation reserve. The resulting decrease in deferred tax liability of HK\$343,000 (30 June 2019: decrease in deferred tax liability of HK\$42,000) arising from the revaluation has also been credited in the asset revaluation reserve.

The Group's leasehold building and the related right-of-use asset situated in Hong Kong with a net carrying amount of HK\$51,000,000 (31 December 2019: HK\$53,500,000) were pledged to secure bank loans granted to the Group.



## 10. INVENTORIES

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>468,623</b>	557,946
Work in progress	<b>454,080</b>	524,918
Finished goods	<b>1,078,764</b>	1,162,026
	<b>2,001,467</b>	2,244,890

As at 30 June 2020, moulds of HK\$458,131,000 (31 December 2019: HK\$448,733,000) are included in the finished goods.

## 11. TRADE AND BILLS RECEIVABLES

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
Trade receivables	<b>2,849,754</b>	2,898,369
Impairment allowances	<b>(52,520)</b>	(38,371)
	<b>2,797,234</b>	2,859,998
Bills receivables	<b>126,126</b>	86,190
	<b>2,923,360</b>	2,946,188

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 reporting period, 39.4% (31 December 2019: 32.2%) and 60.9% (31 December 2019: 53.8%) of the total trade and bills receivables were due from the Group's largest customer and the five largest customers, respectively.

The following is an analysis of trade and bills receivables by age, presented based on the invoice date:

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
Within 3 months	<b>2,746,879</b>	2,733,957
4 to 6 months, inclusive	<b>155,977</b>	183,509
7 to 9 months, inclusive	<b>16,657</b>	12,816
10 to 12 months, inclusive	<b>2,642</b>	9,422
More than 1 year	<b>53,725</b>	44,855
	<b>2,975,880</b>	2,984,559
Impairment allowances	<b>(52,520)</b>	(38,371)
	<b>2,923,360</b>	2,946,188

## 12. TRADE AND BILLS PAYABLES

	<b>Unaudited</b> <b>30 June</b> <b>2020</b> <b>HK\$'000</b>	Audited 31 December 2019 HK\$'000
Trade payables	<b>1,187,176</b>	1,611,979
Bills payable	<b>1,322,037</b>	1,336,466
	<b>2,509,213</b>	2,948,445

The trade payables are non-interest bearing and are normally settled on 60 to 90 days terms. The following is an analysis of trade and bills payables by age, presented based on the invoice date:

	<b>Unaudited</b> <b>30 June</b> <b>2020</b> <b>HK\$'000</b>	Audited 31 December 2019 HK\$'000
Within 3 months	<b>1,809,450</b>	2,240,609
4 to 6 months, inclusive	<b>622,293</b>	665,114
7 to 9 months, inclusive	<b>26,380</b>	17,345
10 to 12 months, inclusive	<b>14,266</b>	6,466
More than 1 year	<b>36,824</b>	18,911
	<b>2,509,213</b>	2,948,445

### 13. INTEREST-BEARING BANK AND OTHER BORROWINGS

During the six months ended 30 June 2020, the Group repaid bank and other borrowings of approximately HK\$1,991,083,000 (30 June 2019: HK\$1,830,817,000) and raised new bank and other borrowings of approximately HK\$2,265,954,000 (30 June 2019: HK\$2,109,543,000).

### 14. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each, authorised:		
Balance at 1 January 2019,		
31 December 2019, 1 January 2020		
and 30 June 2020	20,000,000,000	200,000
Ordinary shares of HK\$0.01 each, issued and fully paid:		
At 1 January 2019, 31 December 2019,		
1 January 2020 and 30 June 2020	6,479,505,097	64,795

## 15. SHARE OPTION SCHEMES

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 25 June 2013 for the primary purpose of providing incentives or rewards to the selected eligible participants who contribute to the success of the Group's operations, and will expire on 24 June 2023. Details of the Scheme were disclosed in the consolidated financial statements for the year ended 31 December 2019.

The table below discloses movement of the Company's share options held by the Group's employees and directors:

	<b>Number of share options</b> '000
Outstanding as at 1 January 2019	58,000
Exercised during the year	–
<hr/>	
Balance at 31 December 2019	58,000
Exercised during the period	–
<hr/>	
Outstanding as at 30 June 2020	58,000

Details of specific categories of options are as follows:

Options	Date of grant	Number of share options outstanding as at the end of the reporting period	Vesting period	Exercise period	Exercise Price
September 2016	9/9/2016	14,200,000	9/9/2016-8/9/2017	9/9/2017-8/9/2020	HK\$1.80
		43,800,000	9/9/2016-8/9/2018	9/9/2018-8/9/2020	HK\$1.80

The Group did not recognise any expense for the six months ended 30 June 2020 (six months ended 30 June 2019: nil) in relation to the share options granted by the Company.

## 16. COMMITMENTS

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

	<b>Unaudited 30 June 2020 HK\$'000</b>	Audited 31 December 2019 HK\$'000
Contracted for commitments in respect of		
– Purchases of property, plant and equipment	<b>139,387</b>	226,626
– Construction of leasehold buildings in Mainland China	<b>39,234</b>	–
	<b>178,621</b>	226,626

## 17. RELATED PARTIES TRANSACTIONS

In addition to the transactions detailed elsewhere in these condensed consolidated interim financial statements, the Group had the following material transactions with related parties during the period.

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
	Notes	<b>2020</b>	2019
		<b>HK\$'000</b>	HK\$'000
Related companies controlled by directors of the Company:			
Rental income	(i)	<b>84</b>	84
Rental expense	(ii)	–	2,321
A jointly-controlled entity:			
Management fee and utility charges	(iii)	<b>3,521</b>	3,472
Subcontracting fee	(iv)	<b>111,012</b>	147,321
Interest income	(v)	<b>1,346</b>	1,440

Notes:

- (i) 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 period ended 30 June 2020 (2019: HK\$11,000) by reference to a lease agreement entered into by the related company and the Group on 8 February 2018.
- (ii) 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. Right-of-use asset of HK\$15,426,000 (31 December 2019: HK\$17,178,000) and lease liability of HK\$14,024,000 (31 December 2019: HK\$15,626,000) were recognised in respect of such lease at 30 June 2020. During the period ended 30 June 2020, depreciation of right-of-use asset of HK\$1,714,000 and interest expense on lease liability of HK\$386,000 were charged to the consolidated statement of profit or loss.
- (iii) 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 period ended 30 June 2020 and the related utility charges.
- (iv) The subcontracting fee to a jointly-controlled entity was made on a basis mutually agreed by both parties.
- (v) The interest income was charged at 2% per annum on the loan balances to the jointly-controlled entity.



## 18. FAIR VALUE AND FAIR VALUE HIERARCHY

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 methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, amounts due from a jointly-controlled entity, loan receivable, loans to a jointly-controlled entity, financial assets included in prepayments, deposits and other receivables, financial liabilities included in accrued liabilities and other payables, trade and bills payables, amounts due to a jointly-controlled entity and a former non-controlling shareholder of a subsidiary and interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

### Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

- Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

During the six months ended 30 June 2020, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

## 19. 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:

	<b>Unaudited 30 June 2020</b>		
	<b>Trade receivables</b>	<b>Bills receivable</b>	<b>Total</b>
	<b>Note (a)</b>	<b>Notes (b) and (c)</b>	
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Carrying amount of assets that continued to be recognised	-	<b>104,898</b>	<b>104,898</b>
Carrying amount of associated liabilities	-	<b>104,898</b>	<b>104,898</b>

	Audited 31 December 2019		
	Trade receivables	Bills receivable Notes (b) and (c)	Total
	Note (a) HK\$'000	HK\$'000	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

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 30 June 2020 was nil (31 December 2019: HK\$23,030,000). The carrying amount of the assets that the Group continued to recognise as at 30 June 2020 was nil (31 December 2019: HK\$23,030,000) and that of the associated liabilities as at 30 June 2020 was nil (31 December 2019: HK\$20,727,000).

**(b) Discounting of bills receivable**

At 30 June 2020, the Group discounted certain bills receivable (the “Discounted Bills”) with a carrying amount of HK\$77,441,000 (31 December 2019: HK\$22,005,000) to certain local banks 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\$77,441,000 as at 30 June 2020 (31 December 2019: HK\$22,005,000).

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

At 30 June 2020, 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\$27,457,000 (31 December 2019: HK\$37,504,000) 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 period to which the suppliers have recourse was HK\$27,457,000 (31 December 2019: HK\$37,504,000) as at 30 June 2020.

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

**(a) Discounting of bills receivable**

At 30 June 2020, the Group discounted certain bills receivable (the “Derecognised Discounted Bills”) with a carrying amount of HK\$125,126,000 (31 December 2019: HK\$185,587,000) 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 equal to their carrying amounts of HK\$125,126,000 (31 December 2019: HK\$185,587,000). 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 maturity period from three to six months.

During the period, 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 period or cumulatively. The discounting of bills has been made evenly throughout the period.

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

At 30 June 2020, 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\$120,368,000 (31 December 2019: HK\$192,274,000). The Derecognised Endorsed Bills have a maturity from one to seven 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 period, 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 period or cumulatively. The Endorsement has been made evenly throughout the period.

## **20. COMPARATIVE AMOUNTS**

During the Period under Review, certain comparative amounts have been reclassified to conform with the current period’s presentation of the financial statements.

## **21. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS**

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 20 August 2020.

## SUPPLEMENTARY INFORMATION

### INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the Period (2019: declared an interim dividend of HK1.0 cent per ordinary share).

### DIRECTORS' INTEREST AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2020, the interests 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

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	Notes		
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
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

Notes:

1. 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”).
2. 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.
3. The percentages have been compiled based on the total number of issued shares (i.e. 6,479,505,097 shares) as at 30 June 2020.

Save as disclosed above, as at 30 June 2020 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 Companies.

## **DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Apart from as disclosed in the section headed “share option scheme” below, at no time during the Period 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 spouse 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**

The Company operates a share option scheme (“Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include all executive directors and any fulltime employee of the Company or any of its subsidiaries and any suppliers, consultants or advisers who will provide or have provided services to the Group.



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

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 2020	Granted during the period	Exercised during the period	At 30 June 2020
<b>Directors</b>								
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. Hui Wai Man	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 (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

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 30 June 2020
					At 1 January 2020	Granted during the period	Exercised during the period	
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
Mr. Ting Leung Huel Stephen, MH	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
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
<b>Other employees</b>								
In aggregate	9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	7,700,000	-	-	7,700,000
		9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	32,300,000	-	-	32,300,000
					58,000,000	-	-	58,000,000

\* The vesting period of the share options is from the date of the 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.

At the date of approval of these interim financial statements, the Company had 58,000,000 share options outstanding under the Scheme, which represented approximately 0.90% of the Company's share in issue as at that date.

## SUBSTANTIAL SHAREHOLDERS

At 30 June 2020, the interests and short positions of the substantial shareholders, other than directors or chief executives of the Company, in the shares of the Company as recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO are set out below:

Long positions and short positions in the ordinary shares of the Company:

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

L: Long position

S: Short position

1. 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 30 June 2020, the Company had not been notified by any substantial shareholders other than directors or chief executives of the Company, who had interests or short positions in the shares of the Company as recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company during the Period.

## CORPORATE GOVERNANCE

The Company has complied with all the applicable code provisions of the Corporate Governance Code (the “CG Code”) set out in Appendix 14 of the Listing Rules, throughout the Period, except for the deviations as mentioned below.

The independent non-executive Directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company’s Articles of Association.

Code provision A.2.1 of the CG Code states that the roles of chairman and chief executive should be separated and should not be performed by the same individual. The Company does not have a separate chairman and chief executive and Mr. Wang Ya Nan currently holds both positions. The Board believes that vesting the roles of both chairman and chief executive 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 current structure is considered to be the most appropriate under specific circumstances.

## AUDIT COMMITTEE

The audit committee of the Company (the “AC”) comprises three independent non-executive Directors and one non-executive Director, Mr. Ting Leung Huel Stephen (“Mr. Ting”), Dr. Yu Sun Say, Mr. Cheung Wah Fung, Christopher and Ms. Chan Sze Man. Mr. Ting takes the chair of the AC. The term 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 CG Code. The AC provides accounting and financial advices and recommendations to the Board as well as monitor and safeguard the independence of external auditors and relevant auditing matters. Also, the AC is responsible for reviewing and supervising the risk management and internal control system of the Group.

The AC had reviewed the unaudited interim results of the Group for the Period prior to the submission to the Board for approval.

## MODEL CODE OF SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry of all Directors that they have fully complied with the required standard set out in the Model Code throughout the Period.

## EVENTS AFTER THE REPORTING PERIOD

There were no significant events affecting the Company nor any of its subsidiaries after the end of the financial period requiring disclosure in this report.

## BOARD OF DIRECTORS

As at the date of this report, the Board comprises Mr. Wang Ya Nan, Mr. Wang Hung Man, Mr. Wong Ming Sik, Mr. Wong Ming Yuet and Mr. Hui Wai Man as executive Directors; Ms. Chan Sze Man as non-executive Director; and Dr. Yu Sun Say, GBM, GBS, SBS, JP, Mr. Cheung Wah Fung, Christopher, SBS, JP and Mr. Ting Leung Huel Stephen, MH as independent non-executive Directors.

On behalf of the Board

**Tongda Group Holdings Limited**

**Wang Ya Nan**

*Chairman*

Hong Kong, 20 August 2020