通達宏泰
TONGDA HONG TAI

TONGDA HONG TAI HOLDINGS LIMITED

2020 Annual Report

Incorporated in the Cayman Islands with limited liability

Stock Code: 2363

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Wong Ming Li *(Chief Executive Officer)*
Mr. Wong Ah Yu
Mr. Wang Ming Zhi

Non-executive Director
Mr. Wang Ya Nan *(Chairman)*

Independent Non-executive Directors
Ms. Leung Pik Kwan
Mr. Sun Wai Hong
Mr. Wu Kin San Alfred

AUDIT COMMITTEE

Ms. Leung Pik Kwan *(Chairman)*
Mr. Sun Wai Hong
Mr. Wu Kin San Alfred

REMUNERATION COMMITTEE

Ms. Leung Pik Kwan *(Chairman)*
Mr. Sun Wai Hong
Mr. Wu Kin San Alfred

NOMINATION COMMITTEE

Mr. Wang Ya Nan *(Chairman)*
Ms. Leung Pik Kwan
Mr. Sun Wai Hong
Mr. Wu Kin San Alfred

COMPANY SECRETARY

Mr. Chan Paan Paan
(Resigned on 7 February 2020)
Mr. Tam Hei Lap, Hedley
(Appointed on 7 February 2020)

AUDITOR

Ernst & Young
Registered Public Interest Entity Auditor

AUTHORISED REPRESENTATIVES

Mr. Wang Ya Nan
Mr. Wong Ming Li

PRINCIPAL BANKERS

In Hong Kong:
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited

In the PRC:
HSBC Bank (China) Company Limited Changshu Sub-Branch
United Overseas Bank (China) Limited Suzhou Branch
China Construction Bank Changshu Branch
Shanghai Pudong Development Bank Changshu Branch

LEGAL ADVISERS

As to Hong Kong laws:
Michael Li & Co.

As to PRC laws:
Winhand Law Firm

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

REGISTERED OFFICE

Cricket Square, Hutchins Drive
PO Box 2681, Grand Cayman, KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Shui On Centre
6–8 Harbour Road
Wanchai, Hong Kong
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Fax: (852) 3585 2822
Website: http://www.tongdahongtai.com
Email: info@tongdahongtai.com

LISTING INFORMATION

Listed on the Hong Kong Stock Exchange (Main Board)
Stock short name: Tongda Hong Tai
Stock code: 2363
Board lot: 2,500 shares
Listing date: 16 March 2018 (the “Listing Date”)

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

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681, Grand Cayman KY1-1111
Cayman Islands

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of Tongda Hong Tai Holdings Limited (the "Company"), I hereby present the annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2020 (the "Year").

The results of the Year of the Group was not satisfactory. The Group's operation was adversely affected by the outbreak of the Covid-19 pandemic during the beginning of the Year which reduced the Group's sales volume. In addition, the average sales price of the Group's product remained under pressure had further decreased the gross profit of the Group during the Year.

Furthermore, the provision of inventories and the impairments of property, plant and equipment and the right-of-use assets had escalated the loss of the Group. As a result, the Group recorded net loss attributable to the equity holders of the Company of HK$165.3 million during the Year.

For the next year, in view of the increased demand from the increasing trends of remote working, study and household. The management of the Group expects the business will be benefited from the increased market size from the surging demand of notebooks and chromebooks.

ACKNOWLEDGEMENT

The Group's success greatly depends on the efforts made by all staff members and the management team. I would like to hereby express my sincere gratitude on behalf of the Board for their dedication and valuable contributions during the past year. We will also seek to work with our shareholders and customers in formulating our business plans and business strategies in order to enhance the development and long term growth potential of the Group.

Management Discussion and Analysis

BUSINESS REVIEW

The Group is a "one-stop" manufacturing solution provider of casings for notebooks and other accessories. During the Year, sales of notebook casings continued to account for the largest proportion of the Group's total sales at approximately 97.5% (2019: 98.8%).

The Group's business for the Year was inevitably impacted by the outbreak of the Covid-19 pandemic, the quarantine measures imposed by the Government authorities during the early phase of the Covid-19 outbreak substantially disrupted the operation of the Group. Experienced staffs faced various difficulties and safety concerns in returning to the Group's manufacturing base in Changshu especially after Chinese New Year which resulted in a temporary labor shortfall.

The Group's average sales price remained under pressure in comparison to previous year, and sales volume plummeted due to the aforementioned reasons. Furthermore, the appreciation of RMB to USD during the second half of the year further eroded the gross profit of the Group and the Group's net loss for the year was further increased as a result.

BUSINESS PROSPECTS

In light of the economic recovery and the increasingly popular trends in more comprehensive applications of notebook from remote working, study and household, the management of the Group expects the business will eventually benefit from the surging demand of notebooks and chromebooks. On the other hand, the management of the Group strives to achieve cost reduction and enhance efficiency for the Group by reviewing, innovating and implementing improved policies and optimise the product mix in the coming year.

FINANCIAL REVIEW

The Group's total revenue decreased by approximately 11.4%, from approximately HK$532.9 million in 2019 to approximately HK$472.4 million for the Year. During the Year, the outbreak of the Covid-19 pandemic pervasively distorted the Group's operations and resulted in declined sales.

During the Year, the Group recorded a gross loss of approximately HK$17.5 million, in comparison to gross profit of approximately HK$19.9 million in previous year. The change was mainly attributable to the inventory provision amounted to approximately HK$32.6 million (2019: approximately HK$22.7 million), the average sales price of the Group's product remained similar while facing a decline in sales volume due to the disruption of the manufacturing operations during the first half of 2020 result from the Covid-19 pandemic and the continuing appreciation of RMB against USD also further eroded the gross profit margin of the Group.

The Group's selling and distribution expenses decreased by approximately 10.8%, from approximately HK$10.2 million in 2019 to approximately HK$9.1 million for the Year, and was primarily due to the lockdown from the outbreak of Covid-19 pandemic which led to the decline of sales volume and hence reduced the freight logistics activities of the Group's products during the Year.

The Group's general and administrative expenses remained stable at approximately HK$65.5 million for the Year (2019: approximately HK$64.9 million).

The Group's finance costs reduced by approximately 31.2%, from approximately HK$15.4 million in 2019 to approximately HK$10.6 million for the Year. The decrease in finance costs was mainly attributable to the decreased average bank borrowings during the Year.

The Group's other income increased by approximately 11.1%, from approximately HK$1.8 million in 2019 to approximately HK$2.0 million for the Year. The increase was due to the increase in the government grants received during the Year.

The Group recorded net other operating expenses of approximately HK$64.6 million during the Year, in comparison to net other operating income of approximately HK$0.7 million in 2019. The change was mainly contributed by the impairment of property, plant and equipment amounted to approximately HK$52.5 million, the impairment of right-of-use assets amounted to approximately HK$5.7 million during the Year and the exchange loss recognised for the Year amounted to approximately HK$5.8 million (2019: gain of HK$1.4 million).

As a result of the foregoing, the Group's loss for the Year attributable to equity holders of the Company amounted to approximately HK$165.3 million, as compared with a loss of approximately HK$68.1 million in 2019. Basic loss per share attributable to equity holders of the Company was approximately HK87.39 cents for the Year as compared with basic loss per share attributable to equity holders of the Company of approximately HK36.02 cents in 2019.

The Group's inventory turnover days increased to approximately 260.8 days for the Year as compared to approximately 251.7 days for 2019.

The Group's trade and bills receivables turnover days increased from approximately 185.3 days for the year ended 31 December 2019 to approximately 193.7 days for the Year. The increase was contributed by the lower sales were recognised during the early phase of Covid-19 outbreak at the beginning of the Year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2020, the Group had cash and bank balances of HK$34.9 million (2019: HK$24.7 million), which were denominated in USD, HK$ and RMB.

As at 31 December 2020, the Group had restricted bank balances of HK$2.3 million (2019: HK$6.5 million).

As at 31 December 2020, the Group had interest-bearing bank borrowings payable within one year of HK$194.6 million (2019: HK$282.3 million).

As at 31 December 2020, the Group had no interest-bearing bank borrowings payable more than one year (2019: Nil).

As at 31 December 2020, the Group had interest-bearing loans from a related party of HK$45.4 million (2019: Nil).

As at 31 December 2020, the Group had non-interest bearing loan from a related party of HK$33.0 million (2019: Nil).

Average trade and bills receivable turnover days was 193.7 days (2019: 185.3 days).

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one to four months. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Average inventory turnover days was 260.8 days (2019: 251.7 days). Overall, the current ratio of the Group was 1.25 as at 31 December 2020 (2019: 1.45).

As at 31 December 2020, the gearing ratio was 163.8% (2019: 84.0%).

Gearing ratio is calculated based on total borrowings (i.e. bank borrowings and loans from related parties) less total cash and bank balances (including restricted bank balances) divided by total equity attributable to equity holders of the Company as at year-end date and expressed as a percentage.

Following the listing on the Main Board of The Stock Exchange of Hong Long Limited (the "Stock Exchange") on 16 March 2018 (the "Listing"), the Group's operations were mainly financed by internal resources including but not limited to existing cash and cash equivalents, cash flow from its operating activities, the net proceeds generated from the Listing, bank borrowings and loan from related parties. The Board believes that the Group's liquidity needs will be satisfied.

CAPITAL EXPENDITURE

The Group incurred capital expenditure of approximately HK$9.6 million during the Year (2019: HK$21.1 million), which was mainly for the additions and expansions of property, plant and equipment. Management believes that the Group's ability to invest in capital expenditure in timely anticipation of demand is a competitive advantage of the Group. In the foreseeable future, a higher proportion of capital expenditure will likely be focused on resources for moulding machine development, production equipment and automation equipment.

FOREIGN EXCHANGE

Given the increasingly international nature of our operations and business coverage, 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 as at 31 December 2020.

SIGNIFICANT INVESTMENTS HELD

The Group had not held any significant investments during the Year.

MATERIAL ACQUISITIONS AND DISPOSALS

During the Year, the Group did not have any material acquisitions and disposal of subsidiaries, associates and joint ventures.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant contingent liabilities (2019: Nil).

EMPLOYEE INFORMATION

As at 31 December 2020, the Group employed a total of 719 permanent employees, who are mainly employees in production department, down from 916 as at 31 December 2019. Employees of the Group are remunerated based on their individual performance, professional qualifications, experience in the industry and relevant market trends. The 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. Our employees in Hong Kong participate in the mandatory provident fund scheme. Details of employee's remuneration are disclosed in note 7 to the financial statements.

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, 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.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, (i) the Group's largest customer and five largest customers accounted for approximately 33.8% and 91.3% respectively of the Group's total revenue; and (ii) the Group's largest supplier and five largest suppliers accounted for approximately 5.1% and 22.3% 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 (the "Shareholders") of the Company who owned more than 5% of the Company's share capital had any interest in the five largest customers or suppliers of the Group.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wong Ming Li (王明利), aged 39, is an executive Director and the chief executive officer (the "CEO") of the Group. He is responsible for overall strategic directions and business operations of the Group. He has been the general manager of Tongda HT Technology (Suzhou) Company Limited ("Tongda Suzhou"), a subsidiary of the Company, since May 2010 and was re-designated as an executive Director on 21 March 2016 and appointed as the CEO on 24 September 2018. He was employed by Tongda Electrics Company Limited, Shishi City, Fujian Province ("Tongda Shishi"), a subsidiary of Tongda Group Holdings Limited ("Tongda"), a company listed on the Main Board of the Stock Exchange (stock code: 698), as a manager of the procurement department from September 2007 to May 2010. Tongda Shishi principally manufactures and sells casings and accessories for handsets and electrical appliance products and Mr. Wong Ming Li was responsible for the overall management of the procurement cycle. He graduated from Macquarie University, Australia with a bachelor's degree of Commerce in April 2007. He has over 11 years' experience in the electronics and electrical industry. He is a son of Mr. Wong Ah Yu, an executive Director and nephew of Mr. Wang Ya Nan, a non-executive Director and the nephew of Mr. Wong Ah Yeung and Mr. Wang Ya Hua, each of whom is a substantial shareholder of the Company.

Mr. Wong Ah Yu (王亞榆), aged 68, is an executive Director. He is responsible for overall strategic directions and business operations of the Group. He has been the executive director of Tongda Suzhou since March 2010 and was re-designated as an executive Director on 19 April 2016. Mr. Wong Ah Yu has joined Tongda since December 1988 and has been an executive director of Tongda since September 2000 before completion of the Listing of the Group, and he is responsible for the overall strategic directions, financial management, human resources and administration of Tongda. He was re-designated as the non-executive director of Tongda from March 2018 to October 2019. He has over 35 years' experience in the electronics and electrical industry. He is a brother of Mr. Wang Ya Nan, a non-executive Director and father of Mr. Wong Ming Li, an executive Director and CEO. He is also the brother of Mr. Wong Ah Yeung and Mr. Wang Ya Hua, the substantial shareholders of the Company.

Mr. Wang Ming Zhi (王明志), aged 39, is an executive Director and is responsible for overall strategic directions and financial reporting of the Group. He was appointed as a financial manager of Tongda Suzhou in May 2010 and was re-designated as an executive Director on 21 March 2016. He was an accounting, financial laws and regulations teacher in Shishi Peng Shan Trade and Industrial School* (石獅鵬山工貿學校) from August 2004 to September 2006. From September 2006 to October 2009, he served as an office supervisor in Shishi Wannian Plastic Co., Ltd.* (石獅萬年塑料有限公司) which principally operates in the plastic packaging business and he was responsible for the overall human resources and administration of the company. He has held the position of leader of cost department in Tongda Shishi from October 2009 to May 2010, which he was mainly responsible for cost control, budget forecast and cost analyses of Tongda Shishi. As mentioned above, Tongda Shishi principally manufactures and sells casings and accessories for handsets and electrical appliance products. He has over 10 years' experience in the electronics and electrical industry. He obtained a bachelor's degree in Management (School of Tourism) from Fujian Agriculture and Forestry University (福建農林大學) in July 2004.

NON-EXECUTIVE DIRECTOR

Mr. Wang Ya Nan (王亞南), aged 63, is a non-executive Director, the chairman of the Board and the chairman of the nomination committee of the Company (the "Nomination Committee"). He is responsible for overall strategic directions of the Group. He is currently an executive director, the chairman and chief executive officer of Tongda. Mr. Wang Ya Nan has joined Tongda since December 1988 and has been an executive director of Tongda since September 2000, and he is mainly responsible for the overall strategic planning and business development of Tongda. He was appointed as a non-executive Director of the Group on 19 April 2016. He has over 35 years' experience in the electronics and electrical industry. He graduated with an Executive Master of Business Administration degree from Xiamen University in December 2012 and serves as a member of the Standing Committee of the Chinese People's Political Consultative Conference. He is a brother of Mr. Wong Ah Yu, an executive Director and an uncle of Mr. Wong Ming Li, an executive Director. He is also the brother of Mr. Wong Ah Yeung and Mr. Wang Ya Hua, the substantial shareholders of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Leung Pik Kwan (梁碧君), aged 42, was appointed as an independent non-executive Director on 8 February 2018. She is also the chairman of the audit committee (the "Audit Committee") and the remuneration committee (the "Remuneration Committee") of the Company and a member of the Nomination Committee. Ms. Leung is currently a certified public accountant practising as a sole proprietor and provides audit and assurance services. Ms. Leung obtained a bachelor's degree of Arts in Accountancy from the Hong Kong Polytechnic University in November 2001. Ms. Leung was admitted as a member of the HKICPA in January 2005 and a practicing member of the HKICPA since 2009.

Ms. Leung commenced her career with Deloitte Touche Tohmatsu from September 2001 to August 2006 as a staff accountant and she became a senior accountant before she left. She was a manager in KPMG from February 2007 to May 2008. During her employment with the international accounting firms, Ms. Leung was mainly involved in audit engagements of various manufacturing companies. From June 2008 to December 2010, she worked as financial controller in Kerson Technology Limited and was responsible to solve accounting issues and improve internal control. She has over 15 years of experience in accounting, auditing and financial management.

Mr. Sun Wai Hong (孫偉康), aged 35, was appointed as an independent non-executive Director on 8 February 2018. He is also a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee. Mr. Sun obtained a bachelor's degree of Professional Accountancy from Chinese University of Hong Kong in December 2007. He was admitted as a member of the HKICPA in January 2011.

Mr. Sun was previously employed by Deloitte Touche Tohmatsu from September 2007 to January 2012 and became a senior associate in audit department before he left. He worked as financial analyst at Hutchison Telecommunications (Hong Kong) Limited from February 2012 to April 2013 and then joined the working holiday scheme in Australia from April 2013 to March 2014. He worked as business consultant at Whim Consultatory Limited, a business consulting company from April 2014 to November 2014. Mr. Sun is the co-founder and has been a director of eLabs Company Limited, one of the incubatees of Hong Kong Science and Technology Park, since April 2014 up to the present. He is responsible for its strategic planning, business development, sales and marketing planning, investor and finance management, and product design.

Mr. Wu Kin San Alfred (胡健生), aged 39, was appointed as an independent non-executive Director on 8 February 2018. He is also a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee. Mr. Wu obtained a bachelor's degree of Arts in Accounting and Financial Analysis and a Master's degree of Arts in International Financial Analysis from University of Newcastle upon Tyne (currently known as Newcastle University), the United Kingdom in July 2002 and December 2003, respectively. He has been a member of the HKICPA since March 2009.

Mr. Wu has over 15 years of experience in auditing, corporate finance and investment banking. Mr. Wu worked in the audit department of Deloitte Touche Tohmatsu, from January 2004 to August 2007 when he left the firm as a senior. Mr. Wu then commenced his career in corporate finance and investment banking in August 2007 when he served as an analyst in the investment banking division in ICEA Capital Limited which was a licensed corporation under SFC. In April 2009, Mr. Wu joined the investment banking division in ICBC International Holdings Limited until February 2010 when he left that company as an associate. In February 2010, Mr. Wu joined as a vice president in CMB International Capital Corporation Limited, a licensed corporation under the SFC, and left the company in May 2013. In May 2013, Mr. Wu joined the corporate finance department in Haitong International Capital Limited, a corporate finance firm (being a subsidiary of Haitong International Securities Group Limited, a financial institution whose shares are listed on the Main Board of the Stock Exchange (stock code: 665)) until August 2014 when he left that company as a vice president. In August 2014, Mr. Wu joined the investment banking department for IPO execution in Guosen Securities (HK) Financial Holdings Co., Ltd. until April 2016 when he left that company as a director and a responsible officer. From April 2016 to present, Mr. Wu is a Managing Director and Co-head in the corporate finance department of Fortune Financial Capital Limited, being a subsidiary of China Fortune Financial Group Limited, a financial institution whose shares are listed on the Main Board of the Stock Exchange (stock code: 290). Since May 2019, Mr. Wu has been an independent non-executive director of Novacon Technology Group Limited, a company listed on the GEM of the Stock Exchange (stock code: 8635).

SENIOR MANAGEMENT

Mr. Guo Qi Cai (郭啟才), aged 70, has been a deputy general manager and a chief engineer of the Group since May 2010 who is primarily responsible for the overall research and development activities for mould fabrication and technologies applied by the Group. Before joining the Group, Mr. Guo worked in Nanjing 6902 Factory* (南京6902工廠) from 1970 to 1985 as an engineer. He then worked in Xiamen Gaoning Electronics Co., Ltd.* (廈門高寧電子有限公司) from 1985 to 1994 and his last position was a general manager. Mr. Guo worked in Tongda Shishi from 1994 to 2010 as the assistant general manager and chief engineer. He has over 40 years of experience in design and development of moulds in the electronics industry. He studied machinery manufacturing in Chongqing Institution of Communication Engineering* (重慶通訊工程學院) from 1975 to 1978. He has not held any directorships in any public listed companies in the past three years.

Mr. Ba Ping An (巴平安), aged 45, is the head of the engineering department and is primarily responsible for the overall project development and to improve the production process of the Group. He studied plastic moulding technology and its related equipment in Huazhong University of Science and Technology, Hankou Branch (華中理工大學(漢口分校)) (currently known as Jianghan University) from September 1992 to July 1995. Mr. Ba has over 10 years of experience in engineering field and specialises in computer applicant moulding design in the PRC. Before he joined the Group, Mr. Ba worked in Dading Company Accessory (Shanghai) Co., Ltd. (大碇電腦配件(上海)有限公司) from July 2004 to March 2012 and his last position was an assistant manager in the engineering department. Mr. Ba joined the Group in April 2012 as a manager of the engineering department and has been promoted as the head of the engineering department since April 2014. He has not held any directorships in any public listed companies in the past three years.

Mr. Liu Qiang (劉强), aged 44, is the head of the sales department and is primarily responsible for the overall business development and customer relationship management of the Group. Before joining the Group, Mr. Liu worked in ShengMei Precision Industrial (Kunshan) Co., Ltd. (聖美精密工業(昆山)有限公司) from 1998 to 2012 and his last position was a manager of the mould technology department. Mr. Liu joined the Group in May 2012 as a manager of the injection moulding department and promoted as the head of the sales department since March 2014 up to the present. Mr. Liu had over 19 years of working experience in the electronics and electrical industry. He has not held any directorships in any public listed companies in the past three years.

Mr. Chan Paan Paan (陳斑斑), aged 36, was appointed as financial controller of the Group on 1 March 2018 and subsequently appointed as the company secretary on 2 May 2019. He is primarily responsible for the corporate finance, accounts functions and overall company secretarial matters of the Group. Mr. Chan graduated from the Hong Kong Baptist University with a Bachelor degree in Accounting. He is a member of the Hong Kong Institute of Certified Public Accountants. He has over 9 years' working experience in the auditing, accounting and finance field. Mr. Chan resigned his position as the financial controller and company secretary on 7 February 2020.

COMPANY SECRETARY

Mr. Tam Hei Lap, Hedley (譚希立), aged 34, was appointed as company secretary of the Group on 7 February 2020. He is primarily responsible for the corporate finance, accounts functions and overall company secretarial matters of the Group. Mr. Tam graduated from University of New South Wales in Australia with a bachelor's degree of aviation (management) in September 2007 and obtained a master's degree in commerce (international finance) in September 2008 from University of New South Wales in Australia. Mr. Tam is a member of the Hong Kong Institute of Certified Public Accountants and he joined the Company as the assistant financial controller in October 2019 and promoted as the financial controller of the Company in February 2020. Prior to joining the Company, Mr. Tam had served consecutively as an accountant and assistant manager in KPMG from August 2008 to April 2013. He was the group accountant in Time Watch Investments Limited (stock code: 2033), the issued shares of which are listed on the Main Board of the Stock Exchange, between September 2013 and November 2014. Between November 2014 and September 2015, he served as a senior accountant in Simatelex Manufacturing Company Limited. Between October 2015 and March 2019, he served as the financial controller and company secretary of Dadi Education Holdings Limited (stock code: 8417), the issued shares of which are listed on GEM of the Stock Exchange.

* *For identification purpose only*

The Board hereby presents this corporate governance report in the Group's annual report for the year ended 31 December 2020.

CORPORATE GOVERNANCE PRACTICES

The Board of the Company is committed to achieving high corporate governance standards. The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as the basis of the Company's corporate governance practices.

CODES COMPLIANCE

The Company has complied with the code provisions of the CG Code for the year ended 31 December 2020.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions (the "Securities Dealing Code") by the Directors and employees who, because of his office or employment in the Group, is likely to possess inside information of the Company.

In response to specific enquires made by the Company, all Directors have confirmed that they have complied with the required standard set out in the Model Code and the Securities Dealing Code for the year ended 31 December 2020.

For the year ended 31 December 2020, the Company is not aware of any incident of non-compliance of the Securities Dealing Code by the relevant employees.

BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

The Board regularly reviews the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

During the year ended 31 December 2020 and up to the date of this annual report, the Board consists of seven directors, comprising three executive Directors, one non-executive Director and three independent non-executive Directors. The composition of the Board is set out as follows:

Executive Directors:
Mr. Wong Ming Li *(Chief Executive Officer)*
Mr. Wong Ah Yu
Mr. Wang Ming Zhi

Non-executive Director:
Mr. Wang Ya Nan *(Chairman)*

Independent non-executive Directors:
Ms. Leung Pik Kwan
Mr. Sun Wai Hong
Mr. Wu Kin San Alfred

The biographical information of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 9 to 12 of this annual report.

The relationships between the Directors are also disclosed in the respective Director's biography under the section "Biographical Details of Directors and Senior Management" on pages 9 to 12 of this annual report.

Attendance Records of Directors and Committee Members

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

The attendance record of each director at the Board and Board Committee meetings held during the year ended 31 December 2020 is set out in the table below:

	Attendance/Number of Meetings			
Name of Director	**Board**	**Nomination Committee**	**Audit Committee**	**Remuneration Committee**
Mr. Wong Ming Li	7/7	N/A	N/A	N/A
Mr. Wong Ah Yu	7/7	N/A	N/A	N/A
Mr. Wang Ming Zhi	6/7	N/A	N/A	N/A
Mr. Wang Ya Nan	6/7	1/1	N/A	N/A
Ms. Leung Pik Kwan	4/7	1/1	2/2	1/1
Mr. Sun Wai Hong	4/7	1/1	2/2	1/1
Mr. Wu Kin San Alfred	4/7	1/1	2/2	1/1

Chairman and Chief Executive Officer

Mr. Wang Ya Nan serves as the chairman of the Board and he provides leadership and is responsible for the effective functioning and leadership of the Board as well as the overall management of the Group's corporate strategies planning.

Mr. Wong Ming Li serves as the Chief Executive Officer of the Company and he is responsible for overall strategic directions and business operations of the Group.

Independent Non-executive Directors

For the year ended 31 December 2020, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors, representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Appointment and Re-election of Directors

The non-executive Director and the independent non-executive Directors are appointed for a specific term of three years, subject to renewal after the expiry of the then current term.

The Company's articles of association (the "Articles of Association") provides that all Directors appointed by the Board to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting after appointment.

Under the Articles of Association, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three of a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. The retiring Directors shall be eligible for re-election.

Responsibilities of the Directors

The Board should assume responsibility for leadership and control of the Company, and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management under the supervision of Mr. Wang Ya Nan, the Chairman and non-executive Director.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are encouraged to participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors will be arranged and reading material on relevant topics will be provided to Directors where appropriate.

For the year ended 31 December 2020, all Directors have been given the training regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors and duty of disclosure of interest.

During the year, a summary of the Directors participated in continuous professional development is set out below:

Directors	Type of Training *Note*
Executive Directors	
Mr. Wong Ming Li	A,B,C
Mr. Wong Ah Yu	A,B,C
Mr. Wang Ming Zhi	A,B,C
Non-executive Director	
Mr. Wang Ya Nan	A,B,C
Independent non-executive Directors	
Ms. Leung Pik Kwan	A,B,C
Mr. Sun Wai Hong	A,B,C
Mr. Wu Kin San Alfred	A,B,C

Notes:

A Attending relevant laws and regulations training
B Reading relevant materials
C Attending seminars and/or conferences and/or forums

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee on 8 February 2018, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are posted on the websites of the Company and the Stock Exchange and are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under the section headed "Corporate Information" on page 2 of this annual report.

Audit Committee

The main duties of the Audit Committee are to assist the Board in reviewing the Company's financial information, overseeing the Group's financial reporting system, risk management and internal control systems, reviewing and monitoring the effectiveness of the internal audit function, scope of audit and making recommendation to the Board on the appointment of external auditor, and reviewing the arrangements for employees of the Company can use to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the year ended 31 December 2020, the Audit Committee held two meetings to review the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditor and relevant scope of works, continuing connected transactions and the adoption of divided policy.

Remuneration Committee

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates (as defined in the Listing Rules) is involved in deciding his/her own remuneration.

During the year ended 31 December 2020, the Remuneration Committee held one meeting to review the remuneration packages of the Directors and senior management.

Nomination Committee

The primary duties of the Nomination Committee include reviewing the Board composition, making recommendations to the Board on the selection of individuals nominated for directorship, making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, and assessing the independence of Independent Non-executive Directors.

The Company also recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Board has adopted a "Board Diversity Policy" (the "Policy") which sets out the approach to achieve diversity on the Board and the Nomination Committee is responsible for monitoring the implementation of the Policy. In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Policy, including but not limited to gender, age, cultural and educational background, or professional experience etc. The Nomination Committee will discuss any revisions which may be required, and recommend any such revisions to the Board for consideration and approval.

During the year ended 31 December 2020, the Nomination Committee held one meeting to review the independence of the independent non-executive Directors, to consider the qualifications of the retiring directors standing for election at the 2020 annual general meeting, to review the structure, size and composition of the Board and to review the Policy. In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board. Having reviewed the composition of the Board, details of which are set out under the section headed "Board of Directors" on page 14 of this report, the Nomination Committee considered that there is an appropriate balance of Board diversity.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Securities Dealing Code, and the Company's compliance with the CG Code and disclosure in this corporate governance report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2020, the remuneration paid/payable in respect of the services provided by the Group's external auditor, Ernst & Young, are set out below:

Type of services	Amounts HK$'000
Annual audit services	1,681
Non-audit services	310
Total	1,991

DIVIDEND POLICY

The Company has adopted a dividend policy on 2 January 2019. Pursuant to the 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.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the responsibility to maintain effective risk management and internal control systems in order to safeguard the Group's assets and investments and the shareholders' interest and conducts a review on an annual basis. During the year under review, the Board had conducted review of the effectiveness of the risk management and internal control systems of the Company in aspects of the Group's financial, operational, compliance controls and risk management functions through the effort of the Audit Committee.

During the year under review, the Company engaged an external independent consultant, BT Corporate Governance Limited, to conduct a review on the internal control system of the Group. The Board has the overall responsibility to maintain the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function and the Board had reached the conclusion that the Group's risk management and internal control systems were in place, adequate and effective.

MAIN FEATURES OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Group's risk governance structure and the main responsibilities of each level of the structure are summarised below:

The Board is responsible to determine the business strategies and objectives of the Group, and evaluate and determine the nature and extent of risks it is willing to take in achieving the Group's strategic objectives; ensures that the Group establishes and maintains appropriate and effective risk management and internal control systems; and oversees management in the design, implementation and monitoring of the risk management and internal control systems.

The Audit Committee is responsible for assisting the Board to perform its responsibilities of risk management and internal control systems; overseeing the Group's risk management and internal control systems on an ongoing basis; reviewing the effectiveness of the Group's risk management and internal control systems at least annually, and such review should cover all material controls including financial, operational and compliance control; ensures the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions; and considers major findings on risk management and internal control matters, and reports and makes recommendations to the Board.

Senior management of the Group designs, implements and maintains appropriate and effective risk management and internal control systems; identifies, evaluates and manages the risk that may potentially impact the major processes of the operations; monitors risk and takes measures to mitigate risk in day-to-day operations; gives prompt responses to and follow up the findings on risk management and internal control matters raised by the independent external consultant and provides confirmation to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems.

The external independent consultant reviews the adequacy and effectiveness of the Group's risk management and internal control systems; and reports to the Audit Committee the findings of the review and makes recommendations to the Board and management to improve the material systems deficiencies or control weaknesses identified.

RISK MANAGEMENT PROCESS

In addition to the Board's oversight responsibilities, the Company has developed a risk management process to identify, evaluate and manage significant risks and to resolve material internal control defects. Senior management of the Group is responsible for the annual risk reporting process. Independent external consultant meets with various members of the senior management to review and assess risks and discuss solutions to address material internal control defects, including any changes relevant to a given year. Risks are compiled, ratings are assigned and mitigation plans are documented. The risk assessment is reviewed by certain members of the senior management and presented to the Audit Committee and the Board for their review.

Risks are evaluated by the Board and the Group's senior management based on (i) the severity of the impact of the risk on the Company's financial results; and (ii) the probability that the risk will occur.

Based on the risk evaluation, the Company will manage the risks as follows:

– Risk elimination – the Group's senior management may identify and implement certain changes or controls that in effect eliminate the risk entirely.

– Risk mitigation – the Group's senior management may implement a risk mitigation plan designed to reduce the likelihood, velocity or severity of the risk to an acceptable level.

– Risk retention – the Group's senior management may decide that the risk rating is low enough that the risk is acceptable for the Company and that no action is required. The risk would continue to be monitored as part of the risk management program to ensure the level of risk does not increase to an unacceptable level.

INSIDE INFORMATION DISCLOSURE POLICY

The Company adopted an inside information disclosure policy (the "Inside Information Disclosure Policy") which sets out the procedures for the handling and dissemination of inside information with a view to preventing uneven, inadvertent or selective dissemination of inside information and ensuring shareholders and the public are provided with full, accurate and timely information about the activities and the financial condition of the Group. The Inside Information Disclosure Policy covers the following:

- setting out the processes for identifying, assessing and escalating potential inside information to the Board;

- setting out the responsibilities of officers in preserving the confidentiality of inside information, escalating upwards any such potential information and cascading down the message and responsibilities to relevant staff; and

- identifying who are the Company's authorised spokespersons and their responsibilities for communications with stakeholders of the Company.

In addition, the Company has communicated to all relevant staff regarding the implementation of the Inside Information Disclosure Policy.

The Board considers that the Company's existing measures are effective and appropriate compliance mechanisms to safeguard the Company and its officers in discharging their disclosure obligations in respect of inside information.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2020.

The statements of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements are set out in the Independent Auditor's Report on pages 37 to 41 of this annual report.

COMPANY SECRETARY

The company secretary of the Company as at 31 December 2020 was Mr. Tam Hei Lap, Hedley, who was appointed as company secretary of the Group on 7 February 2020, had fulfilled the qualification requirements as set out in the Listing Rules. Biographical details of Mr. Tam are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. During the year ended 31 December 2020, Mr. Tam has taken not less than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, separate resolutions should be proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting

Pursuant to article 58 of the Articles of Association, an extraordinary general meeting shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two calendar 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.

Putting Forward Proposals at General Meetings

There are no provisions in the Articles of Association or the Cayman Islands Companies Law for shareholders of the Company to move new resolutions at general meetings. Shareholders of the Company who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph. As regards proposing a person for election as a director of the Company, please refer to the "Procedures for Shareholders to Propose a Person for Election as a Director" of the Company which is posted on the Company's website.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders of the Company may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	Room 1203, 12/F Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong (For the attention of the Board of Directors)
Email:	info@tongdahongtai.com.hk

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

The Company maintains a website at www.tongdahongtai.com as a communication platform with the shareholders and investors, where the financial information and other relevant information of the Company are available for public access.

CONSTITUTIONAL DOCUMENTS

During the Year, the Company has not made any changes to its Memorandum and Articles of Association. A copy of the Company's Memorandum and Articles of Association is available on the websites of the Company and the Stock Exchange.

The Directors are pleased to present this annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Company's subsidiaries are principally involved in the manufacture and sale of the casings of notebook and tablet.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2020 and the financial positions of the Company and of the Group as at that date are set out in the consolidated financial statements on pages 42 to 103 of this annual report.

The Directors did not recommend the payment of any dividend for the year ended 31 December 2020.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2020, comprising the discussion of business prospects, is set out in the "Management Discussion and Analysis" on pages 4 to 8 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.

SENIOR MANAGEMENT REMUNERATION

The emoluments of senior management fell within the following bands:

	Number of senior management Year ended 31 December	
	2020	**2019**
Nil to HK$1,000,000	**4**	4

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 31 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 and is committed to supporting the environmental sustainability. The Group is principally engaged in the manufacture and sale of the casings of notebook and tablet in the PRC, which is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the year ended 31 December 2020 and up to the date of this annual report, the Group did not incur any significant cost in relation to environmental protection or have any material environmental-related incident, and the Group had not been penalised by competent government authority for environmental-related violations.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Board believes the compliance with laws and regulations as the cornerstone of a business and attaches considerable importance to it. To the best knowledge of the Board, during the year ended 31 December 2020 and up to the date of this annual report, the Group has complied with relevant laws and regulations that have significant impact on the business and operations of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

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.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and equity of the Group for the last five financial years, as extracted from the Company's prospectus dated 28 February 2018 (the "Prospectus") and the published audited financial statements, is set out on page 104. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2020 are set out in note 13 to the financial statements.

BANK BORROWINGS

Details of movements in the bank borrowings of the Group during the year ended 31 December 2020 are set out in note 21 to the financial statements.

SHARE CAPITAL

There was no movement in either the authorised or issued share capital during the year ended 31 December 2020.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company has no reserve available for distribution in accordance with the applicable laws of Cayman Islands and the Articles of Association.

As at 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the applicable laws of the Cayman Islands and the Articles of Association, amounted to HK$107,070,000.

Details of movements in the reserves of the Group and the Company during the year ended 31 December 2020 are set out in the consolidated statement of changes in equity on page 45 of this annual report and note 32 to the financial statements on pages 102 to 103 of this annual report, respectively.

DIRECTORS

The Directors during the year ended 31 December 2020 and up to the date of this report were:

Executive Directors:

Mr. Wong Ming Li (Chief Executive Officer)
Mr. Wong Ah Yu
Mr. Wang Ming Zhi

Non-executive Director:

Mr. Wang Ya Nan (Chairman)

Independent non-executive Directors:

Ms. Leung Pik Kwan
Mr. Sun Wai Hong
Mr. Wu Kin San Alfred

In accordance with article 84(1) of the Articles of Association, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

Accordingly, Mr. Wong Ming Li, Mr. Wang Ming Zhi and Mr. Wu Kin San Alfred will offer himself for re-election as an executive Director, an executive Director and an independent non-executive Director, respectively at the forthcoming annual general meeting of the Company.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out in the section headed "Biographical Details of Directors and Senior Management".

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company, and each of the non-executive Director and independent non-executive Directors has signed an appointment letter with the Company, for a term of three years commencing from the Listing Date which may be terminated by either party with three months' written notice.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2020, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in shares of the Company

Name of Director	Nature of interest	Number of shares interested	Percentage of shareholding interest
Mr. Wang Ya Nan (Notes 1 & 2)	Beneficial owner	9,653,000	5.10%
	Interest of controlled corporation	43,112,250	22.80%
Mr. Wong Ah Yu (Note 1)	Beneficial owner	2,411,000	1.28%
	Interest of controlled corporation	35,712,250	18.88%

Notes:

1. 35,712,250 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.

2. 7,400,000 shares are held by E-Growth Resources Limited, the entire issued share capital of which is beneficially owned by Mr. Wang Ya Nan.

Save as disclosed above, as at 31 December 2020, there were no other interests or short positions of the Directors of the Company in the shares or underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) or pursuant to section 352 of the SFO, required to be recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2020, the following persons/entities (other than the Directors or the chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or otherwise notified to the Company were as follows:

Long positions in shares of the Company

Name of shareholder	Nature of interest	Number of shares interested	Percentage of shareholding in the Company
Mr. Wong Ah Yeung (Note 1)	Beneficial owner	2,982,500	1.58%
	Interest of controlled corporation	35,712,250	18.88%
Mr. Wang Ya Hua (Note 1)	Beneficial owner	2,280,500	1.21%
	Interest of controlled corporation	35,712,250	18.88%
Landmark Worldwide Holdings Limited (Note 1)	Beneficial owner	35,712,250	18.88%
Wykeham Capital Asia Value Fund (Note 2)	Beneficial owner	23,501,000	12.42%
Wykeham Capital Limited (Note 2)	Investment manager	23,501,000	12.42%
Mr. Howel Gruffudd Rhys Thomas (Note 2)	Interest of controlled corporation	23,501,000	12.42%

Notes:

1. 35,712,250 shares are held by Landmark Worldwide Holdings Limited, the issued share capital of which is beneficially owned as to 25% by each Messrs. Wong Ah Yeung, Wang Ya Hua, Wong Ah Yu and Wang Ya Nan.

2. Mr. Howel Gruffudd Rhys Thomas was deemed to be interested in the 23,501,000 shares owned by Wykeham Capital Asia Value Fund by virtue of his 100% shareholding interest in Wykeham Capital Limited (which was the investment manager of Wykeham Capital Asia Value Fund).

Save as disclosed above, as at 31 December 2020, the Company has not been notified by any persons/entities (other than the Directors or the chief executive of the Company) who held an interest or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2020 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

The Company has conditionally adopted a share option scheme (the "Share Option Scheme") pursuant to the written resolutions of the sole shareholder passed on 8 February 2018. The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined below) have had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives: (i) motivating the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and (ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

Pursuant to the Share Option Scheme, the Directors may, at their absolute discretion, offer to grant an option to subscribe for the shares subject to such conditions (including, without limitation, any minimum period for which an option must be held before it can be exercised and/or any performance targets which must be achieved before an option can be exercised) as they may think fit, to the following persons (the "Eligible Participants"): (a) any full-time or part-time employees, executives or officers of the Company; (b) any director (including executive, non-executive and independent non-executive directors) of the Company or any of its subsidiaries; (c) any advisers, consultants, service providers, customers and agents to the Company or any of its subsidiaries; and (d) such other persons who, in the sole opinion of the Directors, will contribute or have contributed to the Group.

An option shall have been accepted by an Eligible Participant within 21 days from the date of the offer of grant of the option. A consideration of HK$1.00 is payable on acceptance of the offer of grant of an option.

The maximum number of shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Company) to be granted under the Share Option Scheme and any other share option scheme of the Company must not in aggregate exceed 18,911,563 shares, being 10% of the shares in issue as at the Listing Date. No share options had been granted by the Company under the Share Option Scheme up to the date of this report. Therefore, the number of shares available for issue is 18,911,563 shares, being approximately 10% of the shares in issue as at the date of this report.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Company (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of options in excess of the 1% limit shall be subject to shareholders' approval in general meeting with such participant and his associates abstaining from voting.

The subscription price per share under the Share Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of offer for the grant, which must be a Business day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five Business days immediately preceding the date of grant; and (c) the nominal value of a share.

Unless there is an early termination of the Share Option Scheme pursuant to the rules of the Share Option Scheme, the Share Option Scheme will remain in force for a period of 10 years after the date on which the Share Option Scheme is adopted. The period during which an option may be exercised will be determined by the Directors in their absolute discretion, save that no option shall be exercised later than 10 years from the date of grant.

Since the adoption of the Share Option Scheme, no share option has been granted under the Share Option Scheme. Therefore, no share option was exercised or cancelled or lapsed during the year ended 31 December 2020 and there was no outstanding option as at 31 December 2020.

EQUITY-LINKED AGREEMENTS

Save as disclosed under the section headed "Share Option Scheme" above, there were no equity-linked agreements entered into by the Group, or existed during the year ended 31 December 2020.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year ended 31 December 2020 are set out in note 27 to the financial statements.

The transactions do not fall under "Connected Transactions" or "Continuing Connected Transactions" in accordance with Chapter 14A of the Listing Rules.

The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as those disclosed in note 27 to the financial statements, no other transactions, arrangements or contracts of significance, to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with him/her had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2020 or at any time during the year.

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 2020.

COMPETING BUSINESS

For the year ended 31 December 2020 and up to the date of this report, none of the Directors or the controlling shareholders of the Company (has the meaning ascribed thereto under the Listing Rules and, in the context of the Company, means collectively Mr. Wang Ya Nan, Mr. Wang Ya Hua, Mr. Wong Ah Yeung, Mr. Wong Ah Yu, Landmark Worldwide Holdings Limited and E-Growth Resources Limited) and their respective close associates had any interests in any business, apart from the business of the Group, which competes or likely to compete (either directly or indirectly) with the business of the Group.

Non-Competition Undertaking by Controlling Shareholders

The controlling shareholders of the Company had entered into a deed of non-competition in favour of the Company (for itself and as trustee for each of its subsidiaries from time to time) on 8 February 2018 (the "Deed of Non-Competition"), details of which are set out in section headed "Relationship with the Tongda Group and connected persons – Deed of Non-Competition" in the Prospectus. The controlling shareholders of the Company have confirmed to the Company of their compliance with all the undertakings provided to the Company under the Deed of Non-Competition.

PERMITTED INDEMNITY PROVISIONS

Pursuant to the Articles of Association, every Director shall be entitled to be indemnified out of the assets or profits of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto.

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Company since the Listing Date.

EMOLUMENT POLICY

The emolument policy of the employees of the Group was set up by the Remuneration Committee on the basis of their merit, qualifications and competence. The emolument of the Directors are reviewed and recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to eligible persons, details are set out under the heading "Share Option Scheme" in this report.

DIRECTORS' REMUNERATION

Details of the remuneration of the Directors are set out in note 8 to the financial statements, which are recommended by the Remuneration Committee by reference to the performance of the individual and the Company as well as market practice and conditions.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the applicable laws of the Cayman Islands where the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2020, (i) the Group's largest customer and five largest customers accounted for approximately 33.8% and 91.3% respectively of the Group's total revenue; and (ii) the Group's largest supplier and five largest suppliers accounted for approximately 5.1% and 22.3% 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.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020.

CORPORATE GOVERNANCE

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with code provisions set out in the CG Code for the year ended 31 December 2020 and up to the date of this report.

Details of corporate governance report are set out on pages 13 to 24 of this annual report.

USE OF NET PROCEEDS FROM THE LISTING

The Company was successfully listed on the Main Board of the Stock Exchange on 16 March 2018. Net proceeds from the Listing (after deducting underwriting fee and relevant expenses payable by the Group in connection with the Listing) amounted to approximately HK$48.5 million. As at 31 December 2020, a total amount of HK$41.3 million out of the net proceeds had been used by the Group and the unutilised amount will be used by the Group according to the allocation set out in the Prospectus.

The following sets forth a summary of the utilisation of the net proceeds:

Purpose	Percentage to total amount	Net proceeds HK$ million	Utilised amount (as at 31 December 2020) HK$ million	Unutilised amount (as at 31 December 2020) HK$ million	Expected timeline of full utilisation of the balance
Lease of a new factory (Note 1)	15.1%	7.3	1.7	5.6	2028-2029
Refurbishment of the new factory as mentioned above	19.9%	9.6	9.6	–	–
Capital expenditure for additional production facilities and machineries (Note 2)	46.2%	22.4	20.8	1.6	End of 2021
Capital expenditure for enhancing the automation in the Group's manufacturing process	16.1%	7.8	7.8	–	–
Additional effort in sales and marketing activities	0.3%	0.2	0.2	–	–
Enhancement of research and development capabilities	2.4%	1.2	1.2	–	–
Total	100%	48.5	41.3	7.2	

Notes:

1. The lease of the factory is for a term of ten years, and therefore the remaining balance of approximately HK$5.6 million is expected to be fully utilised by the year 2028 to 2029.

2. As at the date of this report, the Group has entered into contracts for the acquisition of additional production facilities and machineries and for enhancing the automation in the Group's manufacturing process. It is expected that the remaining balance of the consideration for the said capital expenditures will be settled before the end of 2021.

AUDITOR

The financial statements have been audited by Ernst & Young, who retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

Wang Ya Nan
TONGDA HONG TAI HOLDINGS LIMITED
Chairman

Hong Kong
29 March 2021

To the shareholders of Tongda Hong Tai Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Tongda Hong Tai Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 42 to 103, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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.

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.

To the shareholders of Tongda Hong Tai Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Provision for inventories As at 31 December 2020, the net carrying value of the Group's inventories amounted to HK$278,148,000, representing 45% of the total assets of the Group. Provision assessment is based on the estimated net realisable value of inventories, which requires significant management judgements and estimates. Management considers various factors, including the ageing of the inventories, historical sales patterns, post year-end sales, selling prices of inventories and prevailing market conditions. The significant accounting judgements and estimates and disclosures about inventories are included in notes 3 and 15 to the consolidated financial statements.	Our audit procedures included, among others, evaluating management's assessment methodology based on the Group's circumstances, and evaluating the inputs and assumptions applied by management in performing the provision assessment by reviewing the ageing of the inventories, the post year-end usage or sale and the selling prices of a sample of inventories, evaluating management's expectation on future demand and usage of inventories with reference to historical sales patterns and sales orders received by the Group.
Impairment assessment of property, plant and equipment and right-of-use assets As at 31 December 2020, the net carrying values of the Group's property, plant and equipment and right-of-use assets amounted to HK$34,765,000 and HK$3,772,000, respectively, which in aggregate represented 27% of the Group's net assets. Management assessed whether there are any indicators of impairment for the property, plant and equipment and right-of-use assets at the end of each reporting period and performed an assessment of the recoverable amounts of these assets based on value in use calculation when an impairment indicator was identified. Impairment provisions of HK$52,525,000 and HK$5,699,000 have been made to write down the carrying values of property, plant and equipment and right-of-use assets, respectively, to their estimated recoverable amounts. Management's impairment assessment process involves significant judgements and estimates, including the estimation of future cash flows and other assumptions, such as the associated growth rates, estimated gross margin and the discount rate applied, which are sensitive to expected future market conditions and the cash-generating unit's performance in the foreseeable future. The significant accounting judgements and estimates and disclosures about property, plant and equipment and right-of-use assets are included in notes 3, 13 and 14(a) to the consolidated financial statements.	Our audit procedures included, among others, involving our valuation specialists to assist us in evaluating the methodology and key inputs and assumptions used by management in performing the discounted cash flow projections, including the discount rate. We also compared the projections prepared by management with the historical performance of the cash-generating unit and the business development plan.

To the shareholders of Tongda Hong Tai Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

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.

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 HKSAs 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.

To the shareholders of Tongda Hong Tai Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

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

As part of an audit in accordance with HKSAs, 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.

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, actions taken to eliminate threats or safeguards applied.

To the shareholders of Tongda Hong Tai Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

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

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 Kwong Ka Yan.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong
29 March 2021

Consolidated Income Statement

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
REVENUE	5	**472,368**	532,939
Cost of sales		**(489,832)**	(513,063)
Gross profit/(loss)		**(17,464)**	19,876
Other income	5	**1,987**	1,834
Selling and distribution expenses		**(9,064)**	(10,227)
General and administrative expenses		**(65,527)**	(64,875)
Other operating income/(expenses), net		**(64,648)**	709
Finance costs	6	**(10,558)**	(15,438)
LOSS BEFORE TAX	7	**(165,274)**	(68,121)
Income tax expense	10	**–**	–
LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**(165,274)**	(68,121)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	12	**HK(87.39) cents**	HK(36.02) cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2020

	2020 HK$'000	2019 HK$'000
LOSS FOR THE YEAR	**(165,274)**	(68,121)
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income/(expense) that may be reclassified to the income statement in subsequent periods:		
Exchange differences on translation of a foreign operation	**10,244**	(13,239)
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**(155,030)**	(81,360)

Consolidated Statement of Financial Position

31 December 2020

	Notes	**2020 HK$'000**	2019 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**34,765**	92,633
Right-of-use assets	14(a)	**3,772**	12,906
Long term deposits	17	**2,191**	4,467
Total non-current assets		**40,728**	110,006
CURRENT ASSETS			
Inventories	15	**278,148**	341,965
Trade and bills receivables	16	**241,613**	259,850
Prepayments, deposits and other receivables	17	**13,338**	10,914
Tax recoverable		**869**	809
Restricted bank balances	18	**2,282**	6,528
Cash and bank balances	18	**34,917**	24,718
Total current assets		**571,167**	644,784
CURRENT LIABILITIES			
Trade payables	19	**153,147**	129,556
Other payables and accruals	20	**29,811**	30,106
Interest-bearing bank borrowings	21	**194,649**	282,309
Loans from related parties	22	**78,475**	–
Lease liabilities	14(b)	**2,639**	3,750
Total current liabilities		**458,721**	445,721
NET CURRENT ASSETS		**112,446**	199,063
TOTAL ASSETS LESS CURRENT LIABILITIES		**153,174**	309,069
NON-CURRENT LIABILITIES			
Lease liabilities	14(b)	**9,143**	10,008
Net assets		**144,031**	299,061
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	23	**1,891**	1,891
Reserves	24	**142,140**	297,170
Total equity		**144,031**	299,061

Wong Ming Li
Director

Wang Ming Zhi
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2020

	Attributable to equity holders of the Company						
	Issued capital HK$'000	**Share premium** HK$'000	**Capital reserve** HK$'000 Note 24(b)	**Statutory reserve fund** HK$'000 Note 24(a)	**Exchange fluctuation reserve** HK$'000	**Retained profits/ (accumulated losses)** HK$'000	**Total equity** HK$'000
At 1 January 2019	1,891	121,933	198,566	16,031	(19,501)	61,501	380,421
Loss for the year	–	–	–	–	–	(68,121)	(68,121)
Other comprehensive expense for the year:							
Exchange differences on translation of a foreign operation	–	–	–	–	(13,239)	–	(13,239)
Total comprehensive expense for the year	–	–	–	–	(13,239)	(68,121)	(81,360)
At 31 December 2019 and 1 January 2020	1,891	121,933*	198,566*	16,031*	(32,740)*	(6,620)*	299,061
Loss for the year	–	–	–	–	–	(165,274)	(165,274)
Other comprehensive income for the year:							
Exchange differences on translation of a foreign operation	–	–	–	–	10,244	–	10,244
Total comprehensive income/ (expense) for the year	–	–	–	–	10,244	(165,274)	(155,030)
At 31 December 2020	1,891	121,933*	198,566*	16,031*	(22,496)*	(171,894)*	144,031

* These reserve accounts comprise the consolidated reserves of HK$142,140,000 (2019: HK$297,170,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(165,274)**	(68,121)
Adjustments for:			
Finance costs	6	**10,558**	15,438
Depreciation of property, plant and equipment	7	**17,978**	21,837
Depreciation of right-of-use assets	7	**4,739**	4,889
Bank interest income	5	**(68)**	(100)
Loss on disposal/write-off of items of property, plant and equipment	7	**25**	479
Impairment of trade receivables	7	**662**	209
Provision for inventories	7	**32,623**	22,730
Impairment of property, plant and equipment	7	**52,525**	–
Impairment of right-of-use assets	7	**5,699**	–
Gain on lease modification	14(c)	**(57)**	–
		(40,590)	(2,639)
Decrease in inventories		**31,194**	5,632
Decrease in trade and bills receivables		**17,575**	21,388
Decrease/(increase) in prepayments, deposits and other receivables		**(2,424)**	9,869
Increase in trade payables		**23,591**	38,110
Decrease in other payables and accruals		**(295)**	(5,053)
Exchange realignment		**21,731**	(20,999)
Cash generated from operations		**50,782**	46,308
Interest paid		**(10,095)**	(15,438)
Overseas taxes refunded		**–**	301
Net cash flows from operating activities		**40,687**	31,171
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**68**	100
Proceeds from disposal of items of property, plant and equipment		**26**	–
Purchases of items of property, plant and equipment	25	**(5,080)**	(8,612)
Increase in long term deposits	25	**(2,191)**	(4,467)
Decrease/(increase) in restricted bank balances		**4,246**	(1,754)
Exchange realignment		**393**	(660)
Net cash flows used in investing activities		**(2,538)**	(15,393)

	Notes	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**485,190**	492,116
Repayment of bank loans		**(572,850)**	(551,076)
New loans from related parties		**79,191**	–
Repayment of loans from related parties		**(1,179)**	–
Principal portion of lease payments	25(b)	**(3,682)**	(4,249)
Exchange realignment		**(16,549)**	13,078
Net cash flows used in financing activities		**(29,879)**	(50,131)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**8,270**	(34,353)
Cash and cash equivalents at beginning of year		**24,718**	59,994
Effect of foreign exchange rate changes, net		**1,929**	(923)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**34,917**	24,718
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	**37,199**	31,246
Less: Restricted bank balances	18	**(2,282)**	(6,528)
		34,917	24,718

1. CORPORATE AND GROUP INFORMATION

Tongda Hong Tai Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The principal activity of the Company is investment holding. The Company's subsidiaries are principally involved in the manufacture and sale of casings of notebook and tablet.

In the opinion of the directors of the Company, Mr. Wang Ya Nan, Mr. Wang Ya Hua, Mr. Wong Ah Yeung, Mr. Wong Ah Yu, together with Landmark Worldwide Holdings Limited ("Landmark") and E-Growth Resources Limited, are considered as the controlling shareholders of the Company.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held:				
Tongda HT Holdings (BVI) Limited	British Virgin Islands ("BVI")	US$2	100	Investment holding
Indirectly held:				
Tongda HT Technology (HK) Company Limited	Hong Kong	HK$2	100	Investment holding

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

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

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company	Principal activities
通達宏泰科技(蘇州)有限公司 (Tongda HT Technology (Suzhou) Company Limited) (Notes (a))	The People's Republic of China (the "PRC")/ Mainland China	HK$250,000,000	100	Manufacture and sale of casings of notebook and tablet

Note:

(a) This entity was registered as a wholly-foreign-owned enterprise under the PRC law.

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 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 2020. 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).

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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.

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 the income statement. The Group's share of components previously recognised in other comprehensive income is reclassified to the income statement 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 *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the Amendments to HKAS 1 and HKAS 8 are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) 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, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

The adoption of the revised HKFRSs has had no significant financial impact on the financial position and 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.

Amendment to HKFRS 16	*Covid-19-Related Rent Concessions*[1]
Amendments to HKFRS 3	*Reference to the Conceptual Framework*[3]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[5]
HKFRS 17	*Insurance Contracts*[4]
Amendments to HKFRS 17	*Insurance Contracts*[4, 7]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[4, 6]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[3]
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[3]
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[3]

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

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

3 Effective for annual periods beginning on or after 1 January 2022

4 Effective for annual periods beginning on or after 1 January 2023

5 No mandatory effective date yet determined but available for adoption

6 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

7 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's financial performance and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Group measures its 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 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 in those expense categories consistent with the function of the impaired 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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

(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.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over the estimated useful life. The principal annual rates used for this purpose are as follows:

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 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.

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.

Leases

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 and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

Group as a lessee (continued)

(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 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:

Leasehold buildings	2 to 10 years

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 lease. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(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 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Initial recognition and measurement (continued)

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.

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.

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 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 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.

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 payables, financial liabilities included in other payables and accruals, lease liabilities, loans from related parties and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities at amortised cost (loans and borrowings) is as follows:

After initial recognition, interest-bearing bank 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand 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 bank balances comprise cash on hand and at banks and assets similar in nature to cash, which are not restricted as to use.

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.

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, 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, 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.

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, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

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 goods.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Employee benefits

Pension 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 subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of its 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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 translation 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).

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

3. SIGNIFICANT ACCOUNTING 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 for inventories

Management of the Group reviews the 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 inventories based primarily on the ageing of the inventories, historical sales pattern, post year-end sales, latest invoice prices and prevailing market conditions. The carrying amount of inventories at 31 December 2020 was HK$278,148,000 (2019: HK$341,965,000). Further details of the inventories are given in note 15.

3. SIGNIFICANT ACCOUNTING ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Impairment of trade 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.

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 amount of trade receivables was HK$234,553,000 (2019: HK$243,699,000). Further details of the trade receivables are given in note 16.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. The Group's non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of the casings of notebook and tablet. Almost all of the Group's products are of a similar nature and subject to similar risks and returns. Accordingly, the Group's operating activities are attributable to a single reportable operating segment.

In addition, the Group's revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, Mainland China, which is the Group's principal place of business and operations. Therefore, no analysis by geographical region is presented.

Information about major customers

Revenue derived from sales to individual customers which contributed over 10% to the total revenue of the Group is as follows:

	2020	2019
	HK$'000	HK$'000
Customer A	**159,661**	213,972
Customer B	**145,128**	86,351
Customer C	**N/A***	89,150
	304,789	389,473

* Revenue from sales to Customer C accounted for less than 10% of total revenue for the Group for the year ended 31 December 2020.

5. REVENUE AND OTHER INCOME

An analysis of revenue is as follows:

	2020	2019
	HK$'000	HK$'000
Revenue from contracts with customers		
Sale of casings of notebook and tablet	**472,368**	532,939

5. REVENUE AND OTHER INCOME *(continued)*

Revenue from contracts with customers

Performance obligation

Sale of casings of notebook and tablet

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

An analysis of the Group's other income is as follows:

	2020 HK$'000	2019 HK$'000
Other income		
Bank interest income	68	100
Sale of scrap materials	1,398	1,588
Government grants*	521	146
	1,987	1,834

* There are no unfulfilled conditions or contingencies relating to these grants.

6. FINANCE COSTS

	2020 HK$'000	2019 HK$'000
Interest on bank borrowings	9,537	14,747
Interest on lease liabilities	558	691
Interest on loans from a shareholder	463	–
	10,558	15,438

7. LOSS BEFORE TAX

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

	Notes	2020 HK$'000	2019 HK$'000
Cost of inventories sold[1]		**489,832**	513,063
Depreciation of property, plant and equipment	13	**17,978**	21,837
Depreciation of right-of-use assets	14(a), 14(c)	**4,739**	4,889
Research and development costs[2]		**22,253**	21,581
Lease payments not included in the measurement of lease liabilities	14(c)	**–**	810
Employee benefit expense (excluding directors' remuneration – note 8):			
Salaries and wages		**54,155**	63,188
Pension scheme contributions[#]		**7,835**	4,156
		61,990	67,344
Auditor's remuneration		**1,681**	1,550
Impairment of trade receivables*	16	**662**	209
Provision for inventories		**32,623**	22,730
Loss on disposal/write-off of items of property, plant and equipment*		**25**	479
Impairment of property, plant and equipment*	13	**52,525**	–
Impairment of right-of-use assets*	14(a), 14(c)	**5,699**	–
Foreign exchange differences, net*		**5,795**	(1,397)

* Impairment of trade receivables, loss on disposal/write-off of items of property, plant and equipment, impairment of property, plant and equipment, impairment of right-of-use assets and foreign exchange differences, net, are included in "Other operating income/(expenses), net" on the face of the consolidated income statement.

\# At 31 December 2020, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2019: Nil).

1 Cost of inventories sold includes HK$85,294,000 (2019: HK$85,014,000) relating to employee benefit expense, lease payments not included in the measurement of lease liabilities, provision for inventories, and depreciation, which are also included in the respective total amounts disclosed above for each of these types of expenses.

2 Research and development costs include HK$18,781,000 (2019: HK$17,542,000) relating to depreciation of a research and development centre and employee benefit expense for research and development activities, which are also included in the respective total amounts disclosed above for each of these types of expenses.

8. DIRECTORS' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, 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:

	2020 HK$'000	2019 HK$'000
Fees	1,080	720
Salaries, allowances and benefits in kind	593	593
Pension scheme contributions	135	184
	1,808	1,497

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2020 HK$'000	2019 HK$'000
Ms. Leung Pik Kwan	120	120
Mr. Sun Wai Hong	120	120
Mr. Wu Kin San Alfred	120	120
	360	360

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and a non-executive director

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2020				
Executive directors:				
Mr. Wong Ming Li ("Mr. Wong")*	**360**	**268**	**70**	**698**
Mr. Wang Ming Zhi	**–**	**325**	**65**	**390**
Mr. Wong Ah Yu	**240**	**–**	**–**	**240**
	600	**593**	**135**	**1,328**
Non-executive director:				
Mr. Wang Ya Nan	**120**	**–**	**–**	**120**
	720	**593**	**135**	**1,448**
2019				
Executive directors:				
Mr. Wong Ming Li*	–	270	92	362
Mr. Wang Ming Zhi	–	323	92	415
Mr. Wong Ah Yu	240	–	–	240
	240	593	184	1,017
Non-executive director:				
Mr. Wang Ya Nan	120	–	–	120
	360	593	184	1,137

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2019: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

During the year ended 31 December 2020, the five highest paid employees included one (2019: one) director, details of whose remuneration are set out in note 8 above.

Details of the remuneration for the year of the remaining four (2019: four) non-director and non-chief executive highest paid employees are as follows:

	2020	2019
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**2,111**	2,296
Pension scheme contributions	**157**	203
	2,268	2,499

The number of these non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2020	2019
Nil to HK$1,000,000	**4**	4

During the year, no remuneration was paid by the Group to the directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office (2019: Nil).

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2019: Nil). No provision for corporate income tax in Mainland China has been made as the Group did not generate any assessable profits during the year (2019: Nil).

A reconciliation of the tax credit applicable to loss before tax at the statutory tax rates to the tax position at the Group's effective tax rate is as follows:

	2020 HK$'000	2019 HK$'000
Loss before tax	**(165,274)**	(68,121)
Tax at the statutory tax rates	**(41,186)**	(16,558)
Lower applicable tax rate	**16,371**	–
Expenses not deductible for tax	**15,373**	8,637
Income not subject to tax	**(3,450)**	(3,991)
Tax losses not recognised	**12,892**	11,912
Tax position at the Group's effective rate	**–**	–

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

通達宏泰科技(蘇州)有限公司 (Tongda HT Technology (Suzhou) Company Limited), as a High New Technology Enterprise, was subject to a preferential tax rate of 15% starting from the year ended 31 December 2019 for three years.

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

The Group has estimated tax losses arising in Mainland China of HK$140,398,000 (2019: HK$47,648,000) that will expire in five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as directors consider that it is uncertain that whether sufficient taxable profits will be available against which the tax losses can be utilised in the foreseeable future.

11. DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31 December 2020 (2019: Nil).

12. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

For the year ended 31 December 2020, the calculation of the basic loss per share amount is based on the loss for the year attributable to the equity holders of the Company of HK$165,274,000 (2019: HK$68,121,000), and the number of ordinary shares of 189,115,638 (2019: 189,115,638) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2020					
Cost:					
At 1 January 2020	27,254	191,321	13,247	4,323	236,145
Additions	6,347	3,200	–	–	9,547
Disposal	–	(152)	–	–	(152)
Exchange realignment	2,402	14,337	980	319	18,038
At 31 December 2020	36,003	208,706	14,227	4,642	263,578
Accumulated depreciation and impairment:					
At 1 January 2020	25,526	104,575	10,855	2,556	143,512
Depreciation provided during the year	1,560	15,403	721	294	17,978
Disposal	–	(101)	–	–	(101)
Impairment provided during the year	4,025	46,533	1,047	920	52,525
Exchange realignment	2,228	11,497	911	263	14,899
At 31 December 2020	33,339	177,907	13,534	4,033	228,813
Net book value:					
At 31 December 2020	2,664	30,799	693	609	34,765

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

	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2019					
Cost:					
At 1 January 2019	27,459	178,972	13,445	4,496	224,372
Additions	1,540	19,210	316	–	21,066
Write-off	(692)	–	–	–	(692)
Exchange realignment	(1,053)	(6,861)	(514)	(173)	(8,601)
At 31 December 2019	27,254	191,321	13,247	4,323	236,145
Accumulated depreciation:					
At 1 January 2019	21,948	92,013	10,432	2,355	126,748
Provided during the year	4,634	16,091	821	291	21,837
Write-off	(213)	–	–	–	(213)
Exchange realignment	(843)	(3,529)	(398)	(90)	(4,860)
At 31 December 2019	25,526	104,575	10,855	2,556	143,512
Net book value:					
At 31 December 2019	1,728	86,746	2,392	1,767	92,633

As at 31 December 2020, the Group's management identified a subsidiary of the Company engaged in the manufacture and sale of casings of notebook and tablet recorded loss and gross loss margin for the year then ended, and estimated the recoverable amounts of the property, plant and equipment and right-of-use assets of this subsidiary. Based on the value-in-use calculation, the carrying amounts of property, plant and equipment and right-of-use assets were written down by HK$52,525,000 (2019: Nil) and HK$5,699,000 (2019: Nil), respectively, to their estimated recoverable amounts. The estimated recoverable amounts were determined based on a value in use calculation using cash flow projections based on financial forecast covering a period of the remaining useful lives and lease terms of these assets. The pre-tax discount rate applied to the cash flow projections was 14.9%.

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of leasehold buildings and machinery and other equipment used in its operations. Leases of leasehold buildings generally have lease terms between 2 and 10 years. Machinery and other equipment generally have lease terms of 12 months or less. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) *Right-of-use assets*

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

	Leasehold buildings HK$'000
As at 1 January 2019	18,492
Depreciation charge	(4,889)
Exchange realignment	(697)
As at 31 December 2019 and 1 January 2020	12,906
Depreciation charge	(4,739)
Lease modification	920
Impairment (note 13)	(5,699)
Exchange realignment	384
As at 31 December 2020	3,772

(b) *Lease liabilities*

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

	2020 HK$'000	2019 HK$'000
Carrying amount at 1 January	**13,758**	18,710
Accretion of interest recognised during the year	**558**	691
Payments	**(4,240)**	(4,940)
Lease modification	**863**	–
Exchange realignment	**843**	(703)
Carrying amount at 31 December	**11,782**	13,758
Analysed into:		
Current portion	**2,639**	3,750
Non-current portion	**9,143**	10,008

The maturity analysis of lease liabilities is disclosed in note 31 to the financial statements.

14. LEASES *(continued)*

The Group as a lessee *(continued)*

(c) The amounts recognised in the income statement in relation to leases are as follows:

	2020 HK$'000	2019 HK$'000
Interest on lease liabilities	558	691
Depreciation charge of right-of-use assets	4,739	4,889
Expense relating to leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales)	–	810
Impairment of right-of-use assets	5,699	–
Gain on lease modification	(57)	–
Total amount recognised in the income statement	10,939	6,390

15. INVENTORIES

	2020 HK$'000	2019 HK$'000
Raw materials	48,613	48,709
Work in progress	138,611	160,326
Finished goods	90,924	132,930
	278,148	341,965

16. TRADE AND BILLS RECEIVABLES

	2020 HK$'000	2019 HK$'000
Trade receivables	236,410	244,774
Impairment	(1,857)	(1,075)
	234,553	243,699
Bills receivable	7,060	16,151
	241,613	259,850

16. TRADE AND BILLS RECEIVABLES *(continued)*

As at 31 December 2020, gross trade receivables of certain customers of HK$173,866,000 (2019: HK$155,479,000), which are designated in trade receivable factoring arrangements entered into between the Group and certain banks in the PRC, and bills receivable of HK$7,060,000 (2019: HK$16,151,000) 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.

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one to four months. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing. As at 31 December 2020, 32.0% (2019: 42.8%) and 89.3% (2019: 81.3%) of the total trade and bills receivables were due from the Group's largest customer and five largest customers, respectively.

An ageing analysis of the Group's trade receivables (based on the invoice date) and bills receivable (based on the issue date) as at the end of the reporting period, and net of loss allowance, is as follows:

	2020 **HK$'000**	2019 HK$'000
Within 3 months	**157,278**	183,639
4 to 6 months, inclusive	**82,459**	75,116
7 to 9 months, inclusive	**1,876**	598
10 to 12 months, inclusive	**–**	10
More than 1 year	**–**	487
	241,613	259,850

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

	2020 **HK$'000**	2019 HK$'000
At beginning of year	**1,075**	888
Impairment of trade receivables (note 7)	**662**	209
Exchange realignment	**120**	(22)
At end of year	**1,857**	1,075

16. TRADE AND BILLS RECEIVABLES *(continued)*

As at 31 December 2020, the increase in the loss allowance was due to the increase in trade receivables which were past due for over 1 year.

As at 31 December 2019, the increase in the loss allowance was due to the increase in trade receivables which were past due for over 10 to 12 months and over 1 year.

An impairment analysis is performed at each 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. 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. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

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 2020

	Expected credit loss rate	Gross carrying amount excluding a specific trade receivable HK$'000	Expected credit losses excluding a specific trade receivable HK$'000	Gross carrying amount of a specific trade receivable HK$'000	Loss allowance for a specific trade receivable HK$'000	Total loss allowance HK$'000
Current	0.01%	226,409	(23)	–	–	(23)
1-3 months past due	0.25%	6,811	(17)	–	–	(17)
4-6 months past due	0.61%	1,381	(8)	–	–	(8)
7-9 months past due	3.83%	–	–	–	–	–
10-12 months past due	24.42%	–	–	–	–	–
Over 1 year past due	100.00%	967	(967)	842	(842)	(1,809)
		235,568	(1,015)	842	(842)	(1,857)

16. TRADE AND BILLS RECEIVABLES *(continued)*

As at 31 December 2019

	Expected credit loss rate	Gross carrying amount excluding a specific trade receivable HK$'000	Expected credit losses excluding a specific trade receivable HK$'000	Gross carrying amount of a specific trade receivable HK$'000	Loss allowance for a specific trade receivable HK$'000	Total loss allowance HK$'000
Current	0.02%	241,239	(48)	–	–	(48)
1-3 months past due	0.34%	2,096	(7)	–	–	(7)
4-6 months past due	0.66%	–	–	–	–	–
7-9 months past due	4.34%	10	–	–	–	–
10-12 months past due	12.42%	467	(58)	–	–	(58)
Over 1 year past due	100.00%	178	(178)	784	(784)	(962)
		243,990	(291)	784	(784)	(1,075)

The impairment of trade receivables included the amount of a specific trade receivable which is considered in default due to indicators which showed that the Group was unlikely to receive the outstanding contractual amount in full.

No loss allowance was provided for bills receivable because management considers that there were minimal expected credit losses associated with the bills receivable in view of the fact that majority of these bills receivable were issued by creditworthy banks and the balances are not yet past due.

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 HK$'000	2019 HK$'000
Prepayments	**11,541**	9,411
Deposits and other receivables	**3,988**	5,970
	15,529	15,381
Less: Non-current portion for purchases of items of property, plant and equipment	**(2,191)**	(4,467)
Current portion	**13,338**	10,914

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. As at 31 December 2020 and 2019, no loss allowance was provided because management assessed that the expected credit losses were minimal.

18. RESTRICTED BANK BALANCES AND CASH AND BANK BALANCES

	2020 HK$'000	2019 HK$'000
Cash and bank balances	**37,199**	31,246
Less: Restricted bank balances for import purchases in Mainland China	**(2,282)**	(6,528)
	34,917	24,718

As at 31 December 2020, the cash and bank balances of the Group denominated in RMB amounted to HK$6,439,000 (2019: HK$13,987,000). 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 earns interest at floating rates based on daily bank deposit rates. The bank balances and restricted bank balances are deposited with creditworthy banks with no recent history of default.

19. TRADE PAYABLES

The trade payables are non-interest-bearing and are normally settled on terms of one to four months. An ageing analysis of the Group's trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2020 HK$'000	2019 HK$'000
Within 3 months	**91,243**	94,532
4 to 6 months, inclusive	**53,474**	30,948
7 to 9 months, inclusive	**7,714**	3,719
10 to 12 months, inclusive	**716**	271
Over 1 year	**–**	86
	153,147	129,556

20. OTHER PAYABLES AND ACCRUALS

	Notes	2020 HK$'000	2019 HK$'000
Other payables		**6,090**	5,832
Accruals	(a)	**22,823**	24,274
Contract liabilites	(b)	**898**	–
		29,811	30,106

Notes:

(a) Other payables are non-interest-bearing and payable on demand.

(b) Contract liabilities include short-term advances received from customers to deliver casings of notebook and tablet.

21. INTEREST-BEARING BANK BORROWINGS

	2020			2019		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current and repayable within one year						
Bank loans-unsecured	**1.61% – 6%/ 100% – 110% of PBOC rate*/ LIBOR+2.2 to 2.7%**/ LPR+1.19%********	**2021**	**194,649**	2.65% – 5.5%/ 100% – 110% of PBOC rate*/ LIBOR+2.5 to 3%**/ COF+2%***/ LPR+0.84%****	2020	282,309
Total			**194,649**			282,309

* “PBOC” means the People’s Bank of China

** “LIBOR” means the London Interbank Offered Rate

*** “COF” means the lender’s cost of funding

**** “LPR” means the loan prime rate published by the National Interbank Funding Centre

Notes:

(a) The Group’s bank borrowings are all denominated in United States dollars and RMB.

(b) As at 31 December 2020, one of the Group’s banking facilities was supported by the corporate guarantees executed by the Company and Landmark to the extent of HK$165,100,000, of which HK$104,175,000 was utilised. The remaining banking facilities of the Group were supported by the corporate guarantees executed by the Company to the extent of HK$120,800,000, of which HK$83,414,000 was utilised.

(c) As at 31 December 2019, the Group’s banking facilities were supported by the corporate guarantees executed by the Company to the extent of HK$325,600,000, of which an aggregate amount of HK$271,089,000 was utilised.

22. LOANS FROM RELATED PARTIES

	Notes	2020 HK$'000	2019 HK$'000
Loans from Tongda Shishi Investment	(a)	**33,012**	–
Loans from Mr. Wang Ya Nan	(b)	**45,463**	–
		78,475	–

Notes:

(a) The loans from 通達(石獅)投資咨詢有限公司 (Tongda Shishi Investment Consulting Company Limited ("Tongda Shishi Investment")), a related company controlled by Mr. Wang Ya Nan, the non-executive director and a shareholder of the Company, are unsecured, interest-free and repayable within one year.

(b) The loans are unsecured, bear interest at 2% per annum and are repayable within one year.

23. ISSUED CAPITAL

	2020 HK$'000	2019 HK$'000
Authorised:		
1,000,000,000 (2019: 1,000,000,000) ordinary shares of HK$0.01 each	**10,000**	10,000
Issued and fully paid:		
189,115,638 (2019: 189,115,638) ordinary shares of HK$0.01 each	**1,891**	1,891

24. 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.

(a) Statutory reserve fund

In accordance with the Company Law of the PRC, the Company's subsidiary registered in the PRC is required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of the entity's registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 50% of the registered capital after such usages. The amount of the transfer is subject to the approval of the board of directors of this subsidiary.

24. RESERVES *(continued)*

(b) Capital reserve

The capital reserve of the Group represents the capital contributions from the then equity holder of a subsidiary now comprising the Group before the completion of the group reorganisation prior to the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited on 16 March 2018.

25. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

(i) During the year ended 31 December 2020, deposits for the purchases of items of property, plant and equipment of HK$4,467,000 (2019: HK$12,454,000) were utilised for settlement of the purchase considerations of items of the property, plant and equipment.

(ii) As at 31 December 2020, interest on loans from a shareholder of HK$463,000 (2019: Nil) remained unsettled and included in the balance of loans from related parties on the face of the consolidated statement of financial position.

(b) Reconciliation of liabilities arising from financing activities

	Loans from related parties HK$'000	Lease liabilities HK$'000	Interest-bearing bank borrowings HK$'000
At 1 January 2019	–	18,710	341,269
Financing cash flows	–	(4,249)	(45,882)
Interest expenses	–	691	–
Interest paid classified as operating cash flows	–	(691)	–
Effect of changes in foreign exchange	–	(703)	(13,078)
At 31 December 2019 and at 1 January 2020	–	13,758	282,309
Financing cash flows	76,118	(3,682)	(102,315)
Interest expenses	463	558	–
Interest paid classified as operating cash flows	–	(558)	–
Lease modification	–	863	–
Effect of changes in foreign exchange	1,894	843	14,655
At 31 December 2020	78,475	11,782	194,649

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

(c) Total cash outflow for leases

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

	2020 HK$'000	2019 HK$'000
Within operating activities	**558**	1,501
Within financing activities	**3,682**	4,249
	4,240	5,750

26. COMMITMENTS

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

	2020 HK$'000	2019 HK$'000
Contracted, but not provided for:		
Purchases of items of property, plant and equipment	**3,808**	6,199

27. RELATED PARTY TRANSACTIONS

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

	Notes	2020 HK$'000	2019 HK$'000
Interest expense to Mr. Wang Ya Nan	(i)	**463**	–
Lease payments to Tongda Group	(ii)	**–**	132

Notes:

(i) The interest expense was charged in accordance with the terms of the respective loan agreements.

(ii) During the year ended 31 December 2020, depreciation of a right-of-use asset of HK$148,000 and finance cost on the respective lease liability of HK$7,000, in relation to a lease with Tongda Group International Limited ("Tongda Group"), of which Mr. Wang Ya Nan is a key management, were charged to the consolidated income statement.

27. RELATED PARTY TRANSACTIONS *(continued)*

(b) Compensation of key management personnel of the Group

	2020 HK$'000	2019 HK$'000
Short term employee benefits	**3,784**	3,608
Post-employment benefits	**292**	387
Total compensation paid to key management personnel	**4,076**	3,995

Further details of directors' emoluments are included in note 8 to the financial statements.

28. 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:

Financial assets

	2020 HK$'000	2019 HK$'000
Financial assets at fair value through other comprehensive income:		
Debt investments – Trade and bills receivables	**180,926**	171,630
Financial assets at amortised cost:		
Trade and bills receivables	**60,687**	88,220
Financial assets included in prepayments, deposits and other receivables	**527**	574
Restricted bank balances	**2,282**	6,528
Cash and bank balances	**34,917**	24,718
	98,413	120,040
	279,339	291,670

28. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Financial liabilities

	2020 HK$'000	2019 HK$'000
Financial liabilities at amortised cost:		
Trade payables	**153,147**	129,556
Financial liabilities included in other payables and accruals	**10,405**	11,909
Lease liabilities	**11,782**	13,758
Loan from related parties	**78,475**	–
Interest-bearing bank borrowings	**194,649**	282,309
	448,458	437,532

The directors consider the carrying amounts of all financial assets and financial liabilities measured at amortised cost approximated to their fair values as at the end of the reporting period.

29. 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 do not qualify for derecognition, together with the associated liabilities:

(a) Discounting of bills receivable

	2020 HK$'000	2019 HK$'000
Carrying amount of assets that continued to be recognised	**7,060**	11,220
Carrying amount of associated liabilities	**7,060**	11,220

As at 31 December 2020, the Group discounted certain bills receivable (the "Discounted Bills") with a carrying amount of HK$7,060,000 (2019: HK$11,220,000) to a bank in the PRC for cash proceeds on a full recourse basis. 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 loans. Subsequent to the discounting, the Group does not retain any rights on the use of the Discounted Bills, including the sale, transfer or pledge of the Discounted Bills to any other third parties. The aggregate carrying amount of the bank loans recognised due to the Discounted Bills was HK$7,060,000 as at 31 December 2020 (2019: HK$11,220,000).

29. TRANSFERRED FINANCIAL ASSETS *(continued)*

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

(b) Trade receivable factoring

As part of its normal business, the Group entered into trade receivable factoring arrangements (the "Arrangements") and transferred certain trade receivables to the banks in the PRC. Under the Arrangements, the Group may be required to reimburse the banks for loss of interest if any trade debtors have late payment up to 120 to 150 days (2019: 120 days). Subsequent to the transfer, the Group does not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. The original carrying value of the trade receivables transferred under the Arrangements that have not been settled as at 31 December 2020 was HK$104,362,000 (2019: HK$53,764,000). The carrying amount of the assets that the Group continued to recognise as at 31 December 2020 was HK$92,202,000 (2019: HK$48,388,000) and that of the associated liabilities as at 31 December 2020 was HK$92,202,000 (2019: HK$48,388,000).

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

Bills endorsement under the Law of Negotiable Instruments of the PRC

At 31 December 2019, the Group endorsed certain bills receivable accepted by certain reputable banks in the PRC (the "Derecognised 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$608,000. The Derecognised Bills have a maturity of two months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised 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 Bills are not significant.

During the year ended 31 December 2019, the Group had not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement had been made evenly throughout that year.

30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank balances, restricted bank balances, trade and bills receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, interest-bearing bank borrowings, and loans from related parties 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 Group's 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.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2020

	Fair value measurement 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
Debt investments at fair value through other comprehensive income – Trade and bills receivables	–	180,926	–	180,926

30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy *(continued)*

Assets measured at fair value: (continued)

As at 31 December 2019

	Fair value measurement 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
Debt investments at fair value through other comprehensive income – Trade and bills receivables	–	171,630	–	171,630

During the year ended 31 December 2020, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2019: Nil).

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, loans from related parties and cash and bank balances. 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, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals and lease liabilities which arise directly from its operations.

It is, and has been throughout the years, 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, 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.

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

Interest rate risk

The interest rates of the interest-bearing bank borrowings of the Group are disclosed in note 21 to the financial statements.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the interest rate of the United States dollar and RMB, with all other variables held constant, of the Group's loss before tax through the impact on floating rate borrowings.

	Increase/ (decrease) in percentage points	Decrease/ (increase) in the Group's loss before tax HK$'000
2020		
United States dollar	**0.5**	**(720)**
United States dollar	**(0.5)**	**720**
RMB	**0.5**	**(218)**
RMB	**(0.5)**	**218**
2019		
United States dollar	0.5	(697)
United States dollar	(0.5)	697
RMB	0.5	(660)
RMB	(0.5)	660

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

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise mainly from sale and purchase transactions and cash and bank balances denominated in United States dollars, Hong Kong dollars and RMB.

The majority of the Group's operating assets are located in Mainland China and denominated in RMB. As the Group's net loss is reported in Hong Kong dollars, there will be a translation gain/loss as a result of the RMB appreciation/depreciation.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar/Hong Kong dollar and RMB exchange rates, with all other variables held constant, of the Group's loss before tax.

	Increase/ (decrease) in RMB rate %	Decrease/ (increase) in the Group's loss before tax HK$'000
2020		
If the United States dollar weakens against RMB	**5**	**(957)**
If the United States dollar strengthens against RMB	**(5)**	**957**
If the Hong Kong dollar weakens against RMB	**5**	**(308)**
If the Hong Kong dollar strengthens against RMB	**(5)**	**308**
2019		
If the United States dollar weakens against RMB	5	(1,437)
If the United States dollar strengthens against RMB	(5)	1,437
If the Hong Kong dollar weakens against RMB	5	(4)
If the Hong Kong dollar strengthens against RMB	(5)	4

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

Credit risk

The Group trades only with recognised and creditworthy third parties. 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 the Group's exposure to bad debts is not significant.

As at 31 December 2020, the Group had certain concentrations of credit risk as 32.0% (2019: 42.8%) and 89.3% (2019: 81.3%) of the Group's trade and bills receivables were due from the Group's largest customer and five largest customers, respectively.

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.

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Debt investments at fair value through other comprehensive income:					
– Trade receivables*	–	–	–	173,866	173,866
– Bills receivable					
– Normal**	7,060	–	–	–	7,060
Trade receivables*	–	–	–	62,544	62,544
Financial assets included in prepayments, deposits and other receivables					
– Normal**	527	–	–	–	527
Restricted bank balances					
– Not yet past due	2,282	–	–	–	2,282
Cash and bank balances					
– Not yet past due	34,917	–	–	–	34,917
	44,786	–	–	236,410	281,196

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

Credit risk *(continued)*

Maximum exposure and year-end staging (continued)

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Debt investments at fair value through other comprehensive income:					
– Trade receivables*	–	–	–	155,479	155,479
– Bills receivable					
– Normal**	16,151	–	–	–	16,151
Trade receivables*	–	–	–	89,295	89,295
Financial assets included in prepayments, deposits and other receivables					
– Normal**	574	–	–	–	574
Restricted bank balances					
– Not yet past due	6,528	–	–	–	6,528
Cash and bank balances					
– Not yet past due	24,718	–	–	–	24,718
	47,971	–	–	244,774	292,745

* For trade receivables to which the Group applies the simplified approach for provision for impairment, information based on the provision matrix is disclosed in note 16 to the financial statements.

** The credit quality of the bills receivable included in trade and bills receivables and the financial assets included in prepayments, deposits and other receivables 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.

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

Liquidity risk

The Group aims at maintaining a balance between continuity of funding and flexibility through the use of lease liabilities, loans from related parties and interest-bearing bank borrowings.

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

2020

	On demand or within 1 year HK$'000	2 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Trade payables	153,147	–	–	153,147
Financial liabilities included in other payables and accruals	10,405	–	–	10,405
Lease liabilities	3,087	7,685	2,538	13,310
Loans from related parties	78,475	–	–	78,475
Interest-bearing bank borrowings	194,649	–	–	194,649
	439,763	7,685	2,538	449,986

2019

	On demand or within 1 year HK$'000	2 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Trade payables	129,556	–	–	129,556
Financial liabilities included in other payables and accruals	11,909	–	–	11,909
Lease liabilities	4,275	7,256	4,175	15,706
Interest-bearing bank borrowings	282,309	–	–	282,309
	428,049	7,256	4,175	439,480

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

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. 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 is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 31 December 2019.

The Group monitors capital using a gearing ratio, which is net debt over total equity. Net debt includes interest-bearing bank borrowings and loans from related parties, less cash and bank balances and restricted bank balances.

The gearing ratio as at the end of the reporting period was as follows:

	2020 **HK$'000**	2019 HK$'000
Interest-bearing bank borrowings	**194,649**	282,309
Loans from related parties	**78,475**	–
Less: Cash and bank balances	**(34,917)**	(24,718)
Less: Restricted bank balances	**(2,282)**	(6,528)
Net debt	**235,925**	251,063
Total equity	**144,031**	299,061
Gearing ratio	**164%**	84%

32. 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:

	Note	2020 HK$'000	2019 HK$'000
NON-CURRENT ASSETS			
Investment in a subsidiary		**43,799**	219,319
Right-of-use asset		**–**	148
Total non-current assets		**43,799**	219,467
CURRENT ASSETS			
Prepayments and a deposit		**348**	255
Due from subsidiaries		**146,861**	104,890
Bank balance		**620**	4,124
Total current assets		**147,829**	109,269
CURRENT LIABILITIES			
Accruals		**2,111**	1,653
Loans from a related party		**45,463**	–
Lease liability		**–**	237
Total current liabilities		**47,574**	1,890
NET CURRENT ASSETS		**100,255**	107,379
TOTAL ASSETS LESS CURRENT LIABILITIES		**144,054**	326,846
Net assets		**144,054**	326,846
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	23	**1,891**	1,891
Reserves (Note)		**142,163**	324,955
Total equity		**144,054**	326,846

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

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

	Share premium HK$'000	Capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
As at 1 January 2019	121,933	217,885	(9,210)	330,608
Loss and total comprehensive expense for the year	–	–	(5,653)	(5,653)
As at 31 December 2019 and 1 January 2020	121,933	217,885	(14,863)	324,955
Loss and total comprehensive expense for the year	–	–	(182,792)	(182,792)
As at 31 December 2020	121,933	217,885	(197,655)	142,163

Under the applicable laws 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.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2021.

Five-Year Financial Summary

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

RESULTS

	2020 **HK$'000**	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000
Revenue	**472,368**	532,939	507,429	580,481	463,937
Gross profit/(loss)	**(17,464)**	19,876	90,088	110,223	103,245
Listing expenses	**–**	–	4,901	13,898	12,478
Profit/(loss) for the year attributable to equity holders of the Company	**(165,274)**	(68,121)	4,073	22,863	24,104

ASSETS, LIABILITIES AND EQUITY

	2020 **HK$'000**	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000
Non-current assets	**40,728**	110,006	110,078	110,227	111,623
Current assets	**571,167**	644,784	739,522	608,284	528,515
Total assets	**611,895**	754,790	849,600	718,511	640,138
Current liabilities	**458,721**	445,721	468,136	451,001	398,187
Net current assets	**112,446**	199,063	271,386	157,283	130,328
Total assets less current liabilities	**153,174**	309,069	381,464	267,510	241,951
Non-current liabilities	**9,143**	10,008	–	–	–
Net assets	**144,031**	299,061	381,464	267,510	241,951
Equity attributable to equity holders of the Company	**144,031**	299,061	381,464	267,510	241,951