Annual Report **2008**

通達集團
TONGDA GROUP

Tongda Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 698

Contents

Corporate Information

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1201–03, 12th Floor
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Ya Nan *(Chairman)*
Mr. Wang Ya Hua *(Vice Chairman)*
Mr. Wong Ah Yu
Mr. Wong Ah Yeung
Mr. Choi Wai Sang
Mr. Wang Ming Che

Independent Non-executive Directors

Mr. Ting Leung Huel, Stephen
MH, FCCA, FCPA (PRACTISING), ACA, FTIHK, FHKIoD
Mr. Cheung Wah Fung, Christopher, *JP*
Dr. Yu Sun Say, *SBS, GBS, JP*

COMPANY SECRETARY

Mr. Ko Chun Hay, Kelvin *MSc, FCPA, ACMA*

AUDITORS

Ernst & Young
Certified Public Accountants

AUTHORISED REPRESENTATIVES

Mr. Wang Ya Nan
Mr. Wang Ya Hua

PRINCIPAL BANKERS

In Hong Kong:
Hang Seng Bank Limited
HSBC
The Bank of Tokyo-Mitsubishi UFJ Limited
DBS Bank (Hong Kong) Limited
KBC Bank N.V.
The Bank of East Asia Limited

In the PRC:
Bank of China, Shishi City sub-branch
Xian Yap Bank

LEGAL ADVISER

As to Hong Kong law:
Chiu & Partners
Michael Li & Co.
Hui & Lam

As to PRC law:
Fujian Xieli & Partners Law Firm

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

HONG KONG BRANCH SHARE REGISTRAR

Union Registrars Limited
Room 1901–02,
Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

RESULTS AND DIVIDENDS

On behalf of the Board of Directors of Tongda Group Holdings Limited (the "Group"), I am pleased to announce the annual results of the Group for the year ended 31 December 2008 ("the year").

During the year under review, the Group recorded a turnover of HK$1,393,843,000, representing a 22.3% rise when compared with 2007. Excluding income from a newly acquired subsidiary, the turnover of the Group still recorded 8.4% growth thanks to the success of the strategy of the Group to develop notebook computer casings business and the support from internationally-renowned customers.

The Group recorded gross profit of HK$217,918,000 and gross margin at 15.6% (2007: 21.4%) for the year. The drop in gross profit was mainly the result of the year-on-year decrease in average selling price of the Group's products. Profit attributable to shareholders amounted to approximately HK$65,301,000 (2007: HK$174,818,000) mainly because of the increase in operation costs such as raw material costs, direct labor expenses and depreciation.

The Group is committed to generate steady return to shareholders. The Board has recommended payment of a final dividend of 0.2 HK cent per share (2007: 0.8 HK cent) for the year, translating into an annual dividend payout ratio of 36.7%.

DEVELOPMENT STRATEGIES AND ACHIEVEMENTS IN 2008

The global financial turmoil triggered by the sub-prime mortgage crisis in the US hit in 2008 and affected businesses worldwide including the Group inevitably. In response, the Group made decisive strategic moves to alleviate the impacts of the global economic recession on its business.

Kept abreast of market needs and consolidated product mix

Keeping in pace with market needs and industry development trend, the Group has been phasing out traditional and low margin products gradually and focusing on high added value products such as IML products for notebook computers, which made substantial progress during the year. Market data has the average annual growth rate of the notebook computer market between 2009 and 2012 estimated at approximately 10%, meaning the market has huge growth potential. Seeing the constantly rising demand for notebook computers in stylish casings, the Group has injected more resources into developing the business segment. Having secured a number of world-renowned international customers also gave the Group a more stable handset business. In the years to come, the Group will continue to develop more quality products to satisfy customers' needs.

Enhanced application of technology to cover higher margin products

After years of efforts in strategic planning and technological enhancement, the Group boasts mastery of the IML technology – its core competitive strength – and leadership among suppliers of IML products in the market. Continuous R&D efforts of the Group in the area have also allowed the Group to extend application of the technology to some higher margin products and developed more advanced and trendy products constituting mainly notebook computer casings. Applying an integration of our independently different IML techniques including color coating, plasma surface treatment, leather incrustation, multi-colour automatic printing and alloys with various textures, the Group is able to produce high quality and unique surface-finishing effects with strong appeal, which explained its landing of orders from famous international customers.

Attracted and formed long-term partnership with international customers

The Group is one of the few suppliers who can provide one-stop solution to handset covering lens, casing, hinges, sliding lid and keypad, which allows customers to lower production costs, and more importantly, helps the Group forge strong relationship with customers. During the year, to boost casing manufacturing support, the Group increased its stake in Tongda (Xiamen) Technology Limited ("Xiamen Technology") to 75%. Starting in 2007, the Group has been supplying handset casings to well-known international enterprises including Huawei, ZTE Corporation and Lenovo and orders from these customers grew steadily during the year under review. The Group was also much encouraged by having landed handset lens orders from the global mobile phone manufacturers Nokia and Sony Ericsson during the year, which has helped accelerate expansion of its business in the international market.

Other than handset business, the Group's electrical appliance business also remained stable. With long-standing cooperative relationship with well-known customers including Haier, Midea, Gree, Philips, Cisco, Sony and Samsung, the segment received steady orders.

As for the notebook business, which formally started to manufacture during the year, it also attracted satisfactory orders, showing strong potential in becoming a major growth driver of the Group. The IML technology of the Group is currently used to produce notebook computer casings for world famous computer manufactures including the four largest computer manufacturers in Taiwan – Asus, Hon Hai, Quanta and Compal – which supply 90% of the global market. Armed with the advanced technology and high quality and efficient one-stop solution, the Group has captured the attention of eminent international customers for all its three business streams, marking its success in entering into the international market.

Maintained healthy financial position and strengthened business foundation

The global economic downturn is the biggest challenge facing most of the industries. However, with a solid foundation and adequate liquidity, the Group has confidence in making it through the hard times. As at 31 December 2008, the Group had HK$191,613,000 in cash and bank balance.

Coping with the current economic situation, the Group will strive to allocate its resources carefully and with prudence, focusing on quality projects with growth potential. It sees now as the right time to strengthen its industry position and prepare itself for seizing first opportunities when the economy starts to improve.

STRONG CAPABILITIES BRACE PROMISING PROSPECTS

2009 is expected to be a challenging year laden with uncertainties. However, the Group thinks the economic recession will speed up consolidation of the market, which will favour sizeable and competent enterprises, such as Tongda. In such changeover, only strong suppliers will be able to meet the demand of customers for efficient and high quality one-stop solution. That plus the relatively high entry barriers of the industry have fortified the industry standing of the Group. Furthermore, boasting a sound financial status, leadership as a supplier of one-stop solution for consumer electronics casings, long-term working relationship with international brands and with operating costs coming down, the Group stands well in effecting long-term growth of its business. Thus, we have full confidence in the prospect of the Group.

Looking ahead, both handset and notebook computer casings are expected to continue to provide the Group with strong growth momentum. As for the mobile phone business, with the Chinese government confirming the issuance of 3G licenses at the end of 2008 and formally opening the 3G market in 2009. Expecting demand for 3G handsets to surge in folds after the 3G network is completed in the middle of the year, the three mobile telecom operators in China have increased orders from major mobile phone manufacturers. According to the Ministry of Information, in August 2008, there were already over 616 million mobile phone users in China, and when the 3G network is fully operational by the mid-2009, the handset market will see exponential growth. A partner of world-class mobile phone companies, the mobile phone business of the Group will benefit directly from the abundant opportunities in the 3G market, thus the Group has full confidence in the continuous growth of the business.

Also, with the production cycle of technological products becoming shorter and shorter, it is crucial to the manufacturers that their suppliers can keep up. Armed with years of industry experience and scalable production facilities, the Group is capable of satisfying the production cycle and product quality requirements of customers. This ability is expected to draw more well-known international customers to the Group.

The household electrical appliance division has been inevitably affected by the decline in consumption desire. Fortunately, relative to other markets, the China market has not been hit as seriously. Plus the active efforts of the Chinese government to stimulate domestic demand will indirectly support development of the Group in the market. The government programme that encourages purchase of electrical household appliances by residents in rural areas of the country will indirectly provide long-term support to the business segment.

During the year, the Group secured a three-year bank loan of HK$350,000,000. The Group will allocate its resources carefully for endeavours including expansion of production facilities and focusing on development of high margin and added value products so as to optimise its product mix. It will also continuous to pursue R&D of IML technologies to expand their applications. Furthermore, the Group will closely monitor market trends and look for merger and acquisition opportunities at suitable time to help speed up business development.

Finally, the Board wishes to thank all staff of the Group for their diligence and contribution during the year. I would also like to take this opportunity to express my gratitude to our shareholders for supporting and trusting the Group over the years. We will continue to work together with our shareholders and staff and exert our best to create fruitful results that we can all share.

BUSINESS REVIEW

1. Financial

For the year ended 31 December 2008, the Group recorded a turnover of HK$1,393,843,000, representing a 22.3% rise when compared with last year. (2007: HK$1,139,540,000).

During the year, the Group increased its stake in Tongda (Xiamen) Technology Limited ("Xiamen Technology") to 75% and the incomes and expenses of the company were consolidated into the Group account. Xiamen Technology, which was a jointly-controlled entity last year, is a producer of mainly handset casings, followed by casings of notebook computers and other electrical appliances thus providing support to the Group. In the consolidated account, Xiamen Technology contributed about 11.4% of the Group's turnover for the year (2007: nil). Excluding such contribution, the Group had a 8.4% increase in turnover year-on-year.

For the year ended 31 December 2008, the Group recorded gross profit of HK$217,918,000 (2007: HK$243,398,000) with gross margin at 15.6% (2007: 21.4%). The drop in gross profit was mainly the result of the year-on-year decrease in average selling price of the Group's products. Profit attributable to shareholders amounted to approximately HK$65,301,000 (2007: HK$174,818,000). The decline in net profit reflected mainly an increase in operation costs such as raw material costs, direct labor expenses and depreciation.

The global economic downturn affected businesses worldwide. However, braced by a solid foundation, the Group was able to achieve steady growth. To stabilise its gross margin, on top of adopting stringent cost control measures, the Group also strategically phased out traditional and low margin products and focused on high added-value products such as In-Mould Lamination ("IML") products for notebook computers. The latter move won orders from a number of famous international clients for the Group including Lenovo and Asus. Furthermore, the Group also landed orders from the world-renowned mobile phone manufacturers – Nokia during the year, which has helped speeding up expansion of its business in the international market.

2 Operational information by division

a. The Electrical Fittings Division

During the year, this Division was joined by Xiamen Technology, which has given the Group the capabilities to manufacture the entire exterior cover of handsets including lens, casings, hinges, sliding lids and keypads. The Group is currently among only a few manufacturers who can offer one-stop solution to customers, allowing them to lower production costs and offering customers more attentive services, so as to strengthen customer relations.

The turnover from the electrical fittings division increased by 43.3% to HK$857,045,000 for the year (2007: HK$598,085,000), accounting for 61.5% of the Group total. Majority of the increase came from Xiamen Technology. Excluding such contribution, sales revenue of the division grew by 14.3% year-on-year.

IML products remained as the core business of the Group, occupying more than 71% of the divisional sales. Of which, IML's application included handsets, notebook computer and electrical appliances, occupying IML's sales 59%, 18% and 23% respectively.

After years of efforts in strategic planning and technological enhancement, the Group boasted mastery of the IML technology. The success of the IML products was attributable to the relentless efforts of the Group in improving its technological advantages and offering customers the most innovative and advanced products. For example, for the high margin handset market, the Group developed a wide array of trend-setting stylish and sleek handset casings.

IML application to handset is the key business in the division. The Group was much encouraged by having landed handset lens orders from the world-renowned mobile phone manufacturers Nokia during the year and Sony Ericsson from last year. Other than the international brands, the key handset manufacturers in China including Huawei, ZTE Corporation and Lenovo have increased their orders to the Group steadily. With the change of customer mix to all prestige customers, the Group has affirmed its prominent position in the international handset supply chain.

The Group has extended its application of the IML technology to some higher margin products and developed more advanced and trendy products constituting mainly notebook computer cover surface. Related efforts reported notable progress during the year. Heeding product trends, the Group, applying an integration of our self-developed IML techniques including color coating, plasma surface treatment, leather incrustation, multi-colour automatic printing and alloys with various textures, has been producing high quality and unique surface-finishing effects with strong user appeal. After the first year trial run in 2007, the Group has sold more than HK$112 million during the year. Looking ahead, a strong growth momentum is expected in the coming years for the closed relationship with the largest computer manufacturers in Taiwan, who are the major manufacturers of computer in the world.

Other than handset and notebook computer business, IML products applying in electrical household appliance were widely adopted and sales were remained stable during the year. With long-standing cooperative relationship with well-known customers including Haier, Midea, Gree, Philips, Cisco, Sony and Samsung, the segment received steady orders. The active efforts of the Chinese government to stimulate domestic demand will indirectly support development of the Group in the market. The government programme that encourages purchase of electrical household appliances by residents in rural areas of the country will also provide long-term support to the Group.

The Group will continue to step up effort in enhancing IML technology and develop more high quality products to meet customer needs in different aspects.

Manufacturing of casing became important to the Group from the year under review. It has occupied about 19% of the divisional sales. The Group started to manufacture and sale of precision plastic injection parts for casings of handsets and electrical appliances since 2005 through an jointly-controlled entity, Xiamen Technology. For a strategic move, the Group has acquired 25% stake of Xiamen Technology during the year. Aiming for a one-stop shop for customers, the Group started to supply notebook computer casing. They shared similar customer base as for IML business. It is another growth momentum of the Group in the coming years.

b. *Ironware Parts Division*

During the year, turnover from the Group's ironware parts division increased from HK$390,066,000 to HK$411,792,000, representing a rise of 5.6% as compared to 2007.

The division was mainly manufactured ironware and aluminium products applying to electrical appliances. The business of manufacturing ironware parts experienced a difficult year with the soared metal costs and selling price pressure. Although the sales turnover was maintained during the year, the profit margin has dropped significantly. Since the division has occupied about nearly 30% of the Group's turnover, it has lowered down our group's overall profitability. Looking ahead, the business is still difficult and the Group will continue to focus on the relatively higher margin products including smaller and more delicate precision ironware parts and overseas' sales orders. Steady change to manufacture higher margin products is the predetermined strategy and reallocation of resources to other more profitable business such as products in electrical fittings division will be a medium and long term move.

The Communication Facilities Division

The Group terminated the optic fiber and electrical resistance businesses in 2007, leaving the satellite television modem business in operation. Turnover from the product segment was HK$102,902,000 for the year. (2007: HK$88,241,000)

c. *Other Business*

In order to expand to other electrical appliance manufacturing business, the Group has invested in the business of manufacturing trendy lifestyle consumer products including satellite navigation systems and bar speaker amplifiers and has acquired a R&D team with Korean engineers.

The new set-up has recorded an operating loss of over HK$6.2 million in 2008. The new business is expected to bring new customers and orders to the Group thus conducive to the Group expanding into new markets. The business is expected to stabilise and breakeven in 2009 and bring in meaningful contributions in the next few years thereafter.

d. *Product turnover breakdown for the 12 months ended 31 December 2008 and 2007*

	2008	2007
Electrical Fittings Division	61%	52%
Ironware Parts Division	30%	34%
Communication Facilities Division	7%	8%
Others	2%	6%

The Group made strategic adjustment of its product mix during the year. To pool resources for focusing on developing high margin products, the Group's Electrical Fittings Division became the biggest turnover contributor both in terms of turnover and profits.

3. Prospect

Economies around the world and consumer spending will continue to be affected by the global economic downturn. However, enjoying strong competitive advantages including a rock solid foundation, leadership as a one-stop provider of casings of consumer electronics, and with a strategically-refined product mix, ability to develop innovative new products and effectively control costs, all conducive to the long term development of its businesses, the Group is cautiously optimistic about its prospects.

Both handset and notebook computer casings are expected to continue to provide the Group with strong growth momentum, and the latter in particular will become a long-term growth driver of the Group. Seeing the constantly rising popularity for notebook computers in stylish casings, the Group has injected more resources into developing the business segment.

The market environment is though uncertain, it is expected to speed up consolidation of the industry to the ultimate benefit of sizeable and competent enterprises. Furthermore, as the industry has relatively high entry barriers, the Group is going to gain stronger yet industry standing. Armed with years of experience and a strong foundation, we are confident of weathering the tough times ahead and seize first opportunities for growth when the economic environment improves.

EXECUTIVE DIRECTORS

Mr. Wang Ya Nan, aged 51, is the Chairman and CEO of the Group. He is responsible for the overall strategic planning and business development of the Group. He is also responsible for the development of overseas markets. He joined the Group in December 1988 and has over 20 years of experience in the electronics and electrical industry. He is a brother of Messrs. Wong Ah Yeung, Wong Ah Yu and Wang Ya Hua.

Mr. Wang Ya Hua, aged 53, is the Vice Chairman and the General Manager of the Group. He is responsible for the overall management of the Group with special focus on product development, preparation and monitoring of annual production plans and operating budget. He is also required to give direction of the day-to-day operations unit of the Group in Xiamen. He joined the Group in December 1988 and has over 20 years of experience in the electronics and electrical industry. He is a brother of Messrs. Wong Ah Yeung, Wong Ah Yu and Wang Ya Nan.

Mr. Wong Ah Yu, aged 56, is the Deputy General Manager of the Group and the General Manager of Tongda Electrics. He is responsible for overseeing the operation unit in Shishi and requires to give direction of the day-to-day operation. He joined the Group in December 1988 and has over 20 years experience in the electronics and electrical industry. He is a brother of Messrs. Wong Ah Yeung, Wang Ya Hua and Wang Ya Nan.

Mr. Wong Ah Yeung, aged 59, is the Deputy General Manager of the Group and the General Manager of Tongda Ironware. He is responsible for overseeing the operation unit in Shenzhen and requires to give direction of the day-to-day operation. He joined the Group in December 1988 and has over 20 years experience in the metal and electrical industry. He is a brother of Messrs. Wong Ah Yu, Wang Ya Hua and Wang Ya Nan.

Mr. Choi Wai Sang, aged 53, is an executive Director and is responsible for the development of overseas market and the technical support of the Group's product development. He joined the Group in December 1988. He graduated with a Bachelor and Master of Science degrees in electrical engineering from the University of Illinois, Urbana, USA.

Mr. Wang Ming Che, aged 33, has been appointed as executive Director with effect from 18 March 2008. He is the Deputy General Manager of Tongda Ironware. He joined the Group and was employed as a salesman in Tongda Electronics and as an assistant in Tongda Ironware since 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Yu Sun Say, *S.B.S, G.B.S. J.P.*, aged 70, joined the Company as an Independent Non-executive Director in October 2007. He is the Managing Director of the H.K.I. Group of Companies and a director of a number of manufacturing and investment companies. He is an Independent Non-executive Director of Sino Union Petroleum & Chemical International Limited and Wong's International (Holdings) Limited. He served as member of the Preparatory Committee for the Hong Kong Special Administrative Region and as a Hong Kong Affairs Adviser. He is currently a member of the Standing Committee of the Chinese People's Political Consultative Conference, a member of the Standing Committee of the Chinese General Chamber of Commerce and Permanent Honorary President of the Chinese Manufacturers' Association of Hong Kong.

Mr. Ting Leung Huel, Stephen, *MH, FCCA, FCPA (PRACTISING), ACA, FTIHK, FHKIoD*, aged 55, is an independent non-executive director of the Company. Mr. Ting is an accountant in public practice as managing partner of Ting Ho Kwan & Chan, Certified Public Accountants since 1987. Mr. Ting is a member of the 9th & 10th Chinese People's Political & Consultative Conference, Fujian. He is now a non-executive director of Chow Sang Sang (Holdings) International Limited and an independent non-executive director of six listed companies, namely, JLF Investment Company Limited, Minmetals Resources Limited, Tong Ren Tang Technologies Company Limited, Computer and Technologies Holdings Limited, Texhong Textile Group Limited and Dongyue Group Limited.

Mr. Cheung Wah Fung Christopher, *JP*, aged 57, is an Independent Non-executive Director of the Company. Mr. Cheung is currently the Chairman of Christfund Securities group of companies. He serves as a Member of the National Committee of the Chinese People's Political Consultative Council, chairman of the Hong Kong Securities Professionals Association, elected-director of the Hong Kong Chinese General Chamber of Commerce, director of the Chinese Overseas Friendship Association, Director of the Friends of Hong Kong Association, Member of the Standing Committee of the Federation of Commerce and Industry of Guangdong Province, Honorary President of Hong Kong Federation of Fujian Associations.

SENIOR MANAGEMENT

Mr. Ko Chun Hay, Kelvin, *MSc, FCPA, ACMA*, aged 45, is the Chief Financial Officer and Company Secretary of the Group and is responsible for the corporate finance, accounts and company secretarial functions of the Group. Mr. Ko graduated with a Master of Science Degree of finance from the City University of Hong Kong. He is a fellow member of the Hong Kong Society of Accountants and an associate member of the Chartered Institute of Management Accountants. He joined the Group in August 2000 and has over 20 years of working experience in the field of commercial, audit and taxation.

Mr. Hui Wai Man, Anthony, *BSc*, aged 41, is the Deputy General Manager of a subsidiary company of the Group. He is mainly responsible for the Group's Sales and Marketing activities in Hong Kong & Overseas. He is also responsible for the overall purchasing management of the Group. He has over 15 years experience in the field of electronic market. He joined the Group in April 2003.

Mr. Lin Yuen, aged 43, is the Chief Engineer of Tongda Electrics. He is responsible for the research and development and the advancement of production know-how. He holds a bachelor's degree in engineering from the University of Jiao Tong, Shanghai. He joined the Group in May 1999 and has over 17 years of experience in manufacturing and product development.

Mr. Shu Yuen Shu, aged 70, is the Senior Management Consultant of the Group. He assists the Group's general manager to formulate corporate strategies and staff training, and to implement the Group's quality control program. He holds a bachelor's degree in physics from the University of Xiamen. He joined the Group in June 1998 and has over 30 years of quality management experience in the electronics industry.

Mr. Yuen Sik Kin, aged 48, is the Accounting Manager of the Group and is responsible for the accounts and financial management of the Group. He obtained his qualification as an accountant from the Finance Department of the People's Republic of China. He joined the Group in 1994 and has over 20 years of working experience in the accounts and finance field.

Throughout the year ended 31 December 2008, the Company has compiled with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") of the Stock Exchange of Hong Kong Limited. In addition, the Group is committed to maintain a high standard of corporate governance in order to provide transparency and protection of shareholders' interest.

With reference to the code provision set out in the Code of Corporate Governance Practices (the "Corporate Governance Code") contained in Appendix 14 of the Listing Rules, with due consideration of the interest of shareholders and the economic benefit of the Company, the Company has adopted the relevant Corporate Governance Code as follows:

BOARD OF DIRECTORS

The Board of Directors (the "Board") comprises six executive directors and three independent non-executive directors and the Board is accountable to shareholders. The management and control of the business of the Company is vested in its Board. It is the duty of the Board to create value to the shareholders of the Company.

The Board is bound to manage the Company in a responsible and effective manner, and therefore every Director should ensure that he carries out his duty in good faith and in compliance with the standards of the applicable laws and regulations, and acts in the best interests of the Company and its shareholders at all times.

The Board has delegated a schedule of responsibilities to each of the executive directors. Mr. Wang Ya Nan, the Chairman and the Chief Executive Officer of the Board, who requires to establish the Company's strategic direction, set the Company's objectives and plans, and provide leadership and ensure availability of resources in the attainment of such objectives. He is also required to control, supervise and monitor the capital, corporate finance, technical and human resources of the Group. Mr. Wang Ya Hua, the Vice Chairman of the Board, implements the decisions of the Board and manages strategies and plans approved by the Board; and prepares and monitors the annual production plans and operating budget. He is also required to give direction of the day-to-day operation in one of the main operation unit of the Group in Xiamen. Mr. Wong Ah Yu oversees the operation unit in Shishi and requires to give direction of the day-to-day operation. Mr. Wong Ah Yeung and Mr. Wang Ming Che oversee the operation unit in Shenzhen and requires to give direction of the day-to day operation. Mr. Choi Wai Sang is responsible for the marketing function of the overseas market and product development.

The roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. The Company does not have a separate Chairman and Chief Executive Officer and Mr. Wang Ya Nan currently holds both positions. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies. The present structure is considered to be appropriate under the current size of operation.

The three independent non-executive directors are responsible for ensuring a high standard of financial and other mandatory reporting of the Board as well as to provide a balance in the Board in order to protect shareholders' interest and overall interest of the Group. There is no fixed term of office for each independent non-executive director but each of them is required to retire in accordance with the articles of association of the Company.

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

The Board held 12 meetings during the year with attendance record as follows:

Attendance at Board Meeting	Number of meetings attended (12 meetings in total)
Executive Directors:	
Mr. Wang Ya Nan	12
Mr. Wang Ya Hua	12
Mr. Wong Ah Yu	11
Mr. Wong Ah Yeung	11
Mr. Choi Wai Sang	11
Mr. Wang Ming Che (appointed on 18 March 2008)	9
Independent Non-Executive Directors:	
Mr. Ting Leung Huel Stephen	11
Mr. Cheung Wah Fung Christopher	10
Dr. Yu Sun Say	10

The Board held 12 meetings during the year under review. The Chief Financial Officer and Company Secretary attended all the scheduled Board Meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and finance.

In compliance with the code provisions of the Corporate Governance Code, the Company has set up a Remuneration Committee and an Audit Committee under the Board. The Board considers the determination of the appointment and removal of Directors to be the Board's collective decision and thus does not intend to adopt the recommended best practice of the Corporate Governance Code to set up a Nomination Committee.

REMUNERATION COMMITTEE

The Remuneration Committee (the "RC") comprises the Chairman and CEO of the Company, Mr. Wang Ya Nan, and three independent non-executive directors, Mr. Ting Leung Huel Stephen ("Mr Ting"), Mr. Cheung Wah Fung Christopher and Dr. Yu Sun Say. Mr. Ting takes the chair of the RC. The main responsibility of the RC is to review and to determine the remuneration of each director and senior management.

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

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

AUDIT COMMITTEE

The Audit Committee (the "AC") comprises the three independent non-executive directors. Mr. Ting takes the chair of the AC. The term of reference of the AC are aligned with the recommendations as set out in "A Guide for Effective Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions as set out in the Corporate Governance Code. The AC provides accounting and financial advices and recommendations to the Board as well as monitor and safeguard the independence of external auditors and relevant auditing matters.

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

Attendance at AC meeting	Number of meetings attended (2 meetings in total)
AC members and attendants:	
Mr. Wang Ya Nan	2
Mr. Choi Wai Sang	2
Mr. Ting Leung Huel, Stephen	2
Mr. Cheung Wah Fung Christopher	2
Dr. Yu Sun Say	2

AUDITORS' REMUNERATION

Details of fees paid or payable to the Group's external auditors for the year ended 31 December 2008 are as follows:

Services	Fees
	HK$'000
Annual audit	1,590
Non-audit services	125
	1,715

ACCOUNTABILITY AND INTERNAL CONTROL

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and management with an appropriate consideration to materiality.

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

The Board is responsible for the effectiveness of the Group's internal control system. The internal control system is designated to meet the Group's needs. Relevant procedures have been designed for safeguarding assets against unauthorised use or disposal; for controlling excessive capital expenditure; for maintaining proper accounting records; and for the reliability of financial information used in the operations or for publication. Qualified management personnel of the company will maintain and monitor the internal control system on a going-concern basis. The management and the Chief Financial Officer of the Company will report the internal control situation to the Audit Committee and the Board periodically for evaluation.

EXTERNAL AUDITORS

Ernst and Young has been appointed as the External Auditors of the Company for the year under review by the shareholders of the Company at the Annual General Meeting 2008. The Audit Committee has given their opinion on the fee charged to the Company. The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Independent Auditors' Report" on pages 31 to 32.

COMMUNICATION WITH SHAREHOLDERS

The Company attaches great priority to establish effective communication with its shareholders and investors. In an effort to enhance such communications, the Company provides information relating to the Company and its business in its annual report and also disseminates such information electronically through its web site at www.tongda.com.

The Company regards the annual general meeting as an important event as it provides an opportunity for direct communication between the Board and its shareholders. All Directors, senior management and external auditors make an effort to attend the annual general meeting of the Company to address shareholders' queries. All the shareholders of the Company are given a minimum of 20 clear business days' notice of the date and venue of the annual general meeting of the Company. The Company supports the Corporate Governance Code's principle to encourage shareholders' participation.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 of the Listing Rules as the code of conduct regarding director' securities transactions.

The Board will review regularly the Group's operation and corporate governance of the Company in order to ensure compliance of the relevant laws and regulations and to protect the interest of its shareholders.

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2008 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 33 to 128.

An interim dividend of HK0.4 cent per ordinary share was paid on 29 October 2008.

The directors recommend the payment of a final dividend of HK0.2 cent per ordinary share in respect of the year, to shareholders whose names appear on the register of members on 5 June 2009. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the respective equity sections of the balance sheets.

FINANCIAL INFORMATION SUMMARY

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

RESULTS

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit for the year attributable to:					
Ordinary equity holders of the Company	**65,301**	174,818	161,194	124,807	98,334
Minority interests	**6,041**	(4,810)	(856)	(867)	767
	71,342	170,008	160,338	123,940	99,101

ASSETS, LIABILITIES AND MINORITY INTERESTS

	31 December				
	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL ASSETS	**2,073,015**	1,677,384	1,177,306	1,010,660	827,013
TOTAL LIABILITIES	**(857,683)**	(538,983)	(550,675)	(529,332)	(454,895)
MINORITY INTERESTS	**(33,665)**	(5,429)	(10,239)	(11,095)	(11,356)
	1,181,667	1,132,972	616,392	470,233	360,762

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Details of movements in the property, plant and equipment and the investment property of the Group during the year are set out in notes 13 and 14 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company during the year, together with the reasons therefor, are set out in notes 29 and 30 to the financial statements, respectively.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 31(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2008, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2004 Revision) of the Cayman Islands, amounted to HK$596,443,000, of which HK$7,980,000 has been proposed as a final dividend for the year. This includes the Company's share premium account in the amount of HK$473,527,000 as at 31 December 2008, which may be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

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

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$2,134,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 31.6% of the total sales for the year and sales to the largest customer included therein amounted to 9.2%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

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

Executive directors:
Mr. Wang Ya Nan *(Chairman)*
Mr. Wang Ya Hua *(Vice chairman)*
Mr. Wong Ah Yu
Mr. Wong Ah Yeung
Mr. Choi Wai Sang
Mr. Wang Ming Che (appointed on 18 March 2008)

Independent non-executive directors:
Mr. Ting Leung Huel, Stephen
Mr. Cheung Wah Fung, Christopher, *JP*
Dr. Yu Sun Say, *GBS, JP*

In accordance with article 108(A) of the Company's articles of association, Messrs. Wong Ah Yu, Wong Ah Yeung and Choi Wai Sang will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2008, the interests of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

Long positions in ordinary shares of the Company:

Name of director	Number of shares held, capacity and nature of interest Directly beneficially owned	Through controlled corporation	*Notes*	Total	Percentage of the Company's issued share capital
Mr. Wang Ya Nan	34,920,000	1,994,750,000	1	2,029,670,000	50.87
Mr. Wang Ya Hua	19,920,000	1,994,750,000	1	2,014,670,000	50.50
Mr. Wong Ah Yu	25,160,000	1,994,750,000	1	2,019,910,000	50.63
Mr. Wong Ah Yeung	32,000,000	1,994,750,000	1	2,026,750,000	50.80
Mr. Choi Wai Sang	21,250,000	78,750,000	2	100,000,000	2.51
Mr. Cheung Wah Fung	8,650,000	–		8,650,000	0.22

Long positions in share options of the Company:

Name of director	Number of share options directly beneficially owned
Mr. Wang Ya Nan	23,500,000
Mr. Wang Ya Hua	23,500,000
Mr. Wong Ah Yu	23,500,000
Mr. Wong Ah Yeung	23,500,000
Mr. Choi Wai Sang	5,000,000
Mr. Ting Leung Huel, Stephen	4,000,000
Mr. Cheung Wah Fung, Christopher, *JP*	4,000,000
Dr. Yu Sun Say, *GBS, JP*	2,000,000
	109,000,000

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

Notes:

1. These shares are held by Landmark Worldwide Holdings Limited, the issued share capital of which is beneficially owned as to 25% by each Messrs. Wang Ya Nan, Wang Ya Hua, Wong Ah Yu and Wong Ah Yeung (collectively referred to as the "Wong Brothers").

2. These shares are held by Faye Limited, the entire issued share capital of which is held and beneficially owned by Mr. Choi Wai Sang.

Saved as disclosed above, as at 31 December 2008, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEMES

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 30 to the financial statements.

SHARE OPTION SCHEMES *(continued)*

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

Name or category of participants	Number of share options: At 1 January 2008	Granted during the year	Exercised during the year	At 31 December 2008	Date of grant of share options*	Exercise period of share options	Exercise price of share options** *HK$ per share*
Directors							
Mr. Wang Ya Nan	8,500,000	15,000,000	–	23,500,000	3 July 2007 and 16 February 2008	4 July 2007 to 3 July 2017 and 17 February 2008 to 16 February 2018	0.586 and 0.315
Mr. Wang Ya Hua	8,500,000	15,000,000	–	23,500,000	3 July 2007 and 16 February 2008	4 July 2007 to 3 July 2017 and 17 February 2008 to 16 February 2018	0.586 and 0.315
Mr. Wong Ah Yu	8,500,000	15,000,000	–	23,500,000	3 July 2007 and 16 February 2008	4 July 2007 to 3 July 2017 and 17 February 2008 to 16 February 2018	0.586 and 0.315
Mr. Wong Ah Yeung	8,500,000	15,000,000	–	23,500,000	3 July 2007 and 16 February 2008	4 July 2007 to 3 July 2017 and 17 February 2008 to 16 February 2018	0.586 and 0.315
Mr. Choi Wai Sang	–	5,000,000	–	5,000,000	16 February 2008	17 February 2008 to 16 February 2018	0.315

SHARE OPTION SCHEMES *(continued)*

Name or category of participants	At 1 January 2008	Granted during the year	Exercised during the year	At 31 December 2008	Date of grant of share options*	Exercise period of share options	Exercise price of share options** *HK$ per share*
	Number of share options						
Directors *(continued)*							
Mr. Ting Leung Huel, Stephen	2,000,000	2,000,000	–	4,000,000	3 July 2007 and 16 February 2008	4 July 2007 to 3 July 2017 and 17 February 2008 to 16 February 2018	0.586 and 0.315
Mr. Cheung Wah Fung, Christopher, *JP*	2,000,000	2,000,000	–	4,000,000	3 July 2007 and 16 February 2008	4 July 2007 to 3 July 2017 and 17 February 2008 to 16 February 2018	0.586 and 0.315
Dr. Yu Sun Say	–	2,000,000	–	2,000,000	16 February 2008	17 February 2008 to 16 February 2018	0.315
Other employees							
In aggregate	10,000,000	40,000,000	(2,000,000)	48,000,000	9 March 2007, 16 February 2008 and 5 December 2008	10 March 2007 to 9 March 2017, 17 February 2008 to 16 February 2018 and 6 December 2008 to 5 December 2018	0.485 0.315 and 0.053
	48,000,000	111,000,000	(2,000,000)	157,000,000			

SHARE OPTION SCHEMES *(continued)*

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

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

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

*** The closing prices of the Company's shares immediately before 16 February 2008 and 5 December 2008 on which the share options were granted during the year were HK$0.315 and HK$0.053, respectively.

The directors have estimated the values of the share options granted during the year, calculated using the Black-Scholes option pricing model as at the date of grant of the options:

Grantee	Number of share options granted during the year	Theoretical value of share options *HK$*
Mr. Wang Ya Nan	15,000,000	882,926
Mr. Wang Ya Hua	15,000,000	882,926
Mr. Wong Ah Yu	15,000,000	882,926
Mr. Wong Ah Yeung	15,000,000	882,926
Mr. Choi Wai Sang	5,000,000	294,309
Mr. Ting Leung Huel, Stephen	2,000,000	117,723
Mr. Cheung Wah Fung, Christopher	2,000,000	117,723
Dr. Yu Sun Say	2,000,000	117,723
Other employees	40,000,000	1,276,818
	111,000,000	5,456,000

The Black-Scholes option pricing model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the share options were risk free rate, exercise price, volatility of the underlying share prices and term to maturity. The measurement dates used in the valuation calculations were the dates on which the options were granted. Details of the assumptions are set out in note 30 to the financial statements.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2008, the following parties were interested in 5% or more of the Company's issued share capital as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	*Note*	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Landmark Worldwide Holdings Limited	1	Directly beneficially owned	1,994,750,000	49.99
Atlantis Investment Management Ltd.	1	Directly beneficially owned	269,560,000	6.76

Note:

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

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

CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following connected transactions, the details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

1. On 14 March 2008, the Group entered into an equity transfer agreement with Xiamen Xin Yeng Investments Company Limited ("Xin Yeng") in relation to the disposal of the Group's 30% equity interests in Shenzhen Tongda Electronic Co., Ltd ("Shenzhen Tongda Electronic") by the Group to Xin Yeng at a consideration of RMB1,482,647. The disposal pursuant to the share transfer agreement took effect on 21 March 2008. Further details of the transaction is included in note 16 to the financial statements.

2. On 20 July 2008, the Group entered into an equity transfer agreement with Xin Yeng pursuant to which the Group has agreed to purchase and Xin Yeng has agreed to sell 5% of the Group's equity interests in Tongda (Xiamen) Technology Limited at a consideration of RMB3,042,863. Further details of the transaction are included in note 16 to the financial statements.

3. On 11 November 2008, the Group entered into an equity transfer agreement with Xin Yeng pursuant to which the Group has agreed to purchase and Xin Yeng has agreed to sell 5% of the Group's equity interests in Shenzhen Tongda Electronic at a consideration of RMB697,808. The transaction has not completed as at 31 December 2008. Further details of the transaction are included in note 39 to the financial statements.

DIRECTORS' SERVICE CONTRACTS

Each of the Wong Brothers and Mr. Choi Wai Sang, being the executive directors of the Company, have entered into a service agreement with the Company for an initial fixed term of three years commencing from 1 December 2000, and which will continue thereafter until terminated by not less than three months' notice in writing served by either party to the other. Such notice shall not expire until after the aforementioned initial fixed term.

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

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Saved as disclosed in note 36 to the financial statements, no director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 12 to 14 of the annual report.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, the Company purchased certain of its shares on the Stock Exchange. These shares were subsequently cancelled by the Company and the issued share capital of the Company was reduced by the par value thereof. Further details of these transactions are set out in note 29 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 39 to the financial statements.

AUDITORS

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

ON BEHALF OF THE BOARD
Tongda Group Holdings Limited

Wang Ya Nan
Chairman

Hong Kong
21 April 2009

ERNST & YOUNG
安 永

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

We have audited the financial statements of Tongda Group Holdings Limited set out on pages 33 to 128, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

AUDITORS' RESPONSIBILITY *(continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

21 April 2009

	Notes	2008 *HK$'000*	2007 *HK$'000*
REVENUE	5	1,393,843	1,139,540
Cost of sales		(1,175,925)	(896,142)
Gross profit		217,918	243,398
Other income and gains, net		52,378	66,211
Selling and distribution costs		(39,045)	(33,443)
Administrative expenses		(97,644)	(69,254)
Other expenses, net		(22,490)	(15,421)
Finance costs	6	(27,312)	(14,854)
Share of profits and losses of:			
Associates		2,674	3,818
A jointly-controlled entity		3,572	18,468
PROFIT BEFORE TAX	7	90,051	198,923
Tax	9	(18,709)	(28,915)
PROFIT FOR THE YEAR		71,342	170,008
Attributable to:			
Ordinary equity holders of the Company	10	65,301	174,818
Minority interests		6,041	(4,810)
		71,342	170,008
DIVIDENDS	11		
Interim		15,959	32,132
Proposed final		7,980	31,918
		23,939	64,050
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
– Basic		HK1.64 cents	HK4.42 cents
– Diluted		HK1.64 cents	HK4.41 cents

Consolidated Balance Sheet

31 December 2008

	Notes	2008 *HK$'000*	2007 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	13	752,758	523,682
Investment property	14	3,850	4,000
Prepaid land lease payments	15	27,887	19,725
Interests in associates	17	31,226	22,895
Interest in a jointly-controlled entity	18	–	43,692
Prepayments	19	55,449	42,980
Long term deposits	20	7,352	13,442
Deferred tax assets	28	3,833	130
Total non-current assets		882,355	670,546
CURRENT ASSETS			
Inventories	21	305,872	167,710
Trade and bills receivables	22	600,152	627,727
Prepayments, deposits and other receivables		90,019	58,245
Pledged deposits	23	43,738	584
Derivative financial assets	24	2,894	5,945
Tax recoverable		110	–
Cash and cash equivalents	23	147,875	146,627
Total current assets		1,190,660	1,006,838
CURRENT LIABILITIES			
Trade and bills payables	25	262,300	243,371
Accrued liabilities and other payables		98,041	58,003
Derivative financial liabilities	24	2,273	1,984
Interest-bearing bank borrowings	27	170,907	112,844
Due to a jointly-controlled entity	18	–	13,787
Due to a minority shareholder of a subsidiary	26	609	609
Tax payable		108,591	105,883
Total current liabilities		642,721	536,481

	Notes	2008 HK$'000	2007 HK$'000
NET CURRENT ASSETS		547,939	470,357
TOTAL ASSETS LESS CURRENT LIABILITIES		1,430,294	1,140,903
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	27	211,205	–
Deferred tax liabilities	28	3,757	2,502
Total non-current liabilities		214,962	2,502
Net assets		1,215,332	1,138,401
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	29	39,898	39,975
Reserves	31(a)	1,133,789	1,061,079
Proposed final dividend		7,980	31,918
		1,181,667	1,132,972
Minority interests		33,665	5,429
Total equity		1,215,332	1,138,401

Wang Ya Nan
Director

Wang Ya Hua
Director

Consolidated Statement Of Changes In Equity

Year ended 31 December 2008

		Attributable to ordinary equity holders of the Company												
		Issued capital	Share premium account	Share option reserve	Capital reserve	Asset revaluation reserve	Statutory reserve	Capital redemption reserve	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008		39,975	472,734	4,393	993	11,796	49	190	51,847	519,077	31,918	1,132,972	5,429	1,138,401
Deficit on revaluation	13	–	–	–	–	(1,682)	–	–	–	–	–	(1,682)	–	(1,682)
Deferred tax adjustment on revaluation of property, plant and equipment	28	–	–	–	–	277	–	–	–	–	–	277	–	277
Exchange realignment														
– subsidiaries		–	–	–	–	–	–	–	29,469	–	–	29,469	1,687	31,156
– associates		–	–	–	–	–	–	–	453	–	–	453	–	453
Total income and expense for the year recognised directly in equity		–	–	–	–	(1,405)	–	–	29,922	–	–	28,517	1,687	30,204
Profit for the year		–	–	–	–	–	–	–	–	65,301	–	65,301	6,041	71,342
Total income and expense for the year		–	–	–	–	(1,405)	–	–	29,922	65,301	–	93,818	7,728	101,546
Acquisition of a subsidiary	32	–	–	–	–	–	–	–	–	–	–	–	21,845	21,845
Acquisition of minority interests		–	–	–	–	–	–	–	–	–	–	–	(6,709)	(6,709)
Partial disposal of a subsidiary		–	–	–	–	–	–	–	–	–	–	–	2,367	2,367
Capital contribution from a minority shareholder		–	–	–	–	–	–	–	–	–	–	–	3,005	3,005
Equity-settled share option arrangements	30	–	–	5,456	–	–	–	–	–	–	–	5,456	–	5,456
Shares issued upon exercise of share options	29,31(b)	20	793	(183)	–	–	–	–	–	–	–	630	–	630
Final 2007 dividend declared		–	–	–	–	–	–	–	–	–	(31,918)	(31,918)	–	(31,918)
Repurchase and cancellation of shares	29	(97)	–	–	–	–	–	97	–	(3,332)	–	(3,332)	–	(3,332)
Interim 2008 dividend	11	–	–	–	–	–	–	–	–	(15,959)	–	(15,959)	–	(15,959)
Proposed final 2008 dividend	11	–	–	–	–	–	–	–	–	(7,980)	7,980	–	–	–
At 31 December 2008		39,898	473,527	9,666	993	10,391	49	287	81,769	557,107	7,980	1,181,667	33,665	1,215,332

Consolidated Statement Of Changes In Equity

Year ended 31 December 2008

		Attributable to ordinary equity holders of the Company												
		Issued capital	Share premium account	Share option reserve	Capital reserve	Asset revaluation reserve	Statutory reserve	Capital redemption reserve	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007		33,715	102,281	–	993	8,725	49	–	23,493	415,004	32,132	616,392	10,239	626,631
Surplus on revaluation	13	–	–	–	–	3,723	–	–	–	–	–	3,723	–	3,723
Deferred tax adjustment on revaluation of property, plant and equipment	28	–	–	–	–	(652)	–	–	–	–	–	(652)	–	(652)
Exchange realignment														
– subsidiaries		–	–	–	–	–	–	–	25,821	–	–	25,821	–	25,821
– a jointly-controlled entity		–	–	–	–	–	–	–	1,937	–	–	1,937	–	1,937
– associates		–	–	–	–	–	–	–	596	–	–	596	–	596
Total income and expense for the year recognised directly in equity		–	–	–	–	3,071	–	–	28,354	–	–	31,425	–	31,425
Profit for the year		–	–	–	–	–	–	–	–	174,818	–	174,818	(4,810)	170,008
Total income and expense for the year		–	–	–	–	3,071	–	–	28,354	174,818	–	206,243	(4,810)	201,433
Equity-settled share option arrangements	30	–	–	4,609	–	–	–	–	–	–	–	4,609	–	4,609
Transfer of share option reserve upon cancellation of share options	31(b)	–	–	(216)	–	–	–	–	–	216	–	–	–	–
Final 2006 dividend declared		–	–	–	–	–	–	–	–	–	(32,132)	(32,132)	–	(32,132)
Issue of shares	29	6,450	380,550	–	–	–	–	–	–	–	–	387,000	–	387,000
Share issue expenses	29	–	(10,097)	–	–	–	–	–	–	–	–	(10,097)	–	(10,097)
Repurchase and cancellation of shares	29	(190)	–	–	–	–	–	190	–	(6,911)	–	(6,911)	–	(6,911)
Interim 2007 dividend	11	–	–	–	–	–	–	–	–	(32,132)	–	(32,132)	–	(32,132)
Proposed final 2007 dividend	11	–	–	–	–	–	–	–	–	(31,918)	31,918	–	–	–
At 31 December 2007		39,975	472,734	4,393	993	11,796	49	190	51,847	519,077	31,918	1,132,972	5,429	1,138,401

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		90,051	198,923
Adjustments for:			
Finance costs	6	27,312	14,854
Share of profits and losses of associates		(2,674)	(3,818)
Share of profit and loss of a jointly-controlled entity		(3,572)	(18,468)
Depreciation	7	59,130	36,838
Amortisation of prepaid land lease payments	7	654	470
Excess over the cost of business combinations	7	(9,497)	–
Bank interest income	7	(1,946)	(4,646)
Loss on partial disposal of a subsidiary	7	774	–
Loss on disposal of items of property, plant and equipment	7	2,074	12,414
Changes in fair value of an investment property	7	150	(700)
Amortisation of prepayments	7	1,118	964
Impairment of trade receivables	7	11,260	1,051
Write-off of trade receivables	7	2,445	633
Write-back of provision for obsolete inventories	7	(715)	–
Equity-settled share option expense	30	5,456	4,609
		182,020	243,124
Increase in inventories		(99,634)	(46,576)
Decrease/(increase) in trade and bills receivables		68,558	(182,639)
Increase in prepayments, deposits and other receivables		(18,286)	(21,709)
Decrease/(increase) in derivative financial assets		3,051	(5,945)
Increase in amounts due from associates		(6,704)	(4,679)
Decrease/(increase) in an amount due from a jointly-controlled entity		(7,001)	15,588
Increase/(decrease) in trade and bills payables		(31,652)	89,321
Increase/(decrease) in accrued liabilities and other payables		898	(2,690)
Increase in derivative financial liabilities		289	1,984
Cash generated from operations		91,539	85,779
Interest paid		(27,312)	(14,854)
Hong Kong profits tax paid		(7,581)	(9,614)
Overseas taxes paid		(8,966)	(8,390)
Net cash inflow from operating activities		47,680	52,921

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,946	4,646
Dividend received from an associate		1,500	1,500
Purchases of items of property, plant and equipment	13	(229,905)	(196,649)
Proceeds from disposal of items of property, plant and equipment		3,544	7,481
Additional capital contribution to a jointly-controlled entity		–	(5,299)
Acquisition of subsidiaries	32	5,862	–
Acquisition of minority interests		(4,382)	–
Proceeds from partial disposal of a subsidiary		1,593	–
Increase in prepaid land lease		(7,830)	–
Decrease/(increase) in long term deposits		4,659	(12,082)
Decrease/(increase) in pledged bank deposits		(43,154)	4,615
Net cash outflow from investing activities		(266,167)	(195,788)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		511,459	202,041
Repayment of bank loans		(242,191)	(326,197)
Decrease in trust receipt loans		–	(1,362)
Issuance of shares, net of related expenses	29	–	376,903
Shares repurchase expenses	29	(3,332)	(6,911)
Proceeds from exercise of share options	29	630	–
Repayment of an advance from a minority shareholder of a subsidiary		–	(139)
Capital contribution from a minority shareholder		3,005	–
Dividends paid		(47,877)	(64,264)
Net cash inflow from financing activities		221,694	180,071
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,207	37,204
Cash and cash equivalents at beginning of year		146,627	113,211
Effect of foreign exchange rate changes, net		(1,959)	(3,788)
CASH AND CASH EQUIVALENTS AT END OF YEAR		147,875	146,627
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	23		
Cash and bank balances		123,561	96,627
Non-pledged time deposits with original maturity of less than three months when acquired		24,314	50,000
		147,875	146,627

Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	16	127,871	127,871
Due from an associate	17	22	–
		127,893	127,871
CURRENT ASSETS			
Due from subsidiaries	16	818,043	540,075
Prepayments, deposits and other receivables		377	933
Cash and cash equivalents	23	74	50,095
Total current assets		818,494	591,103
CURRENT LIABILITIES			
Due to a subsidiary	16	55,022	52,600
Accrued liabilities and other payables		327	327
Interest-bearing bank borrowings	27	33,539	32,286
Total current liabilities		88,888	85,213
NET CURRENT ASSETS		729,606	505,890
TOTAL ASSETS LESS CURRENT LIABILITIES		857,499	633,761
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	27	211,205	–
Net assets		646,294	633,761
EQUITY			
Issued capital	29	39,898	39,975
Reserves	31(b)	598,416	561,868
Proposed final dividend	11	7,980	31,918
Total equity		646,294	633,761

Wang Ya Nan
Director

Wang Ya Hua
Director

1. CORPORATE INFORMATION

Tongda Group Holdings Limited is a limited liability company incorporated in the Cayman Islands.

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, Cayman Islands.

The principal activity of the Company consists of investment holding. The principal activities of the Company's subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the subsidiaries' principal activities during the year.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for an investment property, certain buildings and derivative financial instruments 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 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS *39 Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC) – Int 11	HKFRS 2 – *Group and Treasury Share Transactions*
HK(IFRIC) – Int 12	*Service Concession Arrangements*
HK(IFRIC) – Int 14	HKAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

2.3 IMPACT OF 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.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs and* HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [1]
HKFRS 1 (Revised)	*First-time Adoption of HKFRSs* [3]
HKFRS 2 Amendments	*Amendments to* HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* [1]
HKFRS 3 (Revised)	*Business Combinations* [3]
HKFRS 7 Amendments	*Amendments to* HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments* [1]
HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [3]
HKAS 32 and HKAS 1 Amendments	*Amendments to* HKAS 32 *Financial Instruments: Presentation and* HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
HKAS 39 Amendment	*Amendment to* HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [3]
HK(IFRIC) – Int 9 and HKAS 39 Amendments	*Amendments to* HK(IFRIC) – *Int 9 Reassessment of Embedded Derivatives and* HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives* [2]
HK(IFRIC) – Int 13	*Customer Loyalty Programmes* [4]
HK(IFRIC) – Int 15	*Agreements for the Construction of Real Estate* [1]
HK(IFRIC) – Int 16	*Hedges of a Net Investment in a Foreign Operation* [5]
HK(IFRIC) – Int 17	*Distribution of Non-cash Assets to Owners* [3]
HK(IFRIC) – Int 18	*Transfers of Assets from Customers* [3]

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Apart from the above, the HKICPA has issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional periods for each standard.

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods ending on or after 30 June 2009
[3] Effective for annual periods beginning on or after 1 July 2009
[4] Effective for annual periods beginning on or after 1 July 2008
[5] Effective for annual periods beginning on or after 1 October 2008
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 7 Amendments, HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39 Financial Instruments: Recognition and Measurement, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Jointly-controlled entity

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in a jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's interest in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and investment property), 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 to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

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

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

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each balance sheet date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

An item of property, plant and equipment 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 sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or other assets when completed and ready for use.

Investment property

An investment property is an interest in a land and building held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such property is measured initially at cost, including transaction costs. Subsequent to initial recognition, an investment property is stated at fair value, which reflects market conditions at the balance sheet date.

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

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

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Operating leases

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

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

Derivative financial instruments

The Group uses derivative financial instruments to hedge its risk associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities at amortised cost (including interest-bearing bank borrowings)

Financial liabilities including trade and bills payables, other payables and interest-bearing bank borrowings are initially stated at fair value less directly attributable transaction costs and 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. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

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)*

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date 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

- where 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, associates and interest in a jointly-controlled entity, where 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, 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:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates and interest in a jointly-controlled entity, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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.

Cash and cash equivalents

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

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheets, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation 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 are initially recorded using the functional currency rates ruling 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 balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries, associates and a jointly-controlled entity are currencies other than Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, 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)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(c) rental income, on a time proportion basis over the lease terms; and

(d) dividend income, when the shareholder's right to receive payment has been established.

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model, further details of which are given in note 30 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Share-based payment transactions (continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits 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 Group's subsidiaries in Mainland China are required to participate in the employee retirement scheme operated by the relevant local government bureau in Mainland China and to make contributions for its eligible employees. The contributions to be borne by the Group are calculated at a certain percentage of the salaries and wages for those eligible employees.

Treasury shares

The Group's own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification between leasehold land element from leasehold land and buildings

The Group has determined that the carrying value of the land element of the leasehold land and buildings held in Hong Kong in relation to the value of the entire lease is insignificant and cannot be reliably allocated. Accordingly, the leasehold land and buildings held in Hong Kong has been treated as a single unit and accounted for under HKAS 16 Property, Plant and Equipment.

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the property which is leased out on operating leases.

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

Estimation uncertainty

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

Provision for obsolete inventories

The management of the Group reviews an aged analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work in progress based primarily on the latest invoice prices and current market conditions.

Impairment of trade receivables and other receivables

Impairment of trade receivables and other receivables is made based on assessment of the recoverability of trade receivables and other receivables. The identification of doubtful debts requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables as well as doubtful debt expenses or write-back of doubtful debt in the period in which such estimate has been changed.

Estimation of fair value of leasehold buildings in Hong Kong and an investment property

As described in notes 13 and 14 to the financial statements, the leasehold buildings and the investment property located in Hong Kong were revalued at the balance sheet date on an open market, existing use basis by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each balance sheet date.

Valuation of share options

The fair value of options granted under share option schemes is determined using the Black-Scholes option pricing model. The significant inputs into the model were risk-free rate, exercise price, volatility of the underlying share process and term of maturity. When the actual results of the inputs differ from the management's estimate, it will have an impact on share option expenses and the related share option reserve of the Company.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the electrical fittings segment produces accessories for electrical appliance products;

(b) the ironware parts segment is a supplier of metallic casings and other ironware parts for electrical and electronic appliances;

(c) the communication facilities segment is a supplier of electronic components and fibre optic cables, the essential components of communication equipment; and

(d) the corporate and others segment comprises the trading of electrical appliances, the Group's management services business and the corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

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

4. SEGMENT INFORMATION *(continued)*

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

Group

	Electrical fittings		Ironware parts		Communication facilities		Corporate and others		Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:												
Sales to external customers	845,843	591,950	410,851	389,511	100,119	85,377	37,030	72,702	–	–	1,393,843	1,139,540
Intersegment sales	11,202	6,135	941	555	2,783	2,864	–	–	(14,926)	(9,554)	–	–
Total	857,045	598,085	411,792	390,066	102,902	88,241	37,030	72,702	(14,926)	(9,554)	1,393,843	1,139,540
Segment results	72,083	146,396	23,724	47,941	(25,609)	(18,656)	(9,753)	(15,578)	(1,706)	(2,318)	58,739	157,785
Unallocated income											52,378	33,706
Finance costs											(27,312)	(14,854)
Share of profits and losses of:												
Associates											2,674	3,818
A jointly-controlled entity											3,572	18,468
Profit before tax											90,051	198,923
Tax											(18,709)	(28,915)
Profit for the year											71,342	170,008

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

	Electrical fittings		Ironware parts		Communication facilities		Corporate and others		Eliminations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**1,816,388**	1,267,842	**486,763**	524,410	**626,355**	508,086	**400,911**	369,916	**(1,487,078)**	(1,212,743)	**1,843,339**	1,457,511
Unallocated assets											**229,676**	219,873
Total assets											**2,073,015**	1,677,384
Segment liabilities	**1,402,299**	906,282	**326,436**	314,730	**504,702**	378,994	**38,811**	43,435	**(1,911,298)**	(1,327,671)	**360,950**	315,770
Unallocated liabilities											**496,733**	223,213
Total liabilities											**857,683**	538,983
Other segment information:												
Depreciation	**45,504**	20,847	**9,923**	11,875	**2,830**	3,337	**873**	779	**–**	–	**59,130**	36,838
Amortisation of prepaid land lease payments	**580**	400	**–**	–	**74**	70	**–**	–	**–**	–	**654**	470
Impairment of trade receivables	**290**	1,051	**689**	–	**447**	–	**9,834**	–	**–**	–	**11,260**	1,051
Write-off of trade receivables	**2,439**	720	**6**	–	**–**	(87)	**–**	–	**–**	–	**2,445**	633
Write-back of provision for obsolete inventories	**–**	–	**(519)**	–	**(196)**	–	**–**	–	**–**	–	**(715)**	–
Loss on disposal of items of property, plant and equipment	**2,001**	127	**–**	–	**79**	12,287	**(6)**	–	**–**	–	**2,074**	12,414
Loss on disposal of a subsidiary	**774**	–	**–**	–	**–**	–	**–**	–	**–**	–	**774**	–
Amortisation of prepayments	**–**	–	**1,118**	964	**–**	–	**–**	–	**–**	–	**1,118**	964
Deficit/(surplus) on revaluation of property, plant and equipment recognised directly in equity	**–**	–	**–**	–	**–**	–	**1,682**	(3,723)	**–**	–	**1,682**	(3,723)
Change in fair value of an investment property	**–**	–	**–**	–	**–**	–	**150**	(700)	**–**	–	**150**	(700)
Excess over the cost of business combinations	**(7,962)**	–	**–**	–	**(1,535)**	–	**–**	–	**–**	–	**(9,497)**	–
Capital expenditure	**211,436**	179,108	**16,026**	16,431	**1,826**	1,076	**617**	34	**–**	–	**229,905**	196,649

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2008 and 2007.

Group

	Hong Kong		Mainland China		Southeast Asia		Australia		Others		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:												
Sales to external customers	**96,859**	178,445	**1,103,616**	750,213	**61,558**	45,979	**38,186**	73,467	**93,624**	91,436	**1,393,843**	1,139,540
Total assets	**124,395**	189,260	**1,894,253**	1,404,149	**12,595**	11,772	**26,419**	40,463	**15,353**	31,740	**2,073,015**	1,677,384
Other segment information:												
Capital expenditure	**608**	34	**229,297**	196,615	**–**	–	**–**	–	**–**	–	**229,905**	196,649

5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

6. FINANCE COSTS

	Group	
	2008	2007
	HK$'000	*HK$'000*
Interest expenses on bank loans and overdrafts wholly repayable within five years	**27,312**	14,854

7. PROFIT BEFORE TAX

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

	2008	2007
	HK$'000	*HK$'000*
Cost of inventories sold	1,175,925	896,142
Employee benefits expense (excluding directors' remuneration – note 8):		
Salaries and wages	189,927	120,217
Equity-settled share option expense	1,277	948
Pension scheme contributions	416	593
Less: Amounts included in research and development costs	(3,487)	(1,291)
	188,133	120,467
Minimum lease payments under operating leases of leasehold land and buildings	8,461	4,150
Auditors' remuneration	1,590	1,500
Depreciation	59,130	36,838
Amortisation of prepaid land lease payments	654	470
Changes in fair value of an investment property*	150	(700)
Amortisation of prepayments	1,118	964
Impairment of trade receivables*	11,260	1,051
Write-off of trade receivables*	2,445	633
Write-back of provision for obsolete inventories*	(715)	–
Loss on disposal of items of property, plant and equipment*	2,074	12,414
Research and development costs**	32,797	32,374
Net fair value losses/(gains) on foreign exchange derivative financial instruments***	3,340	(3,961)
Gross rental income with nil outgoings***	(1,704)	(5,237)
Loss on partial disposal of a subsidiary*	774	–
Excess over the cost of business combinations *(note 16)****	(9,497)	–
Bank interest income***	(1,946)	(4,646)
Foreign exchange differences, net***	(29,170)	(34,471)

7. PROFIT BEFORE TAX *(continued)*

* Changes in fair value of an investment property, impairment of trade receivables, write-off of trade receivables, loss on disposal of items of property, plant and equipment and loss on partial disposal of a subsidiary for the year are included in "Other expenses, net" on the face of the consolidated income statement.

** Included in the research and development costs are items of plant and equipment amounted to HK$16,678,000 (2007: HK$14,227,000) which are capitalised under property, plant and equipment in the consolidated balance sheet and are depreciated over their estimated useful lives.

*** Gross rental income with nil outgoings, excess over the cost of business combinations, bank interest income, net foreign exchange differences, and net fair value losses/(gains) on foreign exchange derivative financial instruments for the year are included in "Other income and gains, net" on the face of the consolidated income statement.

Cost of inventories sold includes HK$224,398,000 (2007: HK$137,628,000) relating to staff costs, operating lease rentals on land and buildings, amortisation of prepayments, depreciation of the manufacturing activities and write-back of provision for obsolete inventories, which are also included in the respective total amounts disclosed above for each of these types of expenses.

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, was as follows:

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

Directors' remuneration *(continued)*

	Group	
	2008	2007
	HK$'000	*HK$'000*
Fees	2,160	1,987
Other emoluments:		
Salaries, allowances and benefits in kind	3,646	3,640
Equity-settled share option expense	4,179	3,661
Pension scheme contributions	174	174
	7,999	7,475
	10,159	9,462

(a) *Independent non-executive directors*

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

	2008	2007
	HK$'000	*HK$'000*
Mr. Wong Kong Hon, *SBS, JP*	–	62
Mr. Ting Leung Huel, Stephen	150	150
Mr. Cheung Wah Fung, Christopher, *JP*	120	120
Dr. Yu Sun Say, *SBS, GBS, JP*	150	35
	420	367

Except for above fee of HK$420,000 (2007: HK$367,000) and equity-settled share option expense of HK$353,000 (2007: HK$549,000), there were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

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

Directors' remuneration *(continued)*

(b) *Executive directors*

	Fees	Salaries, allowances and benefits in kind	Equity-settled share option expense	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2008					
Executive directors:					
Mr. Wang Ya Nan	660	928	883	54	2,525
Mr. Wang Ya Hua	240	750	883	30	1,903
Mr. Wong Ah Yu	240	750	883	30	1,903
Mr. Wong Ah Yeung	240	750	883	30	1,903
Mr. Choi Wai Sang	240	380	294	30	944
Mr. Wang Ming Che	120	88	–	–	208
	1,740	3,646	3,826	174	9,386
2007					
Executive directors:					
Mr. Wang Ya Nan	660	980	778	54	2,472
Mr. Wang Ya Hua	240	760	778	30	1,808
Mr. Wong Ah Yu	240	760	778	30	1,808
Mr. Wong Ah Yeung	240	760	778	30	1,808
Mr. Choi Wai Sang	240	380	–	30	650
	1,620	3,640	3,112	174	8,546

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

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

Five highest paid employees

The five highest paid employees during the year included four (2007: four) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining one (2007: one) non-director, highest paid employee for the year are as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	1,699	1,092
Employee share option expense	688	915
Pension scheme contributions	24	12
	2,411	2,019

During the year, share options were granted to directors and a non-director, highest paid employee in respect of their services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors and non-director, highest paid employee's remuneration disclosures.

The above remuneration of the non-director, highest paid employee fell within the band of HK$2,000,001 to HK$2,500,000 (2007: HK$2,000,001 to HK$2,500,000).

9. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. The lower Hong Kong profits tax rate is effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31 December 2008. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2008 *HK$'000*	2007 *HK$'000*
Group:		
Current – Hong Kong		
Charge for the year	6,296	6,663
Current – Elsewhere		
Charge for the year	16,565	25,162
Overprovision in prior years	(5,684)	(2,910)
	10,881	22,252
Deferred *(note 28)*	1,532	–
Total tax charge for the year	18,709	28,915

9. TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries/jurisdiction in which the Company and its subsidiaries are operated to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Profit before tax	90,051	198,923
Tax at the statutory tax rate of 12% (2007: 12%)	1,790	3,107
Tax at the statutory tax rate of 16.5% (2007: 17.5%)	(8,230)	(1,930)
Tax at the statutory tax rate of 25% (2007: 33%)	32,141	55,060
Lower applicable tax rates enjoyed by the Group	(6,175)	(14,455)
Estimated tax effect of net expenses that are not deductible in determining taxable profit	–	(2,558)
Estimated tax effect of net income that are not taxable in determining taxable profit	4,736	–
Profit attributable to a jointly-controlled entity and associates	(712)	(7,399)
Adjustments in respect of current tax of prior years	(5,684)	(2,910)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	843	–
Tax charge at the Group's effective rate	18,709	28,915

With the effective of the new Corporate Income Tax Law (the "New CIT Law") of the PRC on 1 January 2008, the Corporate Income Tax (the "CIT") rate was changed from 33% to 25%. Under the relevant laws and regulations in the PRC, certain subsidiaries of the Group operating in Mainland China are exempted from CIT for two years from their respective first profit-making years and are eligible for a 50% reduction in CIT for the following three years. In addition, a reduced tax rate of 18% can be enjoyed by the subsidiary in the year 2008 if it is located in the Special Economic Zone of the PRC.

9. TAX *(continued)*

福建省石獅市通達電器有限公司 (Tongda Electrics Company Limited, Shishi City) and 福建省石獅市通達電子有限公司 (Tongda Electronic Company Limited, Shishi City) are the Group's subsidiaries, operating in Mainland China and are subject to CIT at 25% (2007: 27%). The assessable profits of another subsidiary, 通達五金（深圳）有限公司 (Tongda Ironware (Shenzhen) Company Limited) is subject to a preferential CIT rate of 18% (2007: 7.5%).

通達(廈門)科技有限公司 (Tongda (Xiamen) Technology Limited), a former jointly-controlled entity changed to a subsidiary of the Group in current year (note 16(k)), and together with another subsidiary 通達(廈門)電器有限公司 (Tongda (Xiamen) Electric Company Limited) are also subject to a preferential CIT rate of 18%. They also entitled to a "two year exemption and three year half reduction" preferential tax treatment. Since it is the fourth and the second profitable year of Tongda (Xiamen) Technology Limited and Tongda (Xiamen) Electric Company Limited, respectively, Tongda (Xiamen) Technology Limited is subject to a preferential CIT rate of 9% (2007: 7.5%) while Tongda (Xiamen) Electric Company Limited is exempted from CIT in current year.

The share of tax attributable to associates amounting to HK$1,007,000 (2007: HK$977,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement. The share of tax attributable to Xiamen Technology, before it became a non-wholly owned subsidiary of the Company, amounting to HK$353,000 (2007: HK$1,349,000) is included in "Share of profits and losses of a jointly-controlled entity" on the face of the consolidated income statements.

10. PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to ordinary equity holders of the Company for the year ended 31 December 2008 includes a profit of HK$57,656,000 (2007: HK$71,846,000) which has been dealt with in the financial statements of the Company (note 31(b)).

11. DIVIDENDS

	2008	2007
	HK$'000	*HK$'000*
Interim – HK0.4 cent (2007: HK0.8 cent) per ordinary share	15,959	32,132
Proposed final – HK0.2 cent (2007: HK0.8 cent) per ordinary share	7,980	31,918
	23,939	64,050

The proposed final dividend for the year is calculated based on 3,989,800,000 issued and fully paid up shares of the Company, up to the date of these financial statements.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company of HK$65,301,000 (2007: HK$174,818,000), and the weighted average of 3,989,811,000 (2007: 3,954,223,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2008 is based on the profit for the year attributable to ordinary equity holders of the Company of HK$65,301,000 (2007: HK$174,818,000). The weighted average number of ordinary shares of 3,990,880,000 (2007: 3,963,170,000) used in the calculation is the weighted average of 3,989,811,000 (2007: 3,954,223,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average of 1,069,000 (2007: 8,947,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of 20,000,000 (2007: 50,360,000) dilutive share options during the year.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold buildings in Hong Kong	Leasehold buildings in Mainland China	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2008								
Cost or valuation:								
At beginning of year	26,600	136,782	8,307	355,672	14,556	20,043	82,452	644,412
Additions	–	457	3,966	172,516	2,382	969	49,615	229,905
Disposals	–	–	–	(16,762)	(226)	(858)	–	(17,846)
Acquisition of subsidiaries	–	–	2,489	41,758	1,770	647	579	47,243
Transfers	–	120,720	–	3,554	–	–	(124,274)	–
Transfer to prepayments *(note 19)*	–	–	–	–	–	–	(11,095)	(11,095)
Deficit on revaluation	(2,200)	–	–	–	–	–	–	(2,200)
Exchange realignment	–	8,830	413	21,380	757	1,090	4,789	37,259
At 31 December 2008	24,400	266,789	15,175	578,118	19,239	21,891	2,066	927,678
Accumulated depreciation:								
At beginning of year	–	22,755	3,833	81,753	6,061	6,328	–	120,730
Provided for the year	518	8,703	1,202	44,135	1,902	2,670	–	59,130
Disposals	–	–	–	(11,375)	(199)	(654)	–	(12,228)
Reversal upon revaluation	(518)	–	–	–	–	–	–	(518)
Exchange realignment	–	2,174	153	4,845	277	357	–	7,806
At 31 December 2008	–	33,632	5,188	119,358	8,041	8,701	–	174,920
Net book value:								
At 31 December 2008	24,400	233,157	9,987	458,760	11,198	13,190	2,066	752,758

An analysis of the cost or valuation of the property, plant and equipment of the Group is as follows:

At cost	–	266,789	15,175	578,118	19,239	21,891	2,066	903,278
At 31 December 2008 valuation	24,400	–	–	–	–	–	–	24,400
At 31 December 2008	24,400	266,789	15,175	578,118	19,239	21,891	2,066	927,678

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

Group

	Leasehold buildings in Hong Kong	Leasehold buildings in Mainland China	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2007								
Cost or valuation:								
At beginning of year	23,300	82,706	7,816	268,411	12,345	15,123	39,837	449,538
Additions	–	–	–	99,592	2,271	5,075	89,711	196,649
Disposals	–	–	–	(34,150)	(867)	(1,184)	–	(36,201)
Transfer to leasehold buildings	–	47,893	–	–	–	–	(47,893)	–
Transfer to plant and machinery	–	–	–	1,572	–	–	(1,572)	–
Transfer to prepayments *(note 19)*	–	–	–	–	–	–	(597)	(597)
Surplus on revaluation	3,300	–	–	–	–	–	–	3,300
Exchange realignment	–	6,183	491	20,247	807	1,029	2,966	31,723
At 31 December 2007	26,600	136,782	8,307	355,672	14,556	20,043	82,452	644,412
Accumulated depreciation:								
At beginning of year	–	16,089	3,330	65,357	4,803	4,512	–	94,091
Provided for the year	423	5,915	344	26,810	1,169	2,177	–	36,838
Disposals	–	(9)	–	(15,353)	(241)	(703)	–	(16,306)
Reversal upon revaluation	(423)	–	–	–	–	–	–	(423)
Exchange realignment	–	760	159	4,939	330	342	–	6,530
At 31 December 2007	–	22,755	3,833	81,753	6,061	6,328	–	120,730
Net book value:								
At 31 December 2007	26,600	114,027	4,474	273,919	8,495	13,715	82,452	523,682

An analysis of the cost or valuation of the property, plant and equipment of the Group is as follows:

At cost	–	136,782	8,307	355,672	14,556	20,043	82,452	617,812
At 31 December 2007 valuation	26,600	–	–	–	–	–	–	26,600
At 31 December 2007	26,600	136,782	8,307	355,672	14,556	20,043	82,452	644,412

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

The Group's leasehold buildings situated in Hong Kong were revalued at the balance sheet date by Asset Appraisal Ltd., an independent firm of professionally qualified valuers, at an open market value of HK$24,400,000 (2007: HK$26,600,000). A revaluation deficit of HK$1,682,000 (2007: surplus of HK$3,723,000), resulting from the above valuations, has been charged (2007: credited) to the asset revaluation reserve.

The Group's leasehold buildings situated in Hong Kong at valuation of HK$24,400,000 are held under long term leases. The Group's leasehold buildings situated in Mainland China are held under medium term leases.

Had all of the Group's leasehold buildings situated in Hong Kong been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$12,427,000 (2007: HK$12,689,000).

The Group's property, plant and equipment with a net book value of HK$61,786,000 (2007: Nil) as at 31 December 2008 in Mainland China have been pledged as security against banking facilities granted to the Group (note 27).

As at 31 December 2008, the Group has not yet obtained the title ownership certificates for certain of its buildings situated in Xiamen city and Shishi city, Fujian, Mainland China with a net book value of HK$178,035,000 (2007: HK$71,670,000) and approximately HK$119,106,000 (2007: Nil) of which are situated on the land under the process of land use right certificates application. The Company's directors confirmed that, as the Group has properly obtained the land use right certificates in respect of the land on which the buildings are located, there is no legal barrier or otherwise for the Group to obtain the relevant buildings ownership certificates for these buildings from the relevant Mainland China authority.

14. INVESTMENT PROPERTY

	2008	2007
	HK$'000	*HK$'000*
Carrying amount at 1 January	4,000	3,300
Fair value adjustment	(150)	700
Carrying amount at 31 December	3,850	4,000

The Group's investment property located at Unit C, 7th Floor, Seabright Plaza, Nos. 9, 11, 13, 15, 17, 19, 21 and 23 Shell Street, Hong Kong and held under the medium term lease and has been pledged as security against banking facilities granted to the Group (note 27).

The Group's investment property was revalued on 31 December 2008 by Asset Appraisal Ltd., an independent firm of professionally qualified valuers, on an open market, existing use basis of HK$3,850,000 (2007: HK$4,000,000). The investment property is leased to third parties under operating leases, further summary details of which are included in note 34(a) to the financial statements.

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2008	2007
	HK$'000	*HK$'000*
Carrying amount at 1 January	20,195	19,239
Additions	7,830	–
Recognised during the year	(654)	(470)
Exchange realignment	1,170	1,426
Carrying amount at 31 December	28,541	20,195
Current portion included in prepayments, deposits and other receivables	(654)	(470)
Non-current portion	27,887	19,725

The leasehold land is held under a medium term lease and is situated in Mainland China.

16. INTERESTS IN SUBSIDIARIES

	Company 2008	2007
	HK$'000	*HK$'000*
Unlisted investments, at cost	79,379	79,379
Loans to subsidiaries	48,492	48,492
	127,871	127,871

The balances with subsidiaries are unsecured, interest-free and are repayable on demand. The amounts advanced to the subsidiaries included in the interests in subsidiaries above were unsecured, interest-free and have no fixed terms of repayments. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company 2008	2007	Principal activities
Directly held					
Tong Da Holdings (BVI) Limited	British Virgin Islands ("BVI")	Ordinary US$10,000	100	100	Investment holding
Indirectly held					
Tong Da General Holdings (H.K.) Limited	Hong Kong	Ordinary HK$880,000	100	100	Investment holding and raw material sourcing

16. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company 2008	2007	Principal activities
Indirectly held *(continued)*					
Ever Target Limited	Hong Kong	Ordinary HK$4	**100**	100	Investment holding
Tongda Group International Limited	Hong Kong	Ordinary HK$2	**100**	100	Investment holding
福建省石獅市通達電器有限公司 (Tongda Electrics Company Limited, Shishi City) *(Note a)* ("Tongda Electrics")	People's Republic of China ("PRC")/ Mainland China	Registered HK$120,000,000	**100**	100	Manufacture and sale of accessories for electrical appliance products
福建省石獅通達電子有限公司 (Tongda Electronic Company Limited, Shishi City) *(Note b)* ("Tongda Electronics")	PRC/ Mainland China	Registered Renminbi ("RMB") RMB32,000,000	**100**	100	Manufacture and sale of resistors and other electronic products
廈門通達光纜有限公司 (Xiamen Optic Conduct Cable Company Limited) *(Note c)*	PRC/ Mainland China	Registered RMB73,864,018	**81**	70	Manufacture and sale of fibre optic cables

16. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company 2008	2007	Principal activities
Indirectly held *(continued)*					
通達五金（深圳）有限公司 (Tongda Ironware (Shenzhen) Company Limited) *(Note d)* ("Tongda Ironware")	PRC/ Mainland China	Registered HK$ 30,000,000	100	100	Manufacture and sale of ironware products
Tongda (Shenzhen) Company Limited	Hong Kong	Ordinary HK$10,000	100	100	Investment holding
Tongda Overseas Company Limited	BVI	Ordinary US$1	100	100	Dormant
Taxdeal Properties Limited	BVI	Ordinary US$1	100	100	Dormant
Tabcombe Consultants Limited	BVI	Ordinary US$1	100	100	Dormant
Tongda Overseas Macao Commercial Offshore Limited	Macau	Ordinary MOP100,000	100	100	Trading of electrical appliance products
Wisdom Mark Industries Limited	BVI	Ordinary US$1	100	100	Dormant

16. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company 2008	2007	Principal activities
Indirectly held *(continued)*					
Best Buy Limited	BVI	Ordinary US$1	100	100	Dormant
South Win Limited	Hong Kong	Ordinary HK$1,000	100	100	Provision of motor vehicles leasing service
Tongda Smart Technology Company Limited	Hong Kong	Ordinary HK$300,000	100	100	Dormant
Tongda (Xiamen) Company Limited	Hong Kong	Ordinary HK$10,000	100	100	Investment holding
Tong Da General (H.K.) Limited	Hong Kong	Ordinary HK$100,000	100	100	Investment holding
通達（廈門）電器有限公司 (Tongda (Xiamen) Electric Company Limited) *(Note e)*	PRC/ Mainland China	Registered HK$10,000,000	100	100	Manufacture and sale of accessories for electrical appliance products

16. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company 2008	2007	Principal activities
Indirectly held *(continued)*					
通達精密組件（深圳）有限公司 (Tongda Precision Component (Shenzhen) Company Limited) *(Note f)*	PRC/ Mainland China	Registered HK$10,000,000	100	100	Manufacture and sale of ironware products
石獅市通達光電科技有限公司 (Tongda Light Electricity Technology Company Limited, Shishi City) *(Note g)*	PRC/ Mainland China	Registered HK$18,000,000	100	100	Manufacture of accessories of electrical appliance products
石獅市通達通訊器材有限公司 (Tongda Communications Equipment Company Limited, Shishi City) *(Note h)*	PRC/ Mainland China	Registered HK$28,000,000	100	100	Manufacture of accessories of electrical appliance products
Tongda Optical Fiber Technology Limited *(Note i)*	Hong Kong	Ordinary HK$100,000	100	86.67	Investment holding
Evertarget (Hong Kong) Limited *(Note j)*	Hong Kong	Ordinary HK$500,000	85	–	Manufacture of lifestyle consumer products

16. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company 2008	2007	Principal activities
Indirectly held *(continued)*					
通達（廈門）科技有限公司 (Tongda (Xiamen) Technology Limited) *(Note k)* ("Xiamen Technology")	PRC/ Mainland China	Registered RMB53,776,300	75	N/A	Manufacture and sale of precision plastic injection parts
深圳通達電子有限公司 (Shenzhen Tongda Electronic Co. Ltd.) *(Note l)*	PRC/ Mainland China	Registered HK$45,000,000	70	–	Manufacture and sale of plastic injection and printing parts

16. INTERESTS IN SUBSIDIARIES *(continued)*

Notes:

a. 福建省石獅市通達電器有限公司(Tongda Electrics Company Limited, Shishi City) is a wholly-foreign-owned enterprise with an operating period of 65 years commencing from 12 February 1993. The English name is the direct translation of the Chinese name of the company. The registered capital increased from HK$22,000,000 to HK$120,000,000 in the current year and was fully paid up in 2008. As at the balance sheet date, the Group has paid up capital of HK$69,999,950 and the remaining unpaid capital of HK$50,000,050 was disclosed as a commitment in note 35 to the financial statements.

b. 福建省石獅通達電子有限公司(Tongda Electronic Company Limited, Shishi City) is a wholly-foreign-owned enterprise with an operating period of 30 years commencing from 20 December 1998.

c. 廈門通達光纜有限公司(Xiamen Optic Conduct Cable Company Limited) is an equity joint venture established by the Group and a joint venture partner in the PRC for a period of 15 years commencing from 10 November 1993. During the year, the certificate of approval was renewed and the operating period is extended for additional 5 years to 9 November 2013.

d. 通達五金（深圳）有限公司(Tongda Ironware (Shenzhen) Company Limited) is a wholly-foreign-owned enterprise with an operating period of 30 years commencing from 11 April 2002. The English name is the direct translation of the Chinese name of the company.

e. 通達（廈門）電器有限公司(Tongda (Xiamen) Electric Company Limited) is a wholly-foreign-owned enterprise with an operating period of 50 years commencing from 30 November 2006. As at the balance sheet date, the Group has paid up capital of HK$5,000,000 and the remaining unpaid capital of HK$5,000,000 was disclosed as a commitment in note 35 to the financial statements.

f. 通達精密組件（深圳）有限公司(Tongda Precision Component (Shenzhen) Company Limited) is a wholly-foreign-owned enterprise with an operating period of 30 years commencing from 15 August 2008. The English name is a direct translation of the Chinese name of the company. As at the balance sheet date, the Group has paid up capital of HK$6,000,000 and the remaining unpaid capital HK$4,000,000 was disclosed as a commitment in note 35 to the financial statements.

g. 石獅市通達光電科技有限公司(Tongda Light Electricity Technology Company Limited, Shishi) is a wholly-foreign-owned enterprise with an operating period of 20 years commencing from 18 May 2006.

16. INTERESTS IN SUBSIDIARIES *(continued)*

Notes: (continued)

h. 石獅市通達通訊器材有限公司(Tongda Communications Equipment Company Limited, Shishi) is a wholly-foreign-owned enterprise with an operating period of 20 years commencing from 18 May 2006. As at the balance sheet date, the Group has paid up capital of HK$26,798,000 and the remaining unpaid capital of HK$1,202,000 was disclosed as a commitment in note 35 to the financial statements.

i. During the year, the Group acquired the remaining 13.33% equity interest in Tongda Optical Fiber Technology Limited from the minority shareholder at a cash consideration of HK$910,000 and an excess over the cost of this acquisition of additional interests of HK$1,534,000 was recognised to the income statement for current year.

j. Evertarget (Hong Kong) Limited was incorporated in Hong Kong during the year.

k. On 25 January 2008, a written resolution was passed by the directors of Tongda (Xiamen) Technology Limited ("Xiamen Technology") in relation to the proposed increase in the registered capital of Xiamen Technology from RMB16,132,890 to RMB37,643,410 by RMB21,510,520 (approximately HK$23,915,000) which was made through the contribution in cash solely by the wholly-owned subsidiary of the Group, Tongda Xiamen Company Limited ("Tongda Xiamen"). Immediately upon the capital contribution by Tongda Xiamen, Tongda Xiamen's equity interest in Xiamen Technology increased from 50% to 70%. Thereafter, Xiamen Technology changed from a jointly-controlled entity to a non-wholly-owned subsidiary of the Group. An excess over the cost of business combination of HK$3,467,000 was resulted and recognised in the income statement for the current year. Details of this acquisition are disclosed in note 32 (i) to the financial statements.

   Pursuant to a sale and purchase agreement entered into between the Group and the joint venture partner on 20 July 2008, a further 5% equity interest in Xiamen Technology was acquired by the Group from its joint venture partner at a cash consideration of RMB3,043,000 (approximately HK$3,472,000) and an excess over the cost of this acquisition of additional interests of HK$793,000 was recognised in the income statement for the current year.

16. INTERESTS IN SUBSIDIARIES *(continued)*

Notes: (continued)

l. On 3 December 2007, the Group entered into a sale and purchase agreement to acquire the entire equity interests of Shenzhen Tongda Electronic Company Limited ("Shenzhen Tongda Electronic"), formerly known as 達明塑膠製(深圳)有限公司, a company established in the PRC, from Asiatec Holdings Limited ("Asiatec"), an independent third party, at a consideration of RMB4,500,000 (approximately HK$4,833,000). As at 31 December 2007, the Group has paid a deposit of RMB1,350,000 (approximately HK$1,431,000) for this acquisition. This acquisition was completed on 23 January 2008 and the remaining consideration of RMB3,150,000 (approximately HK$3,402,000) was paid to Asiatec during the year. An excess over the cost of business combination of HK$3,703,000 was recognised in the income statement for the current year. Details of this acquisition are disclosed in note 32 (ii) to the financial statements.

On 14 March 2008, an agreement was entered into between the Group and a former jointly-controlled entity's partner of Xiamen Technology, in relation to the disposal of the Group's 30% equity interest in Shenzhen Tongda Electronic (the "Disposal") at a cash consideration of RMB1,483,000 (approximately HK$1,593,000). The Disposal was completed on 21 March 2008 and thereafter, Shenzhen Tongda Electronic became a 70% non-wholly-owned subsidiary of the Group.

17. INTERESTS IN ASSOCIATES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Share of net assets	**16,677**	15,050	**–**	–
Due from associates	**14,549**	7,845	**22**	–
	31,226	22,895	**22**	–

17. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the associates are as follows:

Name	Place of incorporation/ registration and operations	Particulars of issued shares held	Percentage of ownership interest indirectly attributable to the Group 2008	2007	Principal activities
Meijitsu Tongda (HK) Company Limited ("Meijitsu")	Hong Kong/ Mainland China	Ordinary HK$10,000	**50**	50	Manufacture and sale of silk-screen printing products
Tongda Fuso (HK) Company Limited ("Fuso (HK)")	Hong Kong	Ordinary HK$7,625,630	**30***	50	Investment holding
Tongda Fuso Printing (Shanghai) Company Limited ("Fuso (Shanghai)")	PRC/Mainland China	Registered US$1,300,000	**30***	50	Manufacture and sale of silk-screen printing products
Meijitsu Tongda (Vietnam) Company Limited	Vietnam	Registered Vietnamese Dong ("VND") 9,600,000,000	**50**	50	Manufacture and sale of label/seal for automation office products
通達名科技(深圳)有限公司	PRC/Mainland China	Registered RMB11,000,000	**50**	–	Dormant

* During the year, Meijitsu, the immediate holding company of Fuso (HK) and Fuso (Shanghai), disposed of its 40% equity interest in Fuso (HK) and Fuso (Shanghai).

17. INTERESTS IN ASSOCIATES *(continued)*

Note:

The Group received dividend income of HK$1,500,000 (2007: HK$1,500,000) from the associates during the year.

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

The directors of the Company do not intend to demand settlement of the amounts due until the associates have surplus funds available to those necessary to provide adequate working capital for financing their operations. Accordingly, the amounts are classified as long term receivables.

All the above associates have been accounted for using the equity method in these financial statements. The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2008	2007
	HK$'000	*HK$'000*
Assets	98,358	80,250
Liabilities	60,040	46,465
Revenue	67,330	63,093
Profits	6,030	7,636

18. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2008	2007
	HK$'000	*HK$'000*
Share of net assets	–	43,692

Particulars of the jointly-controlled entity are as follows:

Name	Place of registration and operations	Particulars of registered capital	Percentage of Ownership interest		Percentage of Voting power		Percentage of Profit sharing		Principal activities
			2008	2007	**2008**	2007	**2008**	2007	
Tongda (Xiamen) Technology Limited	PRC/Mainland China	RMB32,265,780	**–**	50	**–**	50	**–**	50	Manufacture and sale of precision plastic injection parts

On 25 January 2008, a written resolution was passed by the directors of Xiamen Technology in relation to the proposed increase in the registered capital of Xiamen Technology. Upon the Group's capital contribution during the year, Xiamen Technology becomes a non-wholly-owned subsidiary of the Group. Details of the acquisition are disclosed in notes 16 and 32(i) to the financial statements.

As at 31 December 2007, the balance with a jointly-controlled entity was unsecured, interest-free and had no fixed terms of repayment. The carrying amount of this balance with a jointly-controlled entity approximated to its fair value. The balance with the jointly-controlled entity was classified as an amount due to a subsidiary upon Xiamen Technology became a non-wholly-owned subsidiary during the year.

The jointly-controlled entity had been accounted for using the equity method in these financial statements in the prior year.

18. INTEREST IN A JOINTLY-CONTROLLED ENTITY *(continued)*

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

Share of the jointly-controlled entity's assets and liabilities:

	2008 *HK$'000*	2007 *HK$'000*
Current assets	–	57,830
Non-current assets	–	21,775
Current liabilities	–	(35,913)
Net assets	–	43,692

Share of the jointly-controlled entity's results:

	2008 *HK$'000*	2007 *HK$'000*
Total revenue	14,827	80,205
Total expenses	(11,255)	(61,737)
Profit after tax	3,572	18,468

19. PREPAYMENTS

Group

	Prepaid rental	Prepaid premises cost	Total
	HK$'000	*HK$'000*	*HK$'000*
31 December 2008			
Cost:			
At beginning of year	2,030	45,016	47,046
Transfer from construction in progress *(note 13)*	–	11,095	11,095
Exchange realignment	118	2,596	2,714
At 31 December 2008	2,148	58,707	60,855
Amortisation:			
At beginning of year	211	3,855	4,066
Amortised during the year	47	1,071	1,118
Exchange realignment	12	210	222
At 31 December 2008	270	5,136	5,406
Net book value:			
At 31 December 2008	1,878	53,571	55,449

19. PREPAYMENTS *(continued)*

Group

	Prepaid rental HK$'000	Prepaid premises cost HK$'000	Total HK$'000
31 December 2007			
Cost:			
At beginning of year	1,890	41,354	43,244
Transfer from construction in progress *(note 13)*	–	597	597
Exchange realignment	140	3,065	3,205
At 31 December 2007	2,030	45,016	47,046
Amortisation:			
At beginning of year	154	2,733	2,887
Amortised during the year	44	920	964
Exchange realignment	13	202	215
At 31 December 2007	211	3,855	4,066
Net book value:			
At 31 December 2007	1,819	41,161	42,980
At 31 December 2006	1,736	38,621	40,357

The prepaid rental represents rental of a piece of land located in Mainland China (the "Land"). The Group has been granted the right to use the land for a period of 50 years. The prepaid premises cost represents the cost for the construction of certain premises erected on the Land. The Group has been granted the right to use these premises within the rental period of the Land. As confirmed by legal opinions issued by the Mainland China lawyers, the lessor of the Land has the right to lease the Land and the leasing agreement entered into by the Group with the lessor is legally enforceable under the PRC laws.

The prepaid rental is amortised on the straight-line basis over the lease term of 50 years. The prepaid premises cost is amortised on the straight-line basis over the remaining lease term of the Land.

20. LONG TERM DEPOSITS

	Group	
	2008	2007
	HK$'000	*HK$'000*
Deposit for acquisition of property, plant and equipment	7,352	12,011
Deposit for acquisition of a subsidiary *(note 32)*	–	1,431
	7,352	13,442

21. INVENTORIES

	Group	
	2008	2007
	HK$'000	*HK$'000*
Raw materials	159,113	102,510
Work in progress	40,935	24,386
Finished goods	105,824	40,814
	305,872	167,710

22. TRADE AND BILLS RECEIVABLES

	Group	
	2008	2007
	HK$'000	*HK$'000*
Trade receivables	579,040	599,724
Impairment allowances	(19,642)	(7,968)
	559,398	591,756
Bills receivables	40,754	35,971
	600,152	627,727

22. TRADE AND BILLS RECEIVABLES *(continued)*

It is the general policy of the Group to allow a credit period of three to six months. In addition, for certain customers with long-established relationships and good past repayment histories, a longer credit period may be granted in order to maintain a good relationship. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the Group's trade and bills receivables as at 31 December 2008, based on the invoice date, is as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Within 3 months	495,404	503,169
4 to 6 months, inclusive	86,596	74,806
7 to 9 months, inclusive	4,343	29,830
10 to 12 months, inclusive	1,378	7,782
More than 1 year	32,073	20,108
	619,794	635,695
Impairment allowances	(19,642)	(7,968)
	600,152	627,727

22. TRADE AND BILLS RECEIVABLES *(continued)*

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

	Group	
	2008	2007
	HK$'000	*HK$'000*
At 1 January	7,968	6,881
Impairment of trade receivables *(note 7)*	11,260	1,051
Exchange realignment	414	36
At 31 December	19,642	7,968

The above impairment allowance for trade receivables is an allowance for individually impaired trade receivables with carrying amount of HK$23,126,000 (2007: HK$7,985,000). The individually impaired trade receivables relate to customers that have been overdue for a long time and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
		(restated)
Neither past due nor impaired	462,487	435,449
Within 3 months	117,099	125,958
4 to 6 months, inclusive	7,106	35,950
7 to 9 months, inclusive	1,476	12,289
10 to 12 months, inclusive	1,187	7,273
More than 1 year	7,313	10,791
	596,668	627,710

22. TRADE AND BILLS RECEIVABLES *(continued)*

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good repayment record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2008	2007	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	123,561	97,211	74	95
Time deposits	68,052	50,000	–	50,000
	191,613	147,211	74	50,095
Less: Pledged deposits *(note 27)*	(43,738)	(584)	–	–
	147,875	146,627	74	50,095

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to HK$124,176,324 (2007: HK$75,099,117). The 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. Short term time deposits are made for approximately two weeks on average depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates.

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

24. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2008	2007
	HK$'000	*HK$'000*
Forward currency contracts:		
Assets	2,894	5,945
Liabilities	(2,273)	(1,984)
	621	3,961

The Group has entered into various forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. The carrying amounts of forward currency contracts are the same as their fair values. Changes in the fair value of non-hedging currency derivatives amounting to HK$3,340,000 were charged to the income statement during the year (2007: HK$3,961,000 credited to the income statement).

25. TRADE AND BILLS PAYABLES

	Group	
	2008	2007
	HK$'000	*HK$'000*
Trade payables	205,789	183,358
Bills payables	56,511	60,013
	262,300	243,371

25. TRADE AND BILLS PAYABLES *(continued)*

The trade payables are non-interest-bearing and are normally settled on 60 to 90 days terms. An aged analysis of the Group's trade and bills payables as at 31 December 2008, based on the invoice date, is as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Within 3 months	223,012	222,808
4 to 6 months, inclusive	28,866	11,760
7 to 9 months, inclusive	4,949	1,360
10 to 12 months, inclusive	1,607	3,661
More than 1 year	3,866	3,782
	262,300	243,371

26. DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due to a minority shareholder is unsecured, interest-free and has no fixed terms of repayment.

27. INTEREST-BEARING BANK BORROWINGS

		Group		Company	
		2008	2007	2008	2007
	Maturity	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current					
Bank loans – unsecured	2009	117,525	112,844	33,539	32,286
Bank loans – secured	2009	53,382	–	–	–
		170,907	112,844	33,539	32,286
Non-current					
Bank loans – unsecured	2010- 2011	211,205	–	211,205	–
		382,112	112,844	244,744	32,286

27. INTEREST-BEARING BANK BORROWINGS *(continued)*

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Analysed into:				
Bank loans payable:				
Within one year	**170,907**	112,844	**33,539**	32,286
In the second year	**140,682**	–	**140,682**	–
In the third to fifth years, inclusive	**70,523**	–	**70,523**	–
	382,112	112,844	**244,744**	32,286

Notes:

(i) The Company's bank loan is denominated in Hong Kong dollars with an annual effective interest rate of Hong Kong Interbank offered rates ("HIBOR") plus 1.1%. Other than the Company's bank loan, the remaining bank loans of the Group are denominated in RMB, USD and EUR with carrying amount of HK$93,750,000 (2007: HK$80,558,000), HK$17,819,000 (2007: Nil) and HK$25,799,000 (2007: Nil) and effective interest rates ranging from 5.6% to 8.2%, 6.3% to 9.2% or board rate, and 7.8% to 7.9% per annum, respectively.

(ii) As at 31 December 2008, the Group's banking facilities were supported by:

(a) the investment property in Hong Kong owned by the Group (note 14);

(b) the property, plant and equipment of approximately HK$61,786,000 (2007: Nil) (note 13);

(c) the pledge of bank deposits of approximately HK$43,738,000 (2007: HK$584,000) (note 23); and

(d) corporate guarantees from the Company and certain of its subsidiaries.

28. DEFERRED TAX

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

Deferred tax liabilities

Group

	Withholding taxes *HK$'000*	Revaluation of properties *HK$'000*	Total *HK$'000*
At 1 January 2007	–	1,850	1,850
Deferred tax debited to equity during the year	–	652	652
At 31 December 2007 and 1 January 2008	–	2,502	2,502
Deferred tax debited to the income statement during the year	843	689	1,532
Deferred tax credited to equity during the year	–	(277)	(277)
At 31 December 2008	843	2,914	3,757

Deferred tax assets

Group

	Depreciation allowance in excess of related depreciation *HK$'000*
At 1 January 2007, 31 December 2007, 1 January 2008	130
Acquisition of a subsidiary *(note 32 (ii))*	3,703
At 31 December 2008	3,833

28. DEFERRED TAX *(continued)*

Deferred tax assets *(continued)*

The Group has tax losses arising in Hong Kong of HK$19,140,161 (2007: HK$8,415,721) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the New CIT Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

However, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of certain subsidiaries and associates of the Group established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

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

At 31 December 2008, the Company has no significant unrecognised deferred tax asset/liability (2007: Nil).

29. SHARE CAPITAL

	2008	2007
	HK$'000	*HK$'000*
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
3,989,800,000 (2007: 3,997,470,000) ordinary shares of HK$0.01 each	**39,898**	39,975

The following changes in the Company's issued share capital took place during the current and last years:

	Notes	Number of ordinary shares in issue	Issued share capital	Share premium account	Total
			HK$'000	*HK$'000*	*HK$'000*
Issued:					
As at 1 January 2007		3,371,500,000	33,715	102,281	135,996
Issue of new shares		645,000,000	6,450	380,550	387,000
Share issue expenses		–	–	(10,097)	(10,097)
Repurchase and cancellation of shares		(19,030,000)	(190)	–	(190)
		625,970,000	6,260	370,453	376,713
As at 31 December 2007 and 1 January 2008		3,997,470,000	39,975	472,734	512,709
Shares issued upon exercise of shares options	(i)	2,000,000	20	793	813
Repurchase and cancellation of shares	(ii)	(9,670,000)	(97)	–	(97)
		(7,670,000)	(77)	793	716
As at 31 December 2008		3,989,800,000	39,898	473,527	513,425

29. SHARE CAPITAL *(continued)*

Notes:

(i) On 7 March 2008, the subscriber served the notice for subscription of 2,000,000 shares of the Company at an exercise price of HK$0.315 per share. 2,000,000 new shares were allotted and issued on 2 April 2008, and net proceeds of approximately HK$630,000 was raised by the Company. Fair value of these share options included in the share option reserve of HK$183,000 was transferred to the share premium account.

(ii) During the year, the Company repurchased 9,670,000 ordinary shares from the market at a total consideration of approximately HK$3,332,000. These repurchased ordinary shares were subsequently cancelled by the Company and the premium of approximately HK$3,235,000 paid by the Company over the nominal value of the repurchased ordinary shares was debited to retained profits. In addition, the Company also transferred approximately HK$97,000, which is equivalent to the nominal value of these repurchased shares, from retained profits to the capital redemption reserve as set out in note 31(b) to the financial statements.

Share option schemes

Details of the Company's share option schemes and the share options issued under the schemes are included in note 30 to the financial statements.

30. SHARE OPTION SCHEMES

Pursuant to an ordinary resolution passed at the shareholders' meeting of the Company held on 10 June 2002, a new share option scheme of the Company (the "New Scheme") was adopted by the Company. The New Scheme replaced the share option scheme adopted on 7 December 2000 (the "Old Scheme"). After the adoption of the New Scheme, no further options can be granted under the Old Scheme. As at 31 December 2007 and 2008, there were no outstanding share options under the Old Scheme. The New Scheme became effective on 24 June 2002, and unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the New Scheme include all directors and any full-time employees of the Company or any of its subsidiaries and any suppliers, consultants or advisers who will provide or have provided services to the Group.

30. SHARE OPTION SCHEMES *(continued)*

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme may not exceed 10% of the shares of the Company in issue. The maximum number of shares issued and which may fall to be issued upon exercise of the options granted under the New Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the shares of the Company in issue as at the date of grant.

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

The period within which the options must be exercised will be determined by the board of directors of the Company at its absolute discretion. This period will expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 21 days from the date of the offer, and the amount payable on acceptance of an offer is HK$1.

The subscription price for the shares of the Company to be issued upon exercise of the options shall be no less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share of the Company on the date of grant.

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

30. SHARE OPTION SCHEMES *(continued)*

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

	2008		2007	
	Weighted average exercise price *HK$* per share	Number of options *'000*	Weighted average exercise price *HK$* per share	Number of options *'000*
At 1 January	0.565	48,000	–	–
Granted during the year	0.268	111,000	0.565	50,360
Cancelled during the year	–	–	0.565	(2,360)
Exercised during the year	0.315	(2,000)	–	–
At 31 December	0.358	157,000	0.565	48,000

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.315.

The exercise prices and exercise periods of the share options outstanding as at the balance sheet date are as follows:

2008

Number of options *'000*	Exercise price* *HK$ per share*	Exercise period
10,000	0.485	10 March 2007 to 9 March 2017
38,000	0.586	4 July 2007 to 3 July 2017
89,000	0.315	16 February 2008 to 15 February 2018
20,000	0.053	5 December 2008 to 4 December 2018
157,000		

30. SHARE OPTION SCHEMES *(continued)*

2007

Number of options	Exercise price	Exercise period
'000	*HK$ per share*	
10,000	0.485	10 March 2007 to 9 March 2017
38,000	0.586	4 July 2007 to 3 July 2017
48,000		

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

The fair value of the share options granted during the year was HK$5,456,000 (HK$0.0492 each) (2007: HK$4,609,000, HK$0.0915 each) of which the Group recognised a share option expense of HK$5,456,000 (2007: HK$4,609,000) during the year ended 31 December 2008.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2008	2007
Dividend yield (%)	5.08 to 22.64	2.86
Expected volatility (%)	52.37 to 58.95	52.32 to 53.08
Risk-free interest rate (%)	1.608 to 1.612	3.93 to 4.15
Expected life of options (year)	2.67 to 3.03	0.25 to 0.58
Closing share price at the date of grant *(HK$)*	0.053 to 0.315	0.485 to 0.560
Exercise price *(HK$)*	0.053 to 0.315	0.485 to 0.586

The expected life of the options is based on the historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

30. SHARE OPTION SCHEMES *(continued)*

At the balance sheet date and up to the date of approval of these financial statements, the Company had 157,000,000 share options outstanding under the New Scheme, which represented approximately 3.9% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 157,000,000 additional ordinary shares of the Company and additional share capital of HK$1,570,000 and share premium of HK$54,643,000 (before issue expenses).

31. RESERVES

(a) Group

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.

The capital reserve of the Group represents principally the excess fair values ascribed to the net underlying assets of certain subsidiaries acquired prior to the Group's reorganisation completed on 7 December 2000 in preparation of the listing of the Company's shares, over the purchase consideration paid therefor.

In accordance with the Macau Commercial Codes, Tongda Overseas Macao Commercial Offshore Limited ("Tongda Macao"), a wholly-owned subsidiary of the Company, whose principal operation is conducted in Macau, is required to appropriate annually not less than 25% of its profit after tax to a statutory reserve, until the balance of the reserve reaches 50% of the entity's capital fund. The statutory reserve may be utilised by the entity for certain restricted purposes including the set off against accumulated losses, if any, arising under certain specified circumstances. As the reserve was reached 50% of Tongda Macao's capital fund, no transfer was made in the current year (2007: Nil).

31. RESERVES *(continued)*

(b) Company

	Share premium account HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2007	102,281	–	79,179	–	4,271	185,731
Issue of new shares *(note 29)*	380,550	–	–	–	–	380,550
Shares issue expenses *(note 29)*	(10,097)	–	–	–	–	(10,097)
Repurchase and cancellation of shares *(note 29)*	–	–	–	190	(6,911)	(6,721)
Equity-settled share option arrangements *(note 30)*	–	4,609	–	–	–	4,609
Transfer of share option reserve upon cancellation of share options	–	(216)	–	–	216	–
Profit for the year	–	–	–	–	71,846	71,846
Interim 2007 dividend *(note 11)*	–	–	–	–	(32,132)	(32,132)
Proposed final 2007 dividend *(note 11)*	–	–	–	–	(31,918)	(31,918)
At 31 December 2007 and 1 January 2008	472,734	4,393	79,179	190	5,372	561,868
Shares issued upon exercise of share options *(note 29)*	793	(183)	–	–	–	610
Repurchase and cancellation of shares *(note 29)*	–	–	–	97	(3,332)	(3,235)
Equity-settled share option arrangements *(note 30)*	–	5,456	–	–	–	5,456
Profit for the year	–	–	–	–	57,656	57,656
Interim 2008 dividend *(note 11)*	–	–	–	–	(15,959)	(15,959)
Proposed final 2008 dividend *(note 11)*	–	–	–	–	(7,980)	(7,980)
At 31 December 2008	473,527	9,666	79,179	287	35,757	598,416

31. RESERVES *(continued)*

(b) Company *(continued)*

(i) Under the Companies Law (2001 Revision) of the Cayman Islands, the share premium account of the Company is distributable to its shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) As at 31 December 2008, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to HK$596,443,000, subject to the restriction stated in note (i) above.

(iii) The contributed surplus of the Company arose as a result of the Group's reorganisation completed on 7 December 2000 in preparation of the listing of the Company's shares, and represents the excess of the combined net assets of the subsidiaries then acquired by the Company, over the nominal value of the share capital of the Company issued in exchange therefor.

(iv) The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will be transferred to the share premium account when the related options are exercised, or transferred to retained profits should the related options expire or be cancelled.

32. BUSINESS COMBINATIONS

(i) On 25 January 2008, a written resolution was passed by the directors of Xiamen Technology in relation to the proposed increase in the registered capital of Xiamen Technology by RMB21,510,520 (approximately HK$23,915,000) which was made through the contribution in cash by Tongda Xiamen solely. Immediately upon the capital contribution of RMB21,510,520 by Tongda Xiamen during the current year, Tongda Xiamen's equity interest in Xiamen Technology increased from 50% to 70%. Thereafter, Xiamen Technology changed from a jointly-controlled entity to a non-wholly-owned subsidiary of the Group.

In the opinion of the directors, there is no material difference between the fair values of the identifiable assets and liabilities of Xiamen Technology as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition.

32. BUSINESS COMBINATIONS *(continued)*

(i) *(continued)*

	Fair value on acquisition *HK$'000*
Net assets acquired:	
Property, plant and equipment	43,388
Inventories	37,813
Trade and bill receivables	54,411
Prepayments, deposits and other receivables	11,499
Amounts due from the holding company	23,915
Amounts due from the Group's companies	6,786
Cash and cash equivalents	9,061
Trade and bill payables	(50,201)
Dividend payable to a former minority shareholder	(20,989)
Tax payable	(1,889)
Accrued liabilities and other payables	(17,303)
Minority interest	(21,845)
Total net assets acquired	74,646
Excess over the cost of a business combination recognised in the income statement	(3,467)
Consideration	71,179
Satisfied by:	
Interest in a jointly-controlled entity	47,264
Capital contribution	23,915
	71,179

32. BUSINESS COMBINATIONS *(continued)*

(ii) On 3 December 2007, the Group entered into a sale and purchase agreement to acquire the entire equity interest of Shenzhen Tongda Electronic, a company established in Mainland China, from Asiatec, an independent third party, at a consideration of RMB4,500,000 (approximately HK$4,833,000). As at 31 December 2007, the Group has paid a deposit of RMB1,350,000 (approximately HK$1,431,000) for the acquisition. The acquisition was completed on 23 January 2008 and the remaining consideration of RMB3,150,000 (approximately HK$3,402,000) was paid to Asiatec during the year.

The fair values of the identifiable assets and liabilities of Shenzhen Tongda Electronic as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition *HK$'000*	Previous carrying amount *HK$'000*
Net assets acquired:		
Property, plant and equipment	3,855	18,665
Deferred tax assets *(note 28)*	3,703	–
Trade and bill receivables	277	277
Prepayments, deposits and other receivables	1,805	1,805
Cash and cash equivalents	203	203
Trade and bill payables	(380)	(380)
Tax payable	(79)	(79)
Accrued liabilities and other payables	(848)	(848)
Total net assets acquired	8,536	19,643
Excess over the cost of a business combination recognised in the income statement	(3,703)	
Consideration	4,833	
Satisfied by:		
Cash	3,402	
Long term deposits *(note 20)*	1,431	
	4,833	

32. BUSINESS COMBINATIONS *(continued)*

(ii) *(continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the acquisitions of the above subsidiaries is as follows:

	HK$'000
Cash consideration	(3,402)
Cash and cash equivalents acquired	9,264
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	5,862

Since the above acquisitions, Xiamen Technology and Shenzhen Tongda Electronic have contributed HK$222,198,000 to the Group's revenue and HK$30,783,000 to the consolidated profit for the year ended 31 December 2008.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been HK$1,423,987,000 and HK$83,118,000, respectively.

33. CONTINGENT LIABILITIES

As at the balance sheet date, the Group had contingent liabilities in respect of outstanding irrevocable letters of credit of HK$22 million (2007: HK$44 million).

In addition, the Company had contingent liabilities in respect of corporate guarantees provided for banking facilities for certain subsidiaries and an associate, which were utilised to the extent of HK$44 million (2007: HK$120.6 million) at the balance sheet date.

Save as disclosed above, neither the Group, nor the Company, had any significant contingent liabilities at the balance sheet date.

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms of two years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2008	2007
	HK$'000	*HK$'000*
Within one year	1,358	3,223
In the second to fifth years, inclusive	3,239	4,545
	4,597	7,768

(b) As lessee

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

At 31 December 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Within one year	6,938	4,069
In the second to fifth years, inclusive	17,566	17,482
After five years	10,222	9,847
	34,726	31,398

35. COMMITMENTS

In addition to the operating lease commitments set out in note 34(b) above, the Group had the following capital commitments contracted but not provided for at the balance sheet date:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Purchases of property, plant and equipment	7,687	11,196
Construction of factory buildings in Mainland China	–	898
Investments in subsidiaries	60,202	42,000
	67,889	54,094

The Company had no significant commitments at the balance sheet date (2007: Nil).

36. RELATED PARTY TRANSACTIONS

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

		Group	
		2008	2007
	Notes	*HK$'000*	*HK$'000*
Associates:			
Sales of products	(i)	9,620	13,604
Purchases of raw materials and finished goods	(ii)	1,226	663
Technology consultancy fee	(iii)	600	600
Rental income	(iv)	1,408	1,312
A jointly-controlled entity:			
Sales of raw materials	(i)	3,924	8,443
Sales of machinery	(i)	–	1,105
Purchases of raw materials and finished goods	(ii)	1,267	45,384
Rental income	(v)	464	3,098
A related company of which a director of the Company is a shareholder:			
Sales of finished goods	(i)	16,420	986
Purchase of raw materials and finished goods	(ii)	28,829	–
Rental expenses	(vi)	–	60

36. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes:

(i) The sales to associates, a jointly-controlled entity and related companies were made according to the terms similar to those offered to the Group's non-related customers.

(ii) The purchases from associates, a jointly-controlled entity and related companies were made according to the terms similar to those offered by the Group's non-related suppliers.

(iii) The technology consultancy fee was received from associates for the provision of technology support provided by the Group charged at HK$50,000 (2007: HK$50,000) per month.

(iv) The rental income received from an associate represented the leasing of factory premises and staff quarters of the Group located at Shenzhen, the PRC.

(v) The rental income received from a jointly-controlled entity represented the leasing of factory premises and staff quarters of the Group located at Xiamen, the PRC.

(vi) The Group paid a rental expense to a company owned as to 12.5% by Mr. Wang Ya Nan, a director of the Company, at HK$5,000 per month during the year ended 31 December 2007.

(b) Outstanding balances with related parties

Details of the Group's balances with its associates and jointly-controlled entity as at the balance sheet date are disclosed in notes 17 and 18 to the financial statements, respectively.

(c) Compensation of key management personnel of the Group.

	2008 *HK$'000*	2007 *HK$'000*
Short term employee benefits	8,205	6,352
Post-employment benefits	198	186
Share-based payments	5,103	4,027
Total compensation paid to key management personnel	13,506	10,565

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

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2008 — Group

Financial assets

	Financial assets at fair value through profit or loss held for trading	Loans and receivables	Total
	HK$'000	*HK$'000*	*HK$'000*
Due from associates *(note 17)*	–	14,549	14,549
Trade and bills receivables	–	600,152	600,152
Financial assets included in prepayments, deposits and other receivables	–	12,551	12,551
Pledged deposits	–	43,738	43,738
Derivative financial assets	2,894	–	2,894
Cash and cash equivalents	–	147,875	147,875
	2,894	818,865	821,759

Financial liabilities

	Financial liabilities at fair value through profit or loss held for trading	Financial liabilities at amortised cost	Total
	HK$'000	*HK$'000*	*HK$'000*
Trade and bills payables	–	262,300	262,300
Financial liabilities included in accrued liabilities and other payables	–	45,120	45,120
Derivative financial liabilities	2,273	–	2,273
Interest-bearing bank borrowings	–	382,112	382,112
Due to a minority shareholder of a subsidiary	–	609	609
	2,273	690,141	692,414

37. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(continued)*

2007

Group

Financial assets

	Financial assets at fair value through profit or loss held for trading	Loans and receivables	Total
	HK$'000	*HK$'000*	*HK$'000*
Due from associates *(note 17)*	–	7,845	7,845
Trade and bills receivables	–	627,727	627,727
Financial assets included in prepayments, deposits and other receivables	–	15,859	15,859
Pledged deposits	–	584	584
Derivative financial assets	5,945	–	5,945
Cash and cash equivalents	–	146,627	146,627
	5,945	798,642	804,587

Financial liabilities

	Financial liabilities at fair value through profit or loss held for trading	Financial liabilities at amortised cost	Total
	HK$'000	*HK$'000*	*HK$'000*
Due to a jointly-controlled entity	–	13,787	13,787
Trade and bills payables	–	243,371	243,371
Financial liabilities included in accrued liabilities and other payables	–	34,176	34,176
Derivative financial liabilities	1,984	–	1,984
Interest-bearing bank borrowings	–	112,844	112,844
Due to a minority shareholder of a subsidiary	–	609	609
	1,984	404,787	406,771

37. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company

Financial assets

	2008 Loans and receivables *HK$'000*	2007 Loans and receivables *HK$'000*
Due from an associate	22	–
Due from subsidiaries	818,043	540,075
Financial assets included in prepayments, deposits and other receivables	–	104
Cash and cash equivalents	74	50,095
	818,139	590,274

Financial liabilities

	2008 Financial liabilities at amortised cost *HK$'000*	2007 Financial liabilities at amortised cost *HK$'000*
Due to a subsidiary	55,022	52,600
Interest-bearing bank borrowings	244,744	32,286
	299,766	84,886

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise interest-bearing bank loans and cash and short term deposits. 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 receivables and trade payables, which arise directly from its operations.

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

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

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

Interest rate risk

The interest rates of the interest-bearing bank and other borrowings of the Group are disclosed in note 27 to the financial statements. The Group believes its exposure to cash flow interest rate risk is minimal.

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

	Increase/ (decrease) in percentage points	Group Increase/ (decrease) in profit after tax and equity *HK$'000*	Company Increase/ (decrease) in profit after tax and equity *HK$'000*
2008			
Hong Kong Dollar	0.5%	(1,040)	(1,022)
Hong Kong Dollar	(0.5%)	1,040	1,022
2007			
Hong Kong Dollar	0.5%	(161)	(161)
Hong Kong Dollar	(0.5%)	161	161

Commodity price risk

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

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

Foreign currency risk

The Group carries on its trading transactions mainly in Hong Kong dollars and RMB. Approximately 53% (2007: 70%) of the Group's sales and purchases transactions are denominated in RMB while the remaining balance of the sales and purchases transactions are denominated mainly in Hong Kong dollars. As the foreign currency risks generated from the sales and purchases can be set off with each other, the foreign currency risk is minimal for the Group. It is the policy of the Group to continue maintaining the balance of its sales and purchases in the same currency.

Considering the appreciation of RMB, the Group will maintain a comparatively higher level of Hong Kong dollar borrowings than that of RMB borrowings to minimise the possible currency risk arising therefrom.

The Group has entered into foreign exchange derivative transactions to manage the foreign currency risk arising from the Group's operations. Moreover, the majority of the Group's operating assets are located in the Mainland China and denominated in RMB. As the Group's net profit is reported in Hong Kong dollars, there will be a translation gain as a result of the RMB appreciation.

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

	Increase/ (decrease) in RMB rate	Increase/ (decrease) in the Group's net profit
	%	*HK$'000*
2008		
If Hong Kong dollar weakens against RMB	5	20,867
If Hong Kong dollar strengthens against RMB	(5)	(20,867)
2007		
If Hong Kong dollar weakens against RMB	5	20,535
If Hong Kong dollar strengthens against RMB	(5)	(20,535)

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

Credit risk

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from associates, other receivables and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

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

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

Liquidity risk *(continued)*

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments was as follows:

Group

	2008				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest-bearing bank and other borrowings	–	13,378	157,529	211,205	382,112
Trade and bills payables	–	223,012	35,422	3,866	262,300
Other payables	45,120	–	–	–	45,120
Derivative financial instruments	–	65	2,208		2,273
Due to a minority shareholder of a subsidiary	609	–	–	–	609
	45,729	236,455	195,159	215,071	692,414

	2007				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest-bearing bank and other borrowings	–	10,089	102,755	–	112,844
Trade and bills payables	4,848	212,546	25,977	–	243,371
Other payables	34,176	–	–	–	34,176
Derivative financial instruments	–	–	1,984	–	1,984
Due to a jointly-controlled entity	13,787	–	–	–	13,787
Due to a minority shareholder of a subsidiary	609	–	–	–	609
	53,420	222,635	130,716	–	406,771

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

Liquidity risk *(continued)*

Company

	2008				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest-bearing bank borrowings	–	–	33,539	211,205	244,744
Due to a subsidiary	55,022	–	–	–	55,022
	55,022	–	33,539	211,205	299,766

	2007				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest-bearing bank borrowings	–	10,089	22,197	–	32,286
Due to a subsidiary	52,600	–	–	–	52,600
	52,600	10,089	22,197	–	84,886

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 31 December 2007.

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

Capital management *(continued)*

The gearing ratios defined as the total debt over equity plus total debt as at the balance sheet dates were as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Trade and bills payables	262,300	243,371
Accrued liabilities and other payables	98,041	58,003
Interest-bearing bank borrowings	382,112	112,844
Due to a jointly-controlled entity	–	13,787
Due to a minority shareholder of a subsidiary	609	609
Total debt	743,062	428,614
Equity attributable to equity holders of the Company	1,181,667	1,132,972
Equity plus total debt	1,924,729	1,561,586
Gearing ratio	0.39	0.27

39. POST BALANCE SHEET EVENT

On 11 November 2008, the Group entered into an equity transfer agreement with Xin Yeng pursuant to which the Group has agreed to purchase and Xin Yeng has agreed to sell 5% of the equity interests in Shenzhen Tongda Electronic at a consideration of RMB698,000. The transaction was completed in January 2009.

40. COMPARATIVE AMOUNTS

The aged analysis of the trade and bills receivables that are not considered to be impaired as at 31 December 2007 as set out in note 22 has been revised due to a trivial and inadvertent disclosure mistake and the details of which are set out in the Company's announcement dated 28 November 2008.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 April 2009.