TONGDA GROUP

TONGDA GROUP HOLDINGS LIMITED

2018 Annual Report

Incorporated in the Cayman Islands with limited liability
Stock Code: 698

Contents

Corporate Information

BOARD OF DIRECTORS
Executive Directors
Mr. Wang Ya Nan *(Chairman)*
Mr. Wang Ya Hua *(Vice Chairman)*
Mr. Wong Ah Yeung
Mr. Choi Wai Sang *(resigned on 31 August 2018)*
Mr. Wang Ming Che

Non-executive Directors
Mr. Wong Ah Yu
Ms. Chan Sze Man *(appointed on 31 August 2018)*

Independent Non-executive Directors
Dr. Yu Sun Say, *GBM, GBS, SBS, JP*
Mr. Cheung Wah Fung, Christopher, *SBS, JP*
Mr. Ting Leung Huel Stephen,
MH, FCCA, FCPA (PRACTISING), ACA, CTA (HK), FHKIoD

AUDIT COMMITTEE
Mr. Ting Leung Huel Stephen *(Chairman)*
Dr. Yu Sun Say
Mr. Cheung Wah Fung, Christopher
Ms. Chan Sze Man *(appointed on 31 August 2018)*

REMUNERATION COMMITTEE
Mr. Ting Leung Huel Stephen *(Chairman)*
Mr. Wang Ya Nan
Dr. Yu Sun Say
Mr. Cheung Wah Fung, Christopher

NOMINATION COMMITTEE
Mr. Wang Ya Nan *(Chairman)*
Dr. Yu Sun Say
Mr. Cheung Wah Fung, Christopher
Mr. Ting Leung Huel Stephen

COMPANY SECRETARY
Ms. Chan Sze Man *(resigned on 31 August 2018)*
Ms. Lam Siu Wa *(appointed on 31 August 2018)*

AUDITOR
Ernst & Young
Certified Public Accountants

AUTHORISED REPRESENTATIVES
Mr. Wang Ya Nan
Mr. Wang Ya Hua

PRINCIPAL BANKERS
In Hong Kong:
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
The Bank of Tokyo-Mitsubishi UFJ Limited
Bank of China (Hong Kong) Limited

In the PRC:
Bank of China Limited
China Construction Bank Corporation
China Merchant Bank

LEGAL ADVISERS
As to Hong Kong laws:
Michael Li & Co.

As to PRC laws:
Fujian Rede Law Firm

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

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

REGISTERED OFFICE
Century Yard
Cricket Square
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P.O. Box 2681GT
George Town
Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
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LISTING INFORMATION
Listed on the Hong Kong Stock Exchange (Main Board)
Stock short name: Tongda
Stock code: 698
Board lot: 10,000 shares

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

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

I am pleased to announce the annual results of Tongda Group Holdings Limited (the "Company", together with its subsidiaries, the "Group" or "Tongda Group") for the year ended 31 December 2018 (the "Year") on behalf of the board of directors of the Company (the "Board").

During the Year, the total turnover increased by 3.9% to HK$8,899.3 million (2017: HK$8,562.8 million), gross profit decreased by 19.6% to HK$1,793.9 million (2017: HK$2,231.1 million) and profit attributable to shareholders decreased by 46.0% to HK$542.8 million (2017: HK$1,006.1 million). Gross profit margin was approximately 20.2% (2017: 26.1%) while net profit margin was approximately 6.1% (2017: 11.7%). The Group has always maintained a stable dividend payout record. The Board will recommend payment of a final dividend of HK0.8 cent per share (2017: HK3.8 cents), together with the paid interim dividend of HK2.0 cents per share (2017: HK1.6 cents), the total dividend for the Year amounted to HK2.8 cents (2017: HK5.4 cents). During the Year, the Group spun off its notebook and tablet casings business, which was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 March 2018, in order to concentrate resources on its development of handset-related core businesses. When excluding notebook computers business for the years of 2017 and 2018, the revenue during the Year increased from HK$7,982.5 million to HK$8,815.8 million, representing a growth of 10.4%.

In 2018, the overall economic development and the handset market in China were full of uncertainties. In light of the intensified conflicts in international trade, volatility in interest rate and exchange rate of RMB, tendency of saturation in the smartphone market, and the unscheduled launch of 5G, emerging markets with consumer demand for low-to-mid range products became the driving force for growth of handset brands in China, where relevant brands competed for the market share by handsets with high price-performance ratio.

With the transition from 4G to 5G underway, metal handset casings witnessed a downturn in the second half Year. Fortunately, through high-end thin film processing technology and mature In-Mould Lamination ("IML")/In-Mould Transfer ("IMT") technology, the Group can take advantage of the business opportunities in the mid-range market with its Glastic casing, which has a high price-performance ratio and resembles glass in terms of appearance and function. During the Year, the Group became the casing supplier of Samsung, and now has business ties with the top five handset brands in the world. In recent years, both the rising concentration of handset brands and the active development of low-to-mid range overseas markets by various brands have contributed to the Group in achieving its shipment target and enhancing its market share.

For the Group's tri-proof (waterproof/dustproof/shockproof) and high-precision components business, apart from delivering Liquid-Silicone Rubber ("LSR"), precision insert molding and precision rubber molding parts to a customer in North America, we also closely cooperate with its various business departments develop for fittings for notebook computer and product accessories, in order to achieve multi-product horizontal development, as well as lay a solid foundation for a long-term partnership.

In the past few years, the Group has built a strong "moat" of technologies through prudent investments, and developed several new businesses. Given that 5G will gradually be available in the second half of this year, the Group also seizes the opportunities by investing in research and development ("R&D") of associated products such as 5G-compatible plastic dipole antenna in the polarised base station antenna, handset casings with radio frequency and heat sink products as well as automotive GPS navigation antennas. We believe the Group will occupy a fair share of the 5G market after 5G gradually rolls out in the next two years. The Group will strengthen its cost controls in the coming year, while capitalising on existing resources and equipment to optimise efficiency and product yield, and strive to maximise returns for the Group's shareholders!

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express gratitude towards the dedicated effort and valuable contribution of the management and all the staff of the Group during the past year. Let's further develop our technology and advocate changes by innovations in every sector and the application of advanced materials, and use the leading technology and craftsmanship to face the changes in the market calmly and seek opportunities amidst crises.

BUSINESS REVIEW

The Group is a world-leading solutions provider of high-precision structures for smart mobile communications and consumer electronic products, which provides customers with one-stop product design, technological research and development ("R&D"), and manufacturing solutions. Its major products cover the areas including handsets, smart home appliances, automotive, household and sports goods and network communications facilities, etc.

Looking back at 2018, on the eve of the launch of 5G, the smartphone market became more mature, the international trade conflicts escalated, and the overall economic development was overshadowed with uncertainties. During the Year, the Group actively sought new product breakthroughs to achieve the overall target shipment. The Group has been able to maintain revenue growth trend and total turnover increased by 3.9% to HK$8,899.3 million during the Year (2017: HK$8,562.8 million), while the net profit attributable to the owners of the Company decreased by 46.0% from HK$1,006.1 million last year to approximately HK$542.8 million due to the decreased shipment and profit of metal casings. During the year, the Group spun off its notebook and tablet casings business, which was listed on the Main Board of the Stock Exchange on 16 March 2018, in order to concentrate resources on its development of handset-related core business. When excluding notebook computers business for the years of 2017 and 2018, the revenue during the year increased from HK$7,982.5 million to HK$8,815.8 million, representing a growth of 10.4%.

Handset Casings and High-precision Components

This business is primarily engaged in the production of various handset casings, tri-proof (waterproof/dustproof/shockproof) high-precision components, high-precision insert molding parts and high-precision rubber molding parts. This business recorded an increase of 12.0% in turnover from HK$5,911.3 million last year to HK$6,621.4 million, representing 74.4% of the total turnover.

Metal casings, as the Group's main products in the past, were replaced by non-metal casings during the Year due to changing of industrial design trend and the difficulty of metal to be applied to the physical characteristics of wireless charging and 5G antenna. As a result, the shipment volume, and profit of metal casings dropped sharply in the second half of 2018. During the Year, the Group promptly adjusted its product structure to focus on the Glass-like plastic ("Glastic") casings, which was developed by the Group's R&D team. Production of Glastic casings increased from only several models at the beginning of the Year to being widely used in the medium-priced market at the end of the Year. As a result, the total shipment of handset casings was still able to meet the expected target for the year. During the Year, in response to the market demand, the Group expanded its production capacity for Glastic casings and improved product yield rate, therefore captured a larger handset market share by leveraging the Glastic casings.

As for tri-proof and high-precision components business, one of our major customers launched its new handset series in the second half of the Year, from which the Group also received more orders. The Group had worked closely with each business unit of the customer. In addition to the components used in handsets, the Group also supplied fittings for notebook computers and product accessories. In the future, the Group will invest more resources in R&D projects to achieve horizontal expansion of multiple products and lay a firm foundation for sustaining the long-term partnership.

Smart Electrical Appliances Casings

During the Year, the sales of the smart electrical appliances casings business decreased by 1.6% from HK$862.6 million in the corresponding period of last year to HK$848.5 million, representing 9.5% of the total turnover. This business primarily engages in manufacturing of control panels, casings and metal accessories for high-end electrical appliances for Chinese and international brands, and its products include smart home appliances, such as air-conditioners, washing machines and refrigerators, which are applicable to the Internet of Things.

Household and Sports Goods

During the Year, sales of this division increased by 21.0% from HK$501.6 million in the corresponding period of last year to HK$606.8 million, representing 6.8% of the total turnover. The Group primarily supplies durable household goods, household utensils and sports goods to European and American brands.

Network Communications Facilities and Others

This division mainly produces set-top boxes for customers in Europe and the United States and automotive interior decorations. As a result of the growth of automotive business during the Year, revenue of this division for the Year increased by 4.5% from HK$707.0 million in the corresponding period of last year to HK$739.1 million, representing 8.3% of the total turnover. The Group has currently secured over 30 orders from over ten automotive brands, part of which the design and trial production have commenced and the business developed steadily.

A percentage breakdown of total revenue by product categories for the year ended 31 December 2018 and a comparison with 2017 are as follows:

		2018	2017
i.	Handset Casings and High-precision Components	**74.4%**	69.0%
ii.	Smart Electrical Appliances Casings	**9.5%**	10.1%
iii.	Household and Sports Goods	**6.8%**	5.8%
iv.	Network Communications Facilities and Others	**8.3%**	8.3%
v.	Notebook Computers	**1.0%**	6.8%

Looking forward to the coming year, the Group understands that both the overall economy and the handset market will still face a slowdown in growth amid various uncertainties. Therefore, the Group needs to adhere to its principles and implement customer-first philosophy to accelerate the growth of new products and expand the business field by applying innovative technologies and processes, with an aim to become bigger and stronger.

(I) *Consolidating a solid and diversified customer base*

The Group has successfully become a casing supplier of Samsung during the Year and the customer base of the Group currently includes the top five handset brands in the world. In recent years, the concentration of handset brands has further increased, and the brands are actively developing medium to low-priced overseas markets, which will help the Group to expand its market share and diversify customer concentration risks.

(II) *Strengthening the advantages in quality, technology, craftsmanship and scale*

In addition to the leading-edge craftsmanship for Glastic casings as well as tri-proof and high-precision components, the Group also possesses film processing and hot bending technology applied to 3D glass casings, and technologies applied to handsets middle frames including compound die casting, Nano molding technology, CNC processing and anodization as well as metal injection molding ("MIM"), together with the high-precision molding craftsmanship, fully covering the plastics, glass and metal casings and other high-precision components, which enables the Group to cater for the upgrade and change of the materials, decorative effect and product category more comfortably. During the Year, the Group expanded its production capacity for Glastic casings as well as tri-proof and high-precision components and actively optimised the production line process and automation to improve its production efficiency and product yield rate.

(III) *Broadening its business scope to 5G market*

During the Year, the Group completed the R&D for various mainstream customers on the polarised base station antenna, which is equipped with Laser Direct Structuring ("LDS") and Plating on Plastic ("POP") technology, to be applied to mainstream Massive Multiple-Input and Multiple-Output ("Massive MIMO") antennas used in 5G. The Group has focused its R&D on plastic dipole antenna to be used in the polarised base station antenna, which can direct and enhance the power of electromagnetic waves so that antennas can receive stronger electromagnetic signals, and reduces the single weight with higher level of integration when the number of 5G dipole antenna increases. The Group is also performing R&D on 5G-compatible handset casings with integrated radio frequency and automotive GPS navigation antennas to seize the market development opportunities brought about by 5G and cultivate new growth points of businesses for the Group.

In the past few years, the Group has prudently invested in technology R&D and capacity expansion, which enabled the Group to develop a number of new businesses and lay a foundation. This will also allow the Group to further take the lead in industry trends in the future and act more flexibly in the volatile market, thereby reducing the single customer or business risks. The Group will strengthen cost control in the coming year, capitalize on existing resources to optimise equipment efficiency and product yield, and strive to create higher returns for shareholders of the Company!

FINANCIAL REVIEW

For the Year, the Group's total revenue reached HK$8,899.3 million, representing an increase of HK$336.5 million, or 3.9%, compared with the year ended 31 December 2017. The handset casings and high-precision components segment continued to dominate over other segments. Among the top 5 customers, handset casings and high-precision components customers contributed 60.2% in the Year, which is higher than 54.0% in 2017. Gross profit of HK$1,793.9 million was HK$437.2 million, or 19.6% lower than 2017. The decrease was mainly due to the rapid decline in the shipment volume and unit price of its metal handset casings in the second half of 2018, resulting in the decrease in gross profit of the Group and the need of impairment of inventory. Gross profit margin was 20.2%, representing 5.9 percentage points lower than the corresponding period of last year. Profit attributable to owners of the Company amounted to HK$542.8 million, representing a fall of 46.0% from HK$1,006.1 million reported in the corresponding period of 2017. The selling and distribution expenses increased by HK$2.2 million mainly attributable to the increase in freight and travelling expenses. The administrative expenses increased by HK$31.2 million mainly due to the increase in R&D expenses and salaries. The increase in R&D expenses was attributable to the continuous investment in R&D projects and further business development. Compared with 2017, other operating expenses, net increased by HK$33.5 million, mainly attributable to the net loss from exchange difference and partially offset by increase in write-back of trade receivables. Basic earnings per share amounted to HK8.76 cents, down 47.9% from HK16.82 cents for 2017. As for tax, the Group's major operating subsidiaries fall under different tax regimes in Hong Kong and the PRC where different laws and regulations, and specific concessionary incentives apply for some specific locations. During the Year, one of the major subsidiaries is awarded as a High New Technology Enterprise and is subjected to a preferential tax rate of 15%, other than this, there have been no major changes in these taxation laws and regulations which have impacted tax expenses for the Group.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group had a solid financial position and continued to maintain a strong and steady cash inflow from operating activities. The table below summarises the Group's cash flows for year ended 31 December 2018 and 31 December 2017:

	2018 **HK$'000**	2017 HK$'000
Net cash flows from operating activities	**1,037,664**	653,859
Net cash flows used in investing activities	**(1,541,868)**	(1,772,282)
Net cash flows from financing activities	**556,019**	1,028,109

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

The Group had a solid financial position and continued to maintain a strong and steady cash inflow from operating activities. During the Year, the Group's primary sources of funding included cash generated from operating activities and the credit facilities provided by the Group's principal banks. As at 31 December 2018, the Group had cash and cash equivalents and pledged deposits of HK$1,276.1 million (31 December 2017: HK$1,274.2 million), and without holding any structural investment contract, of which approximately HK$507.7 million (31 December 2017: HK$481.7 million) has been pledged to banks as security for trade financing. As at 31 December 2018, the Group had total assets of HK$13,642.1 million (31 December 2017: HK$13,623.7 million), net current assets of HK$1,832.7 million (31 December 2017: HK$2,140.4 million) and equity of HK$5,937.2 million (31 December 2017: HK$5,885.3 million). Management believes that the Group's current cash and cash equivalents, together with available credit facilities and expected cash flow from operations, will be sufficient to satisfy its current operational requirements.

GEARING RATIO AND INDEBTEDNESS

As at 31 December 2018, the gearing ratio of the Group (consolidated net debt/total equity) was 48.4% (31 December 2017: 45.0%). As at 31 December 2018, other than the non-current portion of bank loans of HK$1,697.0 million (31 December 2017: bank loans of HK$1,240.3 million), the Group had bank and other borrowings of HK$2,454.9 million (31 December 2017: bank loans of HK$2,235.0 million and convertible bonds of HK$445.8 million) which will be repayable within one year from the end of the reporting period.

CAPITAL EXPENDITURE

The Group incurred capital expenditure of HK$1,255.9 million during the year ended 31 December 2018 (31 December 2017: HK$1,353.1 million), mainly for the additions of property, plant and equipment for expansion of its capacity in handset casings and high-precision components segment. Management believes that the Group's ability to invest in capital expenditure in timely anticipation of demand is a competitive advantage of the Group. In the foreseeable future, a higher proportion of capital expenditure will likely be focused on the handset casings and high-precision components segments. Capital expenditures are generally funded by internal resources and credit facilities.

FOREIGN EXCHANGE

Given our operations and presence become more international, the Group faces foreign exchange exposure including transaction and translation exposure. As far as possible, the Group aims to achieve natural hedging by investing and borrowing in the functional currencies. Where a natural hedge is not possible, the Group will mitigate foreign exchange risks via appropriate foreign exchange contracts. The Group has not entered nor will it enter into any derivative transactions for speculative trading purposes at 31 December 2018.

CHARGES ON GROUP ASSETS

Apart from bank deposits amounting to HK$507.7 million (31 December 2017: HK$481.7 million) that were pledged to banks and a leasehold building in Hong Kong with a carrying value amount of HK$54.5 million (31 December 2017: HK$50.2 million) mortgaged by the Group as at 31 December 2018, no other assets of the Group were charged to any financial institutions.

EMPLOYEE INFORMATION

As at 31 December 2018, the Group employed a total of approximately 16,000 permanent employees (31 December 2017: approximately 18,000 employees). Employees of the Group are remunerated based on their individual performance, professional qualifications, experience in the industry and relevant market trends. Management regularly reviews the Group's remuneration policy and appraises the work performance of its staff. Employee remuneration includes salaries, allowances, bonuses, social insurance and mandatory pension fund contribution. As required by the relevant regulations in the PRC, the Group participates in the social insurance schemes operated by the relevant local government authorities. The Group also participates in the mandatory pension fund, labour pension and mandatory provident fund schemes for our employee in Hong Kong, Taiwan and Singapore respectively.

Past Performance and Forward Looking Statements

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

DIVIDENDS

The Company will consider the declaration of dividends based on its earnings, financial position, debt repayment requirements, capital expenditure plans, medium to long-term business strategies and other factors as the Board may deem appropriate. The Board may also from time to time pay to shareholders of the Company (the "Shareholder(s)") such interim dividends to be justified by the profit of the Company and may recommend final dividends for approval by the Shareholders in its annual general meetings. For the year ended 31 December 2018, an interim dividend of HK2.0 cents per ordinary share for the six months ended 30 June 2018 (2017: HK1.6 cents per ordinary share) was paid to the Shareholders. The Board has declared a final dividend of HK0.8 cent (2017: HK3.8 cents) per ordinary share in respect of the year ended 31 December 2018. This proposed final dividend together with the interim dividend already paid amount to total dividends of HK2.8 cents (2017: HK5.4 cents), an unchanged payout ratio of about 32% of the profit attributable to owners of the Company for the year ended 31 December 2018. Subject to the Shareholders' approval at the forthcoming annual general meeting to be held on Friday, 24 May 2019, the said final dividend will be payable to the Shareholders, whose names appear on the register of members of the Company on 5 June 2019. Payment will be made on or about 14 June 2019.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wang Ya Nan, aged 61, is the Chairman and CEO of the Group. He is responsible for the overall strategic planning and business development of the Group. He is also responsible for the development of overseas markets. He is currently the Chairman and a non-executive Director of Tongda Hong Tai Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited. He joined the Group in December 1988 and has over 20 years of experience in the electronics and electrical industry. He graduated with a Executive Master of Business Administration degree in Xiamen University and serves as a member of the Standing Committee of the Chinese People's Political Consultative Conference. He is a brother of Messrs. Wong Ah Yeung, Wong Ah Yu and Wang Ya Hua. He is an uncle of Messrs. Wang Ming Che, Wong Ming Sik, Wong Ming Yuet, Wong Ming Li and Wang Hung Man.

Mr. Wang Ya Hua, aged 63, 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 to the operation unit located at Xiamen, Fujian Province. 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. He is the father of Wang Hung Man and an uncle of Messrs. Wang Ming Che, Wong Ming Sik, Wong Ming Yuet and Wong Ming Li.

Mr. Wong Ah Yeung, aged 69, is the deputy general manager of the Group and the general manager of Tongda Ironware (Shenzhen) Company Limited ("Tongda Ironware"). He is responsible for overseeing the operation unit of the Group in Shenzhen, Guangdong Province 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 ironware and electrical industry. He is a brother of Messrs. Wong Ah Yu, Wang Ya Hua and Wang Ya Nan and the father of Mr. Wang Ming Che and Wong Ming Sik. He is an uncle of Messrs. Wong Ming Yuet, Wong Ming Li and Wang Hung Man.

Mr. Wang Ming Che, aged 43, is an executive director and the Deputy General Manager of Tongda Ironware. He is responsible for overseeing the operation unit and the sales of the Group in Shenzhen. He joined the Group since 2002. Mr. Wang is the son of Mr. Wong Ah Yeung and the brother of Wang Ming Sik. He is a nephew of Messrs. Wang Ya Nan, Wang Ya Hua and Wong Ah Yu and is a cousin of Messrs. Wong Ming Yuet, Wong Ming Li and Wang Hung Man.

NON-EXECUTIVE DIRECTORS

Mr. Wong Ah Yu, aged 66, is the general manager of Tongda Electrics Company Limited, Shishi City, Fujian Province. He is responsible for overseeing the operation unit of the Group in Shishi city, Fujian Province ("Shishi") and requires to give direction of the day-to-day operation. He is currently an executive Director of Tongda Hong Tai Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited. He joined the Group in December 1988 and has over 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. He is the father of Messrs, Wong Ming Yuet and Wong Ming Li and an uncle of Messrs. Wang Ming Che, Wong Ming Sik and Wang Hung Man.

Ms. Chan Sze Man, aged 38, is currently the chief financial officer of Transmit Entertainment Limited and was the chief financial officer and company secretary of the Company from January 2011 to 30 August 2018 and was responsible for the corporate finance, accounts and company secretarial functions of the Group. Ms. Chan graduated from the Hong Kong University of Science and Technology with a Bachelor's Degree in Accounting. She is a fellow member of the Hong Kong Institute of Certified Public Accountants. She joined the Company in June 2010 and has over 16 years of working experience in the field of accounting, auditing and financial management. Ms. Chan has been appointed as an independent non-executive director of China Child Care Corporation Limited since 20 September 2016. She was an independent non-executive director of Millennium Pacific Group Holdings Limited from 20 June 2014 to 17 July 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Yu Sun Say, *G.B.M., G.B.S., S.B.S, J.P.*, aged 80, joined the Company as an independent non-executive director in October 2007. Dr. Yu is the Chairman of the H.K.I. Group of Companies and a director of a number of manufacturing and investment companies. He is an independent non-executive director of Wong's International Holdings Limited and Beijing Enterprises Holdings Limited. He had served as member of Standing Committee of the Chinese People's Political Consultative Conference, member of the Preparatory Committee for the Hong Kong Special Administrative Region and Hong Kong Affairs Adviser. He is currently the Permanent Honorary President of the Chinese General Chamber of Commerce and Permanent Honorary President of the Chinese Manufacturers' Association of Hong Kong.

Mr. Cheung Wah Fung, Christopher, S.B.S, JP, aged 67, is an independent non-executive director of the Company and joined the Company in September 2004. Mr. Cheung is currently the member of Legislative Council (Functional Constituency-Financial Services) of the Hong Kong Special Administrative Region and the chairman of Christfund Securities group of companies. He serves as a member of the National Committee of the Chinese People's Political Consultative Conference, honorary president of the Hong Kong Securities Professionals Association, elected director of the Hong Kong Chinese General Chamber of Commerce, council member of the Chinese Overseas Friendship Association, deputy secretary of the Friends of Hong Kong Association, member of the Standing Committee of the Federation of Commerce and Industry of Guangdong Province, Honorary president of Hong Kong Federation of Fujian Association.

Mr. Ting Leung Huel Stephen, *MH, FCCA, FCPA (PRACTISING), ACA, CTA (HK), FHKIoD*, aged 65, is an independent non-executive director of the Company and joined the Company in December 2000. Mr. Ting is a partner of Ting Ho Kwan & Chan, Certified Public Accountants since 1987. He is now a non-executive director of Chow Sang Sang (Holdings) International Limited and an independent non-executive director of six listed companies, namely, China SCE Group Holdings Limited, Computer and Technologies Holdings Limited, Dongyue Group Limited, New Silkroad Culturaltainment Limited, Texhong Textile Group Limited and Tong Ren Tang Technologies Company Limited.

SENIOR MANAGEMENT

Mr. Hui Wai Man, Anthony, *BSc,* aged 51, is the general manager of a subsidiary of the Group. He is mainly responsible for the sales and marketing activities of the Group in Hong Kong and overseas. He is also responsible for the overall purchasing management of the Group. He has over 25 years experience in the field of electronic market. He joined the Group in April 2003.

Mr. Wong Ming Sik, aged 39, is the general manager of a subsidiary of the Group. He joined the Group in 2005 and in charge of finance, operations, sales and production of the operation unit in Shenzhen. Mr. Wong graduated from University of Central Lancashire in the UK with MSc, Business Management and BA(Hons), Accounting and Financial Studies. He is the son of Mr. Wong Ah Yeung and the brother of Wang Ming Che. He is a nephew of Messrs. Wang Ya Nan, Wang Ya Hua and Wong Ah Yu and is a cousin of Messrs. Wong Ming Yuet, Wong Ming Li and Wang Hung Man.

Mr. Wong Ming Yuet, aged 37, is the general manager of a subsidiary of the Group and responsible for the sales and promotion of the electrical appliance business. He graduated from Macquarie University in Australia and majored in commerce and accounting management. He has gained work experience in banking before joining the Group. Mr. Wong joined the Group in January 2007. He is the son of Mr. Wong Ah Yu and brother of Wang Ming Li. He is a nephew of Messrs. Wang Ya Nan, Wang Ya Hua and Wong Ah Yeung and a cousin of Messrs. Wang Ming Che, Wong Ming Sik, and Wang Hung Man.

Mr. Wang Hung Man, aged 30, is the general manager of a subsidiary of the Group and responsible for the sales and promotion of the handsets and other businesses. He graduated from the University of California, Davis and majored in economics. Mr. Wang joined the Group in January 2012 and he is the son of Mr. Wang Ya Hua and a nephew of Messrs. Wang Ya Nan, Wong Ah Yeung and Wong Ah Yu. He is a cousin of Messrs. Wang Ming Che, Wong Ming Sik, Wong Ming Yuet and Wong Ming Li.

COMPANY SECRETARY

Ms. Lam Siu Wa, aged 45, was appointed as a company secretary on 31 August 2018 and is primarily responsible for overall company secretarial matters of the Group. Ms. Lam is a fellow member and a Chartered Governance Professional of both the Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators and has approximately 8 years of experience in corporate governance. She is also the company secretary of Tongda Hong Tai Holdings Limited. From June 2015 to December 2015, Ms. Lam served as a joint company secretary in SEEC Media Group Limited.

Ms. Lam graduated from the University of Newcastle in Australia with a Master of Business degree in 2007 and she also obtained a Master of Corporate Governance degree from the Hong Kong Polytechnic University in 2014.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

The Company has compiled with the code provisions of the Code of Best Practice (the "CG Code") as set out in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout 2018 with certain deviations in respect of the distinctive roles of chairman and chief executive officer and the appointment of non-executive Directors with specific terms. The following summarizes the Company's corporate governance practices and explains deviations, if any, from the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the Model Code for Securities Transaction by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code and the code of conduct regarding Directors' securities transactions adopted by the Company throughout the year ended 31 December 2018.

BOARD OF DIRECTORS

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

As at 31 December 2018 and at the date of this report, the Board comprises four executive Directors (including the chairman of the Board), two non-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.

Executive directors:

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

Non-executive directors:

Mr. Wong Ah Yu
Ms. Chan Sze Man (appointed on 31 August 2018)

Independent non-executive directors:

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

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

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

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

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

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

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

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

Attendance at Board meeting	**Number of meetings attended (4 meetings in total)**
Executive Directors:	
Mr. Wang Ya Nan	4/4
Mr. Wang Ya Hua	4/4
Mr. Wong Ah Yeung	4/4
Mr. Wang Ming Che	4/4
Non-Executive Directors:	
Mr. Wong Ah Yu	4/4
Ms. Chan Sze Man *(appointed on 31 August 2018)*	1/2
Independent Non-Executive Directors:	
Dr. Yu Sun Say, *GBM, GBS, SBS, JP*	4/4
Mr. Cheung Wah Fung, Christopher, *SBS, JP*	4/4
Mr. Ting Leung Huel Stephen	4/4

The Board held 4 meetings during the year ended 31 December 2018. The chief financial officer, financial controller and company secretary attended all the scheduled Board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and finance.

During the year ended 31 December 2018, Directors had participated in different continuous professional development (the "CPD") to develop and refresh their knowledge and skills and each Directors provided their records of training to the Company respectively. The Company is of the view that all Directors meet the A.6.5 of the CG Code and details as follows:

	Notes
Mr. Wang Ya Nan	3 and 4
Mr. Wang Ya Hua	1, 3 and 4
Mr. Wong Ah Yeung	1, 3 and 4
Mr. Wang Ming Che	1, 3 and 4
Mr. Wong Ah Yu	1, 3 and 4
Ms. Chan Sze Man	1, 3 and 4
Dr. Yu Sun Say	1, 3 and 4
Mr. Cheung Wah Fung, Christopher	1, 3 and 4
Mr. Ting Leung Huel Stephen	1, 3 and 4

Notes:

1. Annual updated conferences for different regulations (including but not limited to accounting, tax and Listing Rules).

2. Attending overseas tertiary institution by physical attendances.

3. Attending CPD Seminars.

4. Reading related journals and/or learning materials.

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Board has delegated a schedule of responsibilities to each of the executive directors. Mr. Wang Ya Nan, the Chairman of the Board and the Chief Executive Officer, established the Company's strategic direction, sets the Company's objectives and plans, provides leadership and ensures availability of resources in the attainment of such objectives. He is also required to control, supervise and monitor the capital, corporate finance, technical and human resources of the Group. Mr. Wang 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 gives direction of the day-to-day operation. Mr. Wong Ah Yeung and Mr. Wang Ming Che oversee the operation unit in Shenzhen and to give direction of the day-to-day operation.

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

– Audit Committee (the "AC") is comprised of non-executive Director and all independent non-executive Directors; and

– The independent non-executive Directors have free and direct access to the Company's external auditor and independent professional advisers when considered necessary.

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

NON-EXECUTIVE DIRECTOR

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

REMUNERATION COMMITTEE

The remuneration committee (the "RC") was set up on 8 March 2005 with written terms of reference to oversee the remuneration policy and structure for all Directors and senior management. The RC comprises the Chairman and Chief Executive Officer of the Company, Mr. Wang Ya Nan, and three independent non-executive directors, Mr. Ting Leung Huel Stephen, Dr. Yu Sun Say and Mr. Cheung Wah Fung, Christopher. Mr. Ting takes the chair of the RC. The terms of reference of RC are in compliance with the Listing Rules. The role of the RC is to recommend to the Board a framework for remunerating the Directors and senior management and to determine specific remuneration packages for them. It is provided with sufficient resources by the Company to discharge its duties.

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

The Company operates share option schemes (the "Schemes") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Schemes are disclosed in note 28 to the financial statements.

The RC held one meeting during the year with attendance record as follows:

Attendance at RC meeting	Number of meetings attended (1 meeting in total)
RC members:	
Mr. Ting Leung Huel Stephen	1/1
Mr. Wang Ya Nan	1/1
Dr. Yu Sun Say, *GBM, GBS, SBS, JP*	1/1
Mr. Cheung Wah Fung, Christopher, *SBS, JP*	1/1

AUDIT COMMITTEE

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

The Group's unaudited interim results for the six months ended 30 June 2018 and audited annual results for the year ended 31 December 2018 have been reviewed by the AC which was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made. The AC has also reviewed the effectiveness of the risk management and the internal control systems of the Company and considers the risk management and internal control systems to be effective and adequate.

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

Attendance at AC meeting	Number of meetings attended (3 meetings in total)
AC members and attendants:	
Mr. Ting Leung Huel Stephen	3/3
Dr. Yu Sun Say, *GBM, GBS, SBS, JP*	3/3
Mr. Cheung Wah Fung, Christopher, *SBS, JP*	1/3
Ms. Chan Sze Man *(appointed on 31 August 2018)*	1/1

NOMINATION COMMITTEE

The nomination committee (the "NC") was set up on 14 March 2012 with written terms of reference to review the structure, size, composition and diversity (including but not limited to gender, age, cultural and educational background, ethnicity or the skills, knowledge, professional experience and length of service) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

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

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

The NC held one meeting during the year with attendance record as follows:

Attendance at NC meeting	Number of meetings attended (1 meeting in total)
NC members:	
Mr. Wang Ya Nan	1/1
Dr. Yu Sun Say, *GBM, GBS, SBS, JP*	1/1
Mr. Cheung Wah Fung, Christopher, *SBS, JP*	1/1
Mr. Ting Leung Huel Stephen	1/1

AUDITOR'S REMUNERATION

Details of fees paid or payable to the Group's external auditor for the year ended 31 December 2018 are as follows:

Services	Fees HK$'000
Annual audit	3,680
Non-audit services	291
Total	3,971

DIVIDEND POLICY

The Company has adopted a dividend policy on 11 December 2018. Pursuant to the policy, the Company should maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value in recommending or declaring dividends. The Company does not have any pre-determined dividend distribution ratio. The proposal of payment and the amount of dividends will be made at the discretion of the Board and will depend on the Group's results of operations, earnings, financial condition, cash requirements and availability, future capital expenditure and development requirements, business conditions and strategies, interests of shareholders, any restrictions on payment of dividends and any other factors that the Board may consider relevant. The Board will review the dividend policy as appropriate from time to time.

ACCOUNTABILITY AND AUDIT

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

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

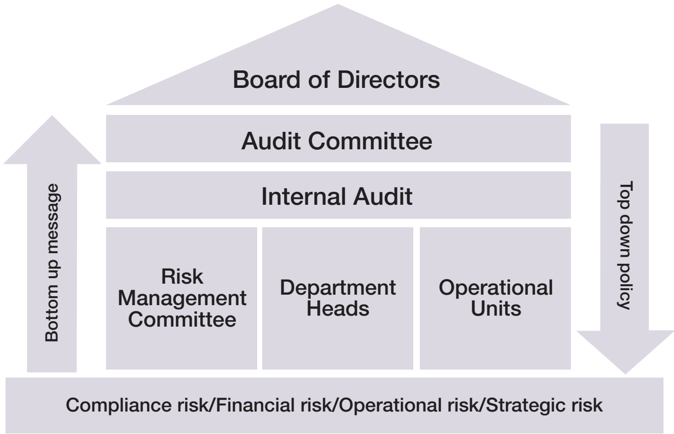
The Board also acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual and half-yearly reports, other inside information announcements and other financial disclosures required under Listing Rules, and reports to the regulators as well as to information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

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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



The risk management framework in Tongda Group

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

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

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

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

In addition to the risk management and internal control function carried out internally by the Group, an external independent audit firm, Corporate Governance Professionals Limited, has been appointed to review and appraise the internal control system of the Group. The annual internal control review plan of the Group covers major activities and material controls (including operational, financial and compliance) of the Group's business and service units. A report on the result of assessment and recommendations from Baker Tilly Hong Kong Business Services Ltd. was provided to the Audit Committee in March 2019.

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

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

COMPANY SECRETARY

As at 31 December 2018, the company secretary of the Company is Ms. Lam Siu Wa and a written confirmation had been received by the Company from Ms. Lam to confirm she took no less than 15 hours of relevant professional training. The Company is on the view that Ms. Lam complied with the Rule 3.29 of the Listing Rules.

EXTERNAL AUDITOR

Currently, the Group's external auditor are Ernst & Young. Ernst & Young has been appointed as the external auditor of the Company by the shareholders of the Company at the Annual General Meeting 2018. The AC is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the authorised external auditor and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of the external auditor. The AC has given their opinion on the fee charged by the external auditor to the Company and has approved the appointment of Ernst & Young as auditor, which the Board fully concurred with such approval of the AC. The responsibilities of the external auditor on the financial statements are set out in the "Independent Auditor's Report" on pages 37 to 41 of this annual report.

SHAREHOLDERS' RIGHTS

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

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

PROCEDURES BY WHICH ENQUIRES MAY BE PUT TO THE BOARD

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

COMMUNICATION WITH SHAREHOLDERS

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

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

The Board will review regularly the Group's operation and corporate governance of the Company in order to ensure compliance of the articles of association of the Company, the laws of the Cayman Islands and regulations and to protect the interest of its shareholders. There is no change in the Company's memorandum and articles of association during the year ended 31 December 2018.

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's principal subsidiaries are set out in note 42 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 2018 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 42 to 143.

An interim dividend of HK2.0 cents (2017: HK1.6 cents) per ordinary share was paid on 5 October 2018.

The directors recommend the payment of a final dividend of HK0.8 cent (2017: HK3.8 cents) per ordinary share in respect of the year to shareholders whose names appear on the register of members on or about 5 June 2019. This together with the interim dividend of HK2.0 cents per ordinary share gives a total of HK2.8 cents per ordinary share for the year (2017: HK5.4 cents per ordinary share). The proposed final dividend will be paid on or about 14 June 2019 following approval at the 2018 Annual General Meeting. Details are set out in note 10 to the financial statements.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 is set out in the "Management Discussion and Analysis" on pages 5 to 10 of this annual report and the cross-referenced part of the annual report forms part of the directors' report. The Group committed to enhancing governance, promoting employee benefits and development, protecting the environment and giving back to society in order to fulfill social responsibility and achieve sustainable growth.

POSSIBLE RISKS AND UNCERTAINTIES FACING THE COMPANY

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

Business Risk

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

Financial Risk

The financial risk management of the Group are set out in note 40 to the financial statements and the cross-referenced part of the annual report forms part of the directors' report.

ENVIRONMENTAL PROTECTION POLICY

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

RELATIONS WITH KEY STAKEHOLDERS

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out on page 144. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 27 and 28, respectively, to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2018.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 41 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2004 Revision) of the Cayman Islands, amounted to HK$1,599,869,000, of which approximately HK$51,836,000 has been proposed after the reporting period as a final dividend. This includes the Company's share premium account in the amount of HK$1,179,908,000 as at 31 December 2018, which may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$1,100,000.

MAJOR CUSTOMERS AND SUPPLIERS

As at 31 December 2018, (i) the Group's largest customer and five largest customers accounted for approximately 38.1% and 66.9% respectively of the Group's total revenue; and (ii) the Group's largest supplier and five largest suppliers accounted for approximately 14.8% and 28.3% respectively of the Group's total purchases (not including purchases of items which are of a capital nature).

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

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 Yeung
Mr. Wang Ming Che

Non-executive directors:

Mr. Wong Ah Yu
Ms. Chan Sze Man (appointed on 31 August 2018)

Independent non-executive directors:

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

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

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2018, the interests and long positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in ordinary shares of the Company:

	Number of shares held, capacity and nature of interest				
Name of directors	Directly beneficially owned	Through controlled corporation	Note	Total	Percentage of the Company's issued share capital
Mr. Wang Ya Nan	435,930,000 (L)	1,879,500,000 (L)	1, 2	2,315,430,000 (L)	35.73
Mr. Wang Ya Hua	91,220,000 (L)	1,583,500,000 (L)	1	1,674,720,000 (L)	25.85
Mr. Wong Ah Yeung	119,300,000 (L)	1,583,500,000 (L)	1	1,702,800,000 (L)	26.28
Mr. Wong Ah Yu	96,460,000 (L)	1,583,500,000 (L)	1	1,679,960,000 (L)	25.93
Mr. Wang Ming Che	3,000,000 (L)	–		3,000,000 (L)	0.05
Dr. Yu Sun Say	21,610,000 (L)	–		21,610,000 (L)	0.33
Mr. Cheung Wah Fung, Christopher	5,950,000 (L)	–		5,950,000 (L)	0.09
Mr. Ting Leung Huel Stephen	6,450,000 (L)	–		6,450,000 (L)	0.10

L: Long position
S: Short position

Long positions in share options of the Company:

Name of director	Number of share options directly beneficially owned
Mr. Wang Ya Nan	5,000,000
Mr. Wang Ya Hua	5,000,000
Mr. Wong Ah Yeung	5,000,000
Mr. Wong Ah Yu	5,000,000
Mr. Wang Ming Che	2,000,000
Ms. Chan Sze Man	3,000,000
Dr. Yu Sun Say, *GBM, GBS, SBS, JP*	2,000,000
Mr. Cheung Wah Fung, Christopher, *SBS, JP*	2,000,000
Mr. Ting Leung Huel Stephen	2,000,000
	31,000,000

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

Notes:

1. 1,583,500,000 shares are held by Landmark Worldwide Holdings Limited, the issued share capital of which is beneficially owned as to 25% by each Messrs. Wang Ya Nan, Wang Ya Hua, Wong Ah Yu and Wong Ah Yeung (collectively referred to as the "Wong Brothers").

2. 296,000,000 shares are held by E-Growth Resources Limited ("E-Growth"), the entire issued share capital of which is beneficially owned by Mr. Wang Ya Nan.

Save as disclosed above, as at 31 December 2018, 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 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 share option schemes (the "Schemes") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Schemes are disclosed in note 28 to the financial statements.

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

					Number of share options			
Name or category of participants	Date of grant	Vesting period	Exercisable period	Exercise price of share options HK$ per share	At 1 January 2018	Granted during the period	Exercised during the period	At 31 December 2018
Directors								
Mr. Wang Ya Nan	9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	1,000,000	–	–	1,000,000
		9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	4,000,000	–	–	4,000,000
Mr. Wang Ya Hua	9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	1,000,000	–	–	1,000,000
		9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	4,000,000	–	–	4,000,000

SHARE OPTION SCHEMES *(continued)*

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

SHARE OPTION SCHEMES *(continued)*

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

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

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

*** The weighted average exercise price of the share options outstanding as at the end of the reporting period was HK$1.8 per share.

EQUITY-LINKED AGREEMENTS

Save as disclosed under the section headed "Share Option Scheme" above, there were no equity-linked agreements entered into by the Group, or existed during the year ended 31 December 2018.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2018, the following parties were interested in 5% or more of the Company's issued share capital as recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder		Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Landmark Worldwide Holdings Limited	Note	Directly beneficially owned	1,583,500,000 (L)	25.15
Mondrian Investment Partners Limited		Nominated custodian	377,500,000 (L)	5.99

Note:

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

Save as disclosed above, as at 31 December 2018, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

SPECIFIC PERFORMANCE COVENANT ON CONTROLLING SHAREHOLDERS

On 24 December 2018, Tong Da General Holdings (H.K.) Limited, as borrower; The Hongkong and Shanghai Banking Corporation Limited as lender and Tongda Group Holdings Limited (the "Company"), Ever Target Limited, Tongda Group International Limited, Tongda (Shenzhen) Company Limited, Tongda (Xiamen) Company Limited, Tongda General (HK) Limited, Tongda Optical Fiber Technology Limited, Tongda (Shanghai) Company Limited collectively as guarantors entered into a facility letter (the "Facility Letter") for a committed non-revolving term loan facility of HK$200,000,000 for a term of three years.

On 15 June 2018, Tongda Group Holdings Limited (the "Company"), as borrower; The Hong Kong and Shanghai Banking Corporation Limited as lender and Tong Da General Holdings (H.K.) Limited, Ever Target Limited, Tongda Group International Limited, Tongda (Shenzhen) Company Limited, Tongda (Xiamen) Company Limited, Tongda General (HK) Limited, Tongda Optical Fiber Technology Limited, Tongda (Shanghai) Company Limited collectively as guarantors entered into a facility letter (the "Second Facility Letter") for a committed non-revolving term loan facility of HK$500,000,000 for a term of three years.

Under the Agreement, certain specific performance obligations are imposed.

(i) Mr. Wang Ya Nan ("Mr. Wang"), Mr. Wang Ya Hua, Mr. Wong Ah Yu and Mr. Wong Ah Yeung (collectively, the "Majority Shareholders") collectively do not or cease to have management control over the Company and its subsidiaries from time to time (the Group");

(ii) Landmark Worldwide Holdings Limited ("Landmark Worldwide") is not or ceases to be the single largest shareholder of the Company;

(iii) the Majority Shareholders collectively do not or cease to own, directly or indirectly, 100% of the legal and beneficial interest in Landmark Worldwide, carrying 100% of the voting right of Landmark Worldwide; and/or at least 35% of the legal and beneficial interest in the Company carrying at least 35% of the voting right;

(iv) Mr. Wang is not or ceases to be the chairman of the Company; and

(v) any one or more of the Majority Shareholders do not or cease to actively involve in the board of directors of the Company (the "Board"), management and business of the Group.

The occurrence of any of the above condition will constitute an event of default under the Agreement and cancel all or any part of the commitments under the Agreement and all amounts outstanding under the Agreement will immediately become due and payable.

CONTINUING CONNECTED TRANSACTION

During the year, the Group had the following continuing connected transaction, certain details of which are disclosed in compliance with the requirements of the Listing Rules.

Lease of a property in Fujian Province

A related company controlled by a director of the Company has been leasing its property in Fujian Province to a subsidiary of the Company. Pursuant to the Company's announcement dated 23 December 2015, the annual cap for the lease agreement were RMB4,800,000 (equivalent to approximately HK$5,714,286), RMB4,800,000 (equivalent to approximately HK$5,714,286) and RMB4,800,000 (equivalent to approximately HK$5,714,286) for each of the three years ending 31 December 2018, respectively.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditor, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions* under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules before the bulk printing date of the annual report. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

DIRECTORS' SERVICE CONTRACTS

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

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.

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

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.

CHANGES IN INFORMATION OF DIRECTORS

Mr. Wang Ya Nan has been appointed as a non-executive Director of Tongda Hong Tai Holdings Limited, a company listed on the Stock Exchange, with effect from 16 March 2018.

Mr. Wong Ah Yu has been re-designated from an executive director to a non-executive director of the Company with effect from 16 March 2018. He has been appointed as an executive Director of Tongda Hong Tai Holdings Limited, a company listed on the Stock Exchange, with effect from 16 March 2018.

CONTRACT OF SIGNIFICANCE

Save as the continuing connected transaction disclosed above, no contract of significance in relation to the Group's business in which the Company, or any of its subsidiaries, or was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

COMPETITION AND CONFLICT OF INTERESTS

As at 31 December 2018, none of the Directors of the Company or any of their respective associates have engaged in any business that competes or may compete with the business of the Group, or have any other conflict of interests with the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

CONVERTIBLE BONDS

Details of the convertible bonds issued by the Company are set out in note 25 to the financial statements.

EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 28 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report and maintained a sufficient public float throughout the year ended 31 December 2018.

AUDITOR

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

PERMITTED INDEMNITY PROVISIONS

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

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

ON BEHALF OF THE BOARD

Wang Ya Nan
TONGDA GROUP HOLDINGS LIMITED
Chairman

Hong Kong
19 March 2019

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

OPINION

We have audited the consolidated financial statements of Tongda Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 42 to 143, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(continued)*

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

Key audit matter	How our audit addressed the key audit matter
Impairment of trade receivables As at 31 December 2018, the Group had a gross trade receivables balance of HK$3,020,622,000 and impairment allowances of HK$41,818,000. Management evaluates the estimated provision for impairment of trade receivables based on specific review of customers' accounts as well as experience with collection trends, current business conditions and expected future market conditions. The accounting policies and disclosures for allowances for trade receivables are included in notes 2.4, 3 and 20 to the consolidated financial statements.	Our audit procedures included, among others, selecting samples for the circularisation of debtor confirmations, checking subsequent settlements of trade receivables, and reviewing trade receivables ageing reports to identify any long overdue debts and their historical pattern of settlements. In addition, we inspected the published economic indices that management applied in their assessment of the loss allowance of trade receivables.
Provision against inventories As at 31 December 2018, the Group had a gross inventory balance of HK$2,767,659,000 and inventory obsolescence of HK$238,709,000. As the technology for the production of electrical fittings is constantly changing, the Group's inventories are subject to significant risk of obsolescence because market prices may drop as a result of the change in industry trend. Furthermore, managements' estimations of and assumptions on future sales are required when determining inventory provision for surplus inventories or obsolete stocks. The accounting policies and disclosures for provision against inventories are included in notes 2.4, 3 and 19 to the consolidated financial statements.	Our audit procedures included, among others, performing lower of cost and net realisable value tests by reviewing gross profit margin analysis of products during the year and discussing with management regarding their pricing policy and provision basis, performing obsolescence review by reviewing the subsequent usage of raw materials, work in progress and delivery of finished goods to customers and attending physical inventory count and performing compilation test.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

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

19 March 2019

Consolidated Income Statement

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
REVENUE	5	**8,899,306**	8,562,830
Cost of sales		**(7,105,412)**	(6,331,736)
Gross profit		**1,793,894**	2,231,094
Other income and gains, net	5	**117,660**	124,342
Selling and distribution expenses		**(128,694)**	(126,502)
General and administrative expenses		**(874,742)**	(843,589)
Other operating expenses, net		**(55,394)**	(21,863)
Finance costs	6	**(174,348)**	(110,621)
Share of profit/(loss) of a jointly-controlled entity		**(2,602)**	2,770
PROFIT BEFORE TAX	7	**675,774**	1,255,631
Income tax expense	9	**(113,016)**	(196,976)
PROFIT FOR THE YEAR		**562,758**	1,058,655
Attributable to:			
Owners of the Company		**542,821**	1,006,125
Non-controlling interests		**19,937**	52,530
		562,758	1,058,655
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
– Basic	11	**HK8.76 cents**	HK16.82 cents
– Diluted		**HK8.61 cents**	HK16.03 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	Note	**2018** **HK$'000**	2017 HK$'000
PROFIT FOR THE YEAR		**562,758**	1,058,655
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Gain on property revaluation		**5,557**	6,812
Income tax effect	26	**(917)**	(1,124)
		4,640	5,688
Other comprehensive income/(expense) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations			
– subsidiaries		**(201,395)**	51,518
– jointly-controlled entity		**(1,929)**	679
		(203,324)	52,197
Release of exchange reserve upon disposal of a subsidiary		**(116)**	–
		(203,440)	52,197
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR, NET OF TAX		**(198,800)**	57,885
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**363,958**	1,116,540
Attributable to:			
Owners of the Company		**344,059**	1,064,067
Non-controlling interests		**19,899**	52,473
		363,958	1,116,540

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**4,849,684**	4,238,665
Investment property	13	**68,037**	63,807
Prepaid land lease payments	14	**261,635**	272,120
Investments in associates	15	**–**	134
Investment in a jointly-controlled entity	16	**63,080**	67,611
Prepayments	17	**49,677**	52,669
Long term deposits	18	**626,029**	344,751
Loan receivables	23	**–**	59,439
Deferred tax assets	26	**3,703**	3,703
Total non-current assets		**5,921,845**	5,102,899
CURRENT ASSETS			
Inventories	19	**2,528,950**	2,676,519
Trade and bills receivables	20	**3,114,793**	3,890,809
Prepayments, deposits and other receivables		**547,103**	514,132
Due from a jointly-controlled entity	16	**33,768**	18,944
Loans to a jointly-controlled entity	16	**140,260**	144,380
Loan receivables	23	**47,581**	–
Tax recoverable		**31,751**	1,825
Pledged deposits	21	**507,684**	481,700
Cash and cash equivalents	21	**768,404**	792,494
Total current assets		**7,720,294**	8,520,803
CURRENT LIABILITIES			
Trade and bills payables	22	**2,625,725**	2,755,932
Accrued liabilities and other payables		**458,980**	501,454
Interest-bearing bank and other borrowings	24	**2,454,895**	2,234,998
Convertible bonds	25	**–**	445,838
Due to a jointly-controlled entity	16	**200,584**	211,086
Tax payable		**147,371**	231,120
Total current liabilities		**5,887,555**	6,380,428
NET CURRENT ASSETS		**1,832,739**	2,140,375
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,754,584**	7,243,274

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	24	**1,696,963**	1,240,301
Due to a former non-controlling shareholder of a subsidiary		**30,034**	30,034
Deferred tax liabilities	26	**90,430**	87,642
Total non-current liabilities		**1,817,427**	1,357,977
Net assets		**5,937,157**	5,885,297
EQUITY			
Equity attributable to owners of the Company			
Share capital	27	**64,795**	60,517
Reserves	29	**5,898,022**	5,773,900
		5,962,817	5,834,417
Non-controlling interests		**(25,660)**	50,880
Total equity		**5,937,157**	5,885,297

Wang Ya Nan
Director

Wang Ya Hua
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Notes	Attributable to owners of the Company												
		Share capital HK$'000	Share premium account HK$'000	Equity component of convertible bonds HK$'000	Share option reserve HK$'000	Capital reserve HK$'000 (Note 29(i))	Asset revaluation reserve HK$'000	Statutory reserve HK$'000 (Note 29(ii))	Capital redemption reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018		60,517	1,340,928	3,541	22,708	(125,657)	37,928	297,507	884	(64,364)	4,260,425	5,834,417	50,880	5,885,297
Profit for the year		-	-	-	-	-	-	-	-	-	542,821	542,821	19,937	562,758
Other comprehensive income for the year:														
Gain on property revaluation, net of tax		-	-	-	-	-	4,640	-	-	-	-	4,640	-	4,640
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	(203,286)	-	(203,286)	(38)	(203,324)
Release of exchange fluctuation reserve upon disposal of a subsidiary	34	-	-	-	-	-	-	-	-	(116)	-	(116)	-	(116)
Total comprehensive income for the year		-	-	-	-	-	4,640	-	-	(203,402)	542,821	344,059	19,899	363,958
Transfer to statutory reserve		-	-	-	-	-	-	81,895	-	-	(81,895)	-	-	-
Shares issued upon conversion of convertible bonds	25, 27(iv)	2,455	405,753	(3,208)	-	-	-	-	-	-	-	405,000	-	405,000
Redemption of convertible bonds	25, 27(v)	-	333	(333)	-	-	-	-	-	-	-	-	-	-
Acquisition of a non-controlling interest	27(vi)	1,823	154,977	-	-	(63,449)	-	-	-	-	-	93,351	(84,351)	9,000
Release upon distribution of Tongda Hong Tai Holdings Limited		-	-	-	-	-	-	(15,078)	-	808	14,270	-	-	-
Equity-settled share option arrangements	28	-	-	-	8,073	-	-	-	-	-	-	8,073	-	8,073
Dividend paid to a non-controlling shareholder		-	-	-	-	-	-	-	-	-	-	-	(12,088)	(12,088)
Final 2017 dividend declared and paid	10	-	(229,965)	-	-	-	-	-	-	-	-	(229,965)	-	(229,965)
Interim 2018 dividend declared and paid	10	-	(125,944)	-	-	-	-	-	-	-	-	(125,944)	-	(125,944)
Special interim dividend	10	-	(366,174)	-	-	-	-	-	-	-	-	(366,174)	-	(366,174)
At 31 December 2018		64,795	1,179,908*	-	30,781*	(189,106)*	42,568*	364,324*	884*	(266,958)*	4,735,621*	5,962,817	(25,660)	5,937,157

	Notes	Attributable to owners of the Company												
		Share capital HK$'000	Share premium account HK$'000	Equity component of convertible bonds HK$'000	Share option reserve HK$'000	Capital reserve HK$'000 (Note 29(i))	Asset revaluation reserve HK$'000	Statutory reserve HK$'000 (Note 29(ii))	Capital redemption reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017		57,805	1,228,053	6,972	32,412	(125,657)	32,240	286,087	287	(116,618)	3,266,317	4,667,898	(1,593)	4,666,305
Profit for the year		–	–	–	–	–	–	–	–	–	1,006,125	1,006,125	52,530	1,058,655
Other comprehensive income for the year:														
Gain on property revaluation, net of tax		–	–	–	–	–	5,688	–	–	–	–	5,688	–	5,688
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	52,254	–	52,254	(57)	52,197
Total comprehensive income for the year		–	–	–	–	–	5,688	–	–	52,254	1,006,125	1,064,067	52,473	1,116,540
Transfer to statutory reserve		–	–	–	–	–	–	11,420	–	–	(11,420)	–	–	–
Repurchase and cancellation of shares	27(iii)	(597)	(130,171)	–	–	–	–	–	597	–	(597)	(130,768)	–	(130,768)
Shares issued upon conversion of convertible bonds	25, 27(ii)	2,405	434,025	(3,431)	–	–	–	–	–	–	–	432,999	–	432,999
Shares issued upon exercise of share options	27(i)	904	100,414	–	(26,520)	–	–	–	–	–	–	74,798	–	74,798
Equity-settled share option arrangements	28	–	–	–	16,816	–	–	–	–	–	–	16,816	–	16,816
Final 2016 dividend declared and paid	10	–	(194,565)	–	–	–	–	–	–	–	–	(194,565)	–	(194,565)
Interim 2017 dividend declared and paid	10	–	(96,828)	–	–	–	–	–	–	–	–	(96,828)	–	(96,828)
At 31 December 2017		60,517	1,340,928*	3,541*	22,708*	(125,657)*	37,928*	297,507*	884*	(64,364)*	4,260,425*	5,834,417	50,880	5,885,297

* These reserve accounts comprise the consolidated reserves of HK$5,898,022,000 (2017: HK$5,773,900,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**675,774**	1,255,631
Adjustments for:			
Finance costs		**174,348**	110,621
Share of profit/(loss) of a jointly-controlled entity		**2,602**	(2,770)
Depreciation	7	**390,448**	357,454
Amortisation of prepaid land lease payments	7	**6,505**	5,691
Amortisation of prepayments	7	**1,490**	1,533
Bank interest income	5	**(5,610)**	(5,620)
Interest income from a jointly-controlled entity	5	**(4,239)**	(1,438)
Interest income from a loan receivable	5	**(2,187)**	(2,415)
Equity-settled share option expenses	28	**8,073**	16,816
Loss on disposal of items of property, plant and equipment	7	**12,429**	1,654
Changes in fair value of an investment property	7	**(6,050)**	(5,405)
Impairment of trade receivables	7	**10,406**	17,899
Reversal of impairment of trade receivables	7	**(11,440)**	(447)
Provision against inventories	7	**198,905**	15,688
Write-off of inventories	7	**17,553**	–
Impairment of an other receivable	7	**–**	10,337
Gain on disposal of a subsidiary	7	**(3,568)**	–
Loss on deregistration of associates	7	**134**	–
		1,465,573	1,775,229
Increase in inventories		**(443,265)**	(952,467)
Decrease/(increase) in trade and bills receivables		**580,707**	(546,352)
Increase in prepayments, deposits and other receivables		**(71,741)**	(168,407)
Increase in an amount due from a jointly-controlled entity		**(14,824)**	(17,250)
Increase/(decrease) in trade and bills payables		**(23,410)**	599,646
Increase/(decrease) in accrued liabilities and other payables		**(36,231)**	86,808
Increase/(decrease) in an amount due to a jointly-controlled entity		**(10,502)**	159,889
Cash generated from operations		**1,446,307**	937,096
Interest paid		**(183,618)**	(108,298)
Hong Kong profits tax paid		**(72,014)**	(9,551)
Overseas taxes paid		**(153,011)**	(165,388)
Net cash flows from operating activities		**1,037,664**	653,859

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS USED IN INVESTING ACTIVITIES			
Interest received		**9,849**	7,058
Purchases of items of property, plant and equipment		**(911,177)**	(1,086,566)
Increase in prepaid land lease prepayments		**(3,932)**	(68,216)
Proceeds from disposal of items of property, plant and equipment		**16,104**	16,429
Disposal of a subsidiary	34	**6,988**	–
Repayment of loans to/(loans to) a jointly-controlled entity		**4,120**	(77,092)
Increase in long term deposits		**(626,029)**	(344,751)
Increase in pledged bank deposits		**(25,984)**	(219,550)
Decrease in a loan receivable		**10,892**	406
Spin-off of Tongda Hong Tai Holdings Limited		**(22,699)**	–
Net cash flows used in investing activities		**(1,541,868)**	(1,772,282)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**5,177,572**	4,767,828
Repayment of bank loans		**(4,230,615)**	(3,392,356)
Proceeds from exercise of share options		**–**	74,798
Dividends paid		**(355,909)**	(291,393)
Repayment of convertible bonds		**(35,029)**	–
Repurchase of shares		**–**	(130,768)
Net cash flows from financing activities		**556,019**	1,028,109
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**51,815**	(90,314)
Cash and cash equivalents at beginning of year		**792,494**	869,082
Effect of foreign exchange rate changes, net		**(75,905)**	13,726
CASH AND CASH EQUIVALENTS AT END OF YEAR		**768,404**	792,494
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	**768,404**	792,494
Non-pledged time deposits with original maturity of less than three months when required		**–**	–
Cash and cash equivalents as stated in the consolidated statement of financial position	21	**768,404**	792,494

1. CORPORATE AND GROUP INFORMATION

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

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 42. There were no significant changes in the nature of the subsidiaries' principal activities during the year, except notebook computers business as a result of spin off of Tongda Hong Tai Holdings Limited ("THT").

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

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

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

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

Other than as explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

(a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

Classification and measurement

The adoption of HKFRS 9 has had no significant impact on the classification and measurement of the Group's financial liabilities. The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position.

The new classification and measurement of the Group's financial assets are as follows:

(a) Debt instruments at amortised cost – that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows. This category includes financial assets included in prepayments, deposits and other receivables, an amount due from a jointly-controlled entity, loans to a jointly-controlled entity, pledged deposits and loan receivables.

(b) Debt instruments at fair value through other comprehensive income – with gains or losses recycled to profit or loss on derecognition. The Group has reclassified the trade receivables of HK$1,633,335,000 of certain customers and bills receivables of HK$54,617,000 previously classified as loans and receivables at 1 January 2018 as financial assets at fair value through other comprehensive income as these trade and bills receivables are managed within a business model with the objective of both holding to collect contractual cash flows and selling for working capital management and the contractual terms of these receivables give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Impairment

HKFRS 9 requires an impairment on debt instruments not held at fair value through profit or loss to be recorded based on an expected credit loss ("ECL") model either on a twelve-month basis or a lifetime basis. The Group applied the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group applied the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other financial assets within the next twelve months. The effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs") is disclosed in note 20 to the financial statements. The adoption of the ECL model has had no significant impact on the impairment allowances as at 1 January 2018.

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

(b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The Group's contracts with customers for the sale of goods include only single performance obligation. Revenue from the sale of goods is recognised at a point in time when control of goods is transferred to customer, generally on delivery of the goods. The Group has concluded that the adoption of HKFRS 15 has had no significant impact on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

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

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease terms and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of HK$39,652,000 and lease liabilities of HK$41,947,000 will be recognised at 1 January 2019.

Other than the above, the Group is also in the process of making an assessment of the impact of the other new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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

Business combinations and goodwill

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement

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

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

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

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

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

Investment property

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

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

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

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(continued)*

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

Financial assets at amortised cost (debt instruments)
The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Financial assets at fair value through other comprehensive income (debt instruments)
The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

The Group's financial assets include cash and cash equivalents, pledged deposits, loan receivables, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, loans to a jointly-controlled entity, and an amount due from a jointly-controlled entity.

Subsequent measurement

The subsequent measurement of loans and receivables is as follows:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the income statement. The loss arising from impairment is recognised in the income statement.

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018) *(continued)*

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

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

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(continued)*

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

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

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

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost
For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is 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 and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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 estimated loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) *(continued)*

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) *(continued)*

Convertible bonds

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

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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

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

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and a jointly-controlled entity, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

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

Government grants

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

Research and development costs

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

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

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

Cash and cash equivalents

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

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

Foreign currencies

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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

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

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

Revenue recognition (applicable from 1 January 2018)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (applicable from 1 January 2018) *(continued)*

Revenue from contracts with customers (continued)

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

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

Other income

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

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

Revenue recognition (applicable before 1 January 2018)

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 over the expected life of the financial instrument to the net carrying amount of the financial asset; and

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Share-based payments

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Share-based payments (continued)

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

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

Retirement benefit schemes

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

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

Borrowing costs

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

Provision against inventories
The management of the Group reviews the ageing analysis of inventories at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. Management estimates the net realisable value for such finished goods and work in progress based primarily on the latest invoice prices and current market conditions. The carrying amount of inventories at 31 December 2018 was HK$2,528,950,000 (2017: HK$2,676,519,000). Further details are given in note 19.

Provision for expected credit losses on trade and bills receivables and other receivables
Under HKAS 39 applicable before 1 January 2018, impairment of trade and bills receivables and other receivables is made by assessing the recoverability of trade and bills receivables and other receivables based on credit history, historical payment pattern, ageing of receivable balances and prevailing market conditions. 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.

Under HKFRS 9 applicable on 1 January 2018, the Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e. by customer type).

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

Estimation uncertainty *(continued)*

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The carrying amounts of trade and bills receivables and other receivables included in prepayments, deposits and other receivables at 31 December 2018 were HK$3,114,793,000 (2017: HK$3,890,809,000) and HK$20,886,000 (2017: HK$24,355,000) respectively. Further details of the trade and bills receivables are given in note 20.

Estimation of fair value of a leasehold building in Hong Kong and an investment property in Mainland China
As described in notes 12 and 13 to the financial statements, the leasehold building located in Hong Kong and the investment property located in Mainland China were revalued at the end of the reporting period by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period. The carrying amounts of a leasehold building in Hong Kong and an investment property at 31 December 2018 were HK$54,500,000 (2017: HK$50,200,000) and HK$68,037,000 (2017: HK$63,807,000), respectively. Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 13 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

(a) the handset casings and high-precision components segment consists of various handset casings, tri-proof (waterproof/dustproof/shockproof) high-precision components, high-precision insert molding parts and high-precision rubber molding parts;

(b) the smart electrical appliances casings segment engages in manufacturing control panels, metal accessories and casings for high-end electrical appliances, and its products include smart home appliances, such as air-conditioners, washing machines and refrigerators;

(c) the household and sports goods segment consists of durable household goods, household utensils and sports goods;

(d) the network communications facilities and others segment produces set-top box casings and interior decorations of automotive; and

(e) the notebook computers segment produces notebook and tablet casings made of precision metal and plastics. The Group has spun off its notebook computers business, which was listed on the Main Board of The Stock Exchange of Hong Kong Limited, on 16 March 2018, and has not been involved in the notebook computers business since then.

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

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

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

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

4. OPERATING SEGMENT INFORMATION *(continued)*

During the year, management changed its reporting segments to (i) handset casings and high-precision components; (ii) smart electrical appliances casings; (iii) household and sports goods; (iv) network communications facilities and others; and (v) notebook computers as a result of the reorganisation of business units.

	Handset casings and high-precision components		Smart electrical appliances casings		Household and sports goods		Network communications facilities and others		Notebook computers#		Eliminations		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue														
Sales to external customers## (note 5)	**6,621,420**	5,911,264	**848,498**	862,559	**606,811**	501,564	**739,136**	706,966	**83,441**	580,477	**–**	–	**8,899,306**	8,562,830
Intersegment sales	**17,789**	47,784	**32,894**	81,126	**202**	235	**36,381**	181,642	**–**	4	**(87,266)**	(310,791)	**–**	–
Total	**6,639,209**	5,959,048	**881,392**	943,685	**607,013**	501,799	**775,517**	888,608	**83,441**	580,481	**(87,266)**	(310,791)	**8,899,306**	8,562,830
Segment results before depreciation and amortisation	**894,957**	1,283,205	**57,278**	127,838	**129,400**	90,872	**105,574**	98,597	**1,009**	48,259	**–**	–	**1,188,218**	1,648,771
Depreciation	**(280,950)**	(241,707)	**(38,025)**	(40,164)	**(12,482)**	(7,205)	**(56,038)**	(51,731)	**(2,953)**	(16,647)	**–**	–	**(390,448)**	(357,454)
Amortisation	**(1,899)**	(1,640)	**(3,358)**	(2,646)	**–**	–	**(2,738)**	(2,938)	**–**	–	**–**	–	**(7,995)**	(7,224)
Segment results	**612,108**	1,039,858	**15,895**	85,028	**116,918**	83,667	**46,798**	43,928	**(1,944)**	31,612	**–**	–	**789,775**	1,284,093
Unallocated income													**117,660**	124,342
Corporate and other unallocated expenses													**(54,711)**	(44,953)
Finance costs													**(174,348)**	(110,621)
Share of profit/(loss) of a jointly-controlled entity													**(2,602)**	2,770
Profit before tax													**675,774**	1,255,631
Income tax expense													**(113,016)**	(196,976)
Profit for the year													**562,758**	1,058,655
Other segment information:														
Impairment losses/write-down recognised in the income statement*	**(211,553)**	(21,077)	**(7,472)**	2,034	**(144)**	4,058	**(7,695)**	(26,724)	**–**	(2,215)	**–**	–	**(226,864)**	(43,924)
Impairment losses reversed in the income statement**	**11,440**	233	**–**	–	**–**	–	**–**	–	**–**	214	**–**	–	**11,440**	447
Capital expenditure***	**869,858**	651,606	**214,588**	362,416	**25,364**	56,462	**146,116**	264,153	**–**	18,509	**–**	–	**1,255,926**	1,353,146

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

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

* Included impairment of trade receivables, provision against inventories, write-off of inventories and impairment of an other receivable.

** Included reversal of impairment of trade receivables.

*** Capital expenditure consists of additions to property, plant and equipment and prepaid land lease payments.

4. OPERATING SEGMENT INFORMATION *(continued)*

	Handset casings and high-precision components		Smart electrical appliances casings		Household and sports goods		Network communications facilities and others		Notebook computers		Eliminations		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	8,442,317	7,540,646	1,850,197	2,008,363	330,766	296,871	1,422,628	1,511,444	–	696,148	–	–	12,045,908	12,053,472
Unallocated assets													1,596,231	1,570,230
Total assets													13,642,139	13,623,702
Segment liabilities	2,196,913	2,127,230	372,537	453,767	159,617	159,940	355,638	404,178	–	112,271	–	–	3,084,705	3,257,386
Unallocated liabilities													4,620,277	4,481,019
Total liabilities													7,704,982	7,738,405

Geographical information

	Mainland China		Southeast Asia		United States		Others		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
(a) Revenue from customers										
Segment revenue:										
Sales to external customers*	7,708,989	7,780,810	197,875	239,460	410,500	–	581,942	542,560	8,899,306	8,562,830
(b) Non-current assets	5,792,272	4,921,614	–	–	–	–	62,790	50,398	5,855,062	4,972,012

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

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

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

4. OPERATING SEGMENT INFORMATION *(continued)*

Information about major customers

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

	2018	2017
	HK$'000	HK$'000
Customer A	**3,392,063**	2,662,449
Customer B	**N/A***	1,440,605
Customer C	**1,394,987**	N/A*
	4,787,050	4,103,054

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

* Sales to Customer B for 2018 and Customer C for 2017 amounted to less than 10% of the total revenue for the respective years.

5. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2018	2017
	HK$'000	HK$'000
Revenue from contracts with customers		
Sale of goods	**8,899,306**	8,562,830

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

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

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

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

	2018 HK$'000	2017 HK$'000
Other income and gains, net		
Bank interest income	**5,610**	5,620
Interest income from a jointly-controlled entity	**4,239**	1,438
Interest income from a loan receivable	**2,187**	2,415
Gross rental income	**10,553**	13,592
Sale of scrap materials	**19,056**	13,997
Government grants*	**54,005**	62,761
Fair value gain on an investment property (note 13)	**6,050**	5,405
Gain on disposal of a subsidiary (note 34)	**3,568**	–
Utilities income	**4,007**	10,906
Others	**8,385**	8,208
	117,660	124,342

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

6. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest expenses on bank and other borrowings (including convertible bonds)	**169,683**	107,737
Less: Interest capitalised	**(3,461)**	(3,040)
	166,222	104,697
Interest expenses on discounted bills	**8,126**	5,924
	174,348	110,621

7. PROFIT BEFORE TAX

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

	2018 HK$'000	2017 HK$'000
Cost of inventories sold	**7,105,412**	6,331,736
Depreciation	**390,448**	357,454
Amortisation of prepaid land lease payments	**6,505**	5,691
Amortisation of prepayments	**1,490**	1,533
Research and development costs	**409,442**	370,241
Minimum lease payments under operating leases	**55,613**	56,637
Employee benefit expense (excluding directors' remuneration – note 8):		
Salaries and wages	**1,934,387**	1,820,675
Equity-settled share option expense	**3,702**	8,079
Pension scheme contributions	**78,135**	76,428
Less: Amounts included in research and development costs	**(145,187)**	(136,429)
	1,871,037	1,768,753
Auditor's remuneration#	**3,680**	5,080
Loss on disposal of items of property, plant and equipment	**12,429**	1,654
Foreign exchange differences, net	**33,371**	(11,620)
Changes in fair value of an investment property	**(6,050)**	(5,405)
Impairment of trade receivables	**10,406**	17,899
Impairment of an other receivable	**–**	10,337
Reversal of impairment of trade receivables	**(11,440)**	(447)
Provision against inventories	**198,905**	15,688
Write-off of inventories	**17,553**	–
Gain on disposal of a subsidiary	**(3,568)**	–
Loss on deregistration of associates	**134**	–

The balance for the year ended 31 December 2017 included the auditor's remuneration for THT.

Cost of inventories sold includes HK$2,208,390,000 (2017: HK$1,873,506,000) relating to staff costs, operating lease rentals of leasehold land and buildings, provision against inventories, write-off of inventories, amortisation of prepayments and depreciation, 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 Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group	
	2018	2017
	HK$'000	HK$'000
Fees	**4,213**	4,130
Other emoluments:		
Salaries, allowances and benefits in kind	**1,853**	1,940
Equity-settled share option expense	**4,371**	8,737
Pension scheme contributions	**166**	186
	6,390	10,863
	10,603	14,993

During the year ended 31 December 2016, directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 28 to the financial statements. The fair value of these options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) *Independent non-executive directors*

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

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

Directors' remuneration *(continued)*

(a) *Independent non-executive directors (continued)*

	Fees HK$'000	Equity-settled share option expense HK$'000	Total remuneration HK$'000
2017			
Mr. Ting Leung Huel, Stephen	250	589	839
Mr. Cheung Wah Fung, Christopher, *SBS, JP*	200	589	789
Dr. Yu Sun Say, *GBM, GBS, SBS, JP*	200	589	789
	650	1,767	2,417

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

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

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

Directors' remuneration *(continued)*

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

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2017					
Executive directors:					
Mr. Wang Ya Nan	870	360	1,448	60	2,738
Mr. Wang Ya Hua	630	360	1,448	36	2,474
Mr. Wong Ah Yeung	630	360	1,448	18	2,456
Mr. Wong Ah Yu	630	360	1,448	36	2,474
Mr. Choi Wai Sang	360	260	589	36	1,245
Mr. Wang Ming Che	360	240	589	–	1,189
	3,480	1,940	6,970	186	12,576

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

Five highest paid employees

The five highest paid employees during the year included four (2017: four) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining one (2017: one) non-director highest paid employee are as follows:

	Group	
	2018	2017
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,603**	2,128
Equity-settled share option expense	**273**	576
Pension scheme contributions	**18**	18
	1,894	2,722

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

Five highest paid employees *(continued)*

During the year ended 31 December 2016, share options were granted to the non-director and non-chief executive highest paid employee in respect of her services to the Group, further details of which are included in the disclosures in note 28 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employee's remuneration disclosures.

The above remuneration of the non-director highest paid employee fell within the band of HK$1,500,001 to HK$2,000,000 (2017: HK$2,500,001 to HK$3,000,000).

9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2018	2017
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**61,470**	36,721
Overprovision in prior years	**(97)**	(384)
	61,373	36,337
Current – Elsewhere		
Charge for the year	**54,349**	154,891
Overprovision in prior years	**(4,955)**	(6,135)
	49,394	148,756
Deferred (note 26)	**2,249**	11,883
Total tax charge for the year	**113,016**	196,976

9. INCOME TAX *(continued)*

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

	Group	
	2018	2017
	HK$'000	HK$'000
Profit before tax	**675,774**	1,255,631
Tax at the applicable tax rates	**145,273**	291,602
Lower applicable tax rates enjoyed by the Group	**(88,381)**	(126,487)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**530**	10,491
Adjustments in respect of current tax of prior years	**(5,052)**	(6,519)
Profit/(loss) attributable to a jointly-controlled entity	**650**	(457)
Income not subject to tax	**(16,506)**	(10,759)
Expenses not deductible for tax	**50,421**	13,966
Tax losses utilised from previous years	**(892)**	(290)
Tax losses not recognised	**26,973**	25,429
Tax charge at the Group's effective rate	**113,016**	196,976

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

During the year ended 31 December 2018, 福建省石獅市通達電器有限公司 (Tongda Electrics Company Limited, Shishi City, Fujian) ("TD Electrics"), 通達(廈門)科技有限公司 (Tongda (Xiamen) Technology Limited) ("Xiamen Technology"), 深圳通達電子有限公司 (Shenzhen Tongda Electronic Company Limited) ("Shenzhen Electronic"), 通達五金(深圳)有限公司 (Tongda Ironware (Shenzhen) Company Limited) ("TD Ironware"), 廈門市創智實業有限公司 (Tongda (Xiamen) Smart Tech Industry Company Limited) ("Xiamen Smart Tech") and 通達(廈門)精密橡塑有限公司 (Tongda (Xiamen) Elastomers Company Limited) were subject to a preferential tax rate of 15% under High New Technology Enterprises.

During the year ended 31 December 2017, TD Electrics, Xiamen Technology, Shenzhen Electronic, TD Ironware, Xiamen Smart Tech and 通達宏泰科技(蘇州)有限公司 (Tongda HT Technology (Suzhou) Company Limited) were subject to a preferential tax rate of 15% under High New Technology Enterprises.

The share of tax attributable to a jointly-controlled entity amounting to HK$923,000 was included in "Share of profit/(loss) of a jointly-controlled entity" on the face of the consolidated income statement during the year ended 31 December 2017.

10. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Dividends paid during the year:		
Final in respect of the financial year ended 31 December 2017 – HK3.8 cents per ordinary share (2017: final dividend of HK3.2 cents per ordinary share, in respect of the financial year ended 31 December 2016)	**229,965**	194,565
Interim – HK2.0 cents (2017: HK1.6 cents) per ordinary share	**125,944**	96,828
	355,909	291,393
Proposed final dividend:		
Final – HK0.8 cent (2017: HK3.8 cents) per ordinary share	**51,836**	229,965
Special interim dividend (Note)	**366,174**	–

The proposed final dividend of HK0.8 cent per ordinary share (2017: HK3.8 cents per ordinary share) for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect the final dividend payable.

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

11. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares of 6,195,494,000 (2017: 5,980,782,000) in issue during the year, as adjusted to reflect the new shares issued and the shares repurchased during the year.

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

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

	2018	2017
	HK$'000	HK$'000
Earnings:		
Profit for the year attributable to owners of the Company used in the basic earnings per share calculation	**542,821**	1,006,125
Interest on convertible bonds	**1,369**	6,782
Profit for the year attributable to owners of the Company before interest on convertible bonds	**544,190**	1,012,907
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**6,195,494**	5,980,782
Effect of dilutive potential ordinary shares arising from		
– share options	**–**	21,239
– convertible bonds*	**123,995**	318,521
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**6,319,489**	6,320,542

* The convertible bonds matured on 25 June 2018.

12. PROPERTY, PLANT AND EQUIPMENT

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

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

	Leasehold building in Hong Kong HK$'000	Leasehold buildings in Mainland China HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2017								
Cost or valuation:								
At 1 January 2017	44,500	658,936	119,884	3,494,792	85,442	48,503	121,646	4,573,703
Additions	–	2,230	39,134	882,752	24,859	5,299	330,656	1,284,930
Surplus on revaluation	5,700	–	–	–	–	–	–	5,700
Disposals	–	(260)	(1,332)	(67,063)	(1,095)	(2,820)	–	(72,570)
Transfer	–	55,646	46,296	43,917	1,268	175	(147,302)	–
Exchange realignment	–	6,967	1,331	37,530	888	483	1,142	48,341
At 31 December 2017	50,200	723,519	205,313	4,391,928	111,362	51,640	306,142	5,840,104
Accumulated depreciation:								
At 1 January 2017	–	144,305	29,338	1,031,262	49,565	31,252	–	1,285,722
Provided for the year	1,112	17,781	27,574	297,122	10,151	3,714	–	357,454
Disposals	–	(29)	(312)	(50,618)	(1,030)	(2,498)	–	(54,487)
Reversal upon revaluation	(1,112)	–	–	–	–	–	–	(1,112)
Exchange realignment	–	1,526	313	11,210	502	311	–	13,862
At 31 December 2017	–	163,583	56,913	1,288,976	59,188	32,779	–	1,601,439
Net book value:								
At 31 December 2017	50,200	559,936	148,400	3,102,952	52,174	18,861	306,142	4,238,665

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

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

The Group's leasehold building situated in Hong Kong was revalued at the end of the reporting period based on valuations performed by Asset Appraisal Ltd., an independent firm of professionally qualified valuers, at HK$54,500,000 (2017: HK$50,200,000). In the opinion of the directors, the current use of the leasehold building in Hong Kong is its highest and best use.

A revaluation surplus of HK$5,557,000 (2017: HK$6,812,000), resulting from the above valuation, has been credited to other comprehensive income. Further details of the fair value measurement of the Group's leasehold building situated in Hong Kong are disclosed in note 13 below.

Had the Group's leasehold building situated in Hong Kong been carried at historical cost less accumulated depreciation, the carrying amount would have been approximately HK$9,844,000 (2017: HK$10,102,000).

As at 31 December 2018, the Group's leasehold building in Hong Kong with a net carrying amount of HK$54,500,000 (2017: HK$50,200,000) was pledged to secure bank loans granted to the Group (note 24).

As at 31 December 2018, the Group had not yet obtained the title ownership certificates for certain of its buildings situated in Xiamen city and Shishi city, Fujian, the PRC with net book values of HK$68,439,000 (2017: HK$75,292,000) and HK$121,298,000 (2017: HK$129,591,000), respectively. The Company's directors confirmed that there is no legal barrier or otherwise for the Group to obtain the relevant title ownership certificates for these buildings from the relevant PRC authority.

13. INVESTMENT PROPERTY

	2018 **HK$'000**	2017 HK$'000
Carrying amount at 1 January	**63,807**	57,791
Changes in fair value	**6,050**	5,405
Exchange realignment	**(1,820)**	611
Carrying amount at 31 December	**68,037**	63,807

The Group's investment property in Shanghai was revalued on 31 December 2018 based on valuations performed by Asset Appraisal Ltd., an independent firm of professionally qualified valuers at RMB59,600,000, equivalent to HK$68,037,000 (2017: RMB54,300,000, equivalent to HK$63,807,000). In the opinion of the directors, the current use of the investment property in Shanghai is its highest and best use.

As at 31 December 2018, the Group has not yet obtained the title ownership certificates for certain of its buildings situated in Shanghai, the PRC with a fair value of RMB4,529,000, equivalent to HK$5,170,000 (2017: RMB4,650,000, equivalent to HK$5,464,000). The Company's directors confirmed that there is no legal barrier or otherwise for the Group to obtain the relevant title ownership certificates for these buildings from the relevant PRC authority.

13. INVESTMENT PROPERTY *(continued)*

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

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

Fair value hierarchy

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

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

13. INVESTMENT PROPERTY *(continued)*

Fair value hierarchy *(continued)*

	Fair value measurement as at 31 December 2017 using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Recurring fair value measurement for:				
Leasehold building in Hong Kong for own use (note (a))	–	–	50,200	50,200
Investment property in Shanghai (note (b))	–	–	63,807	63,807
	–	–	114,007	114,007

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

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

	Leasehold building HK$'000	**Investment property HK$'000**
Net carrying amount at 1 January 2017	44,500	57,791
Depreciation	(1,112)	–
Gain from a fair value adjustment recognised in:		
other income and gains, net, in the income statement (note 5)	–	5,405
other comprehensive income in the statement of comprehensive income	6,812	–
Exchange realignment	–	611
Net carrying amount at 31 December 2017 and 1 January 2018	**50,200**	**63,807**
Depreciation	**(1,257)**	**–**
Gain from a fair value adjustment recognised in:		
other income and gains, net, in the income statement (note 5)	**–**	**6,050**
other comprehensive income in the statement of comprehensive income	**5,557**	**–**
Exchange realignment	**–**	**(1,820)**
Net carrying amount at 31 December 2018	**54,500**	**68,037**

13. INVESTMENT PROPERTY *(continued)*

Fair value hierarchy *(continued)*

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

	Valuation technique	Significant unobservable inputs	Range 2018	Range 2017
Leasehold building in Hong Kong for own use	Direct comparison approach	Market transaction price (per square foot)	**HK$18,102 to HK$29,173**	HK$20,698 to HK$24,785
		Adjustment on quality of the building	**1% to 25%**	4% to 7%
Investment property	Direct comparison approach	Asking price per square metre	**HK$4,606 to HK$6,969**	HK$4,862 to HK$7,756
		Discount factor	**10%**	10%

Notes:

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

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

(b) The valuation of the investment property in Shanghai was determined using the direct comparison approach. Since no recent transaction history of the comparable properties nearby was publicly available, the asking price per square metre of comparable properties nearby and currently on sale with a discount factor of 10% (2017: 10%) was used in the determination of the fair value of the investment property. The most significant inputs to this valuation approach are the asking price per square metre and the discount factor.

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

14. PREPAID LAND LEASE PAYMENTS

	2018	2017
	HK$'000	HK$'000
Carrying amount at 1 January	**278,757**	213,973
Additions#	**3,932**	68,216
Amortisation recognised during the year	**(6,505)**	(5,691)
Exchange realignment	**(7,946)**	2,259
Carrying amount at 31 December	**268,238**	278,757
Current portion included in prepayments, deposits and other receivables	**(6,603)**	(6,637)
Non-current portion	**261,635**	272,120

Additions represent the land use right acquired in Xiamen and Shishi during the years ended 31 December 2018 and 31 December 2017.

Pursuant to the land use right transfer agreement dated 30 March 2018 entered into between the Group and the land resources and real estate management bureau in Shishi, the PRC, the Group acquired the land use right of a land in Shishi, the PRC with a total land area of 4,485 square metres at a consideration of RMB3,249,000 (equivalent to approximately HK$3,709,000) together with acquisition expenses of RMB196,000 (equivalent to approximately HK$223,000) for a term of 50 years. The land was used for the construction of the new manufacturing base of the Group in Shishi.

Pursuant to the land use right transfer agreement dated 13 January 2017 entered into between the Group and the land resources and real estate management bureau in Xiamen, the PRC, the Group acquired the land use right of a parcel of land in Xiamen, the PRC with a total land area of 34,734 square metres at a consideration of RMB19,208,000 (equivalent to approximately HK$22,571,000) together with deed tax of RMB576,000 (equivalent to approximately HK$677,000) for a term of 46 years. The land was used for the construction of the new manufacturing base of the Group in Xiamen.

Pursuant to the land use right transfer agreement dated 31 July 2017 entered into between the Group and the land resources and real estate management bureau in Shishi, the PRC, the Group acquired the land use right of a land in Shishi, the PRC with a total land area of 48,147 square metres at a consideration of RMB24,000,000 (equivalent to approximately HK$28,202,000) together with acquisition expenses of RMB14,268,000 (equivalent to approximately HK$16,766,000) for a term of 50 years. The land was used for the construction of the new manufacturing base of the Group in Shishi.

As at 31 December 2018, the Group had not yet obtained the land use right certificates of certain land use right acquired situated in Xiamen city and Shishi city, Fujian, the PRC with net book values of HK$27,702,000 (2017: HK$29,154,000) and HK$2,583,000 (2017: HK$46,679,000), respectively. The Company's directors confirmed that there is no legal barrier or otherwise for the Group to obtain the relevant land use right certificates from the relevant PRC authority.

15. INVESTMENTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
Share of net assets	–	1,604
Goodwill on acquisition	–	13,247
	–	14,851
Due to associates	–	(3,766)
	–	11,085
Provision for impairment	–	(10,951)
	–	134

Particulars of the associates are as follows:

Name	Place of incorporation/ registration and business	Particulars of issued shares held	Percentage of ownership interest indirectly attributable to the Group 2018	2017	Principal activities
Justone Holdings Limited ("Justone")	BVI	Ordinary US$33,333	–	28	Investment holding
Justone Technologies Limited ("Justone Technologies")	Hong Kong	Ordinary HK$10,000	–	28	Investment holding
Justone (北京)通訊技術有限公司 ("Justone Beijing")	PRC/Mainland China	Registered RMB5,000,000	–	28	Provision of software platform to run integrated fixed line phone

15. INVESTMENTS IN ASSOCIATES *(continued)*

During the year ended 31 December 2018, Justone, Justone Technologies and Justone Beijing were deregistered. A loss on deregistration of associates of HK$134,000 was recognised in the consolidated income statement during the year.

The balances with associates are unsecured, interest-free and repayable on demand.

All the above associates have been accounted for using the equity method in these financial statements.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018 **HK$'000**	2017 HK$'000
Aggregate carrying amount of the Group's investments in the associates	**–**	134

16. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	2018 **HK$'000**	2017 HK$'000
Share of net assets	**63,080**	67,611
Loans to a jointly-controlled entity	**140,260**	144,380
Due from a jointly-controlled entity	**33,768**	18,944
Due to a jointly-controlled entity	**200,584**	211,086

The loans to a jointly-controlled entity of HK$140,260,000 (2017: HK$144,380,000) are unsecured, interest-bearing at 2% (2017: 2%) per annum and repayable on demand.

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

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

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

Name	Place of incorporation/ registration and business	Particulars of issued shares held	Percentage of ownership interest indirectly attributable to the Group 2018	2017	Principal activities
石獅市通達精雕制造有限公司 ("Jingdiao")	PRC/Mainland China	Registered RMB50,000,000	**50**	50	Manufacture and sale of electrical appliance products

As at 31 December 2018, the Group's shareholding in Jingdiao was held through a wholly-owned subsidiary of the Company.

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

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

	2018 HK$'000	2017 HK$'000
Current assets	**224,053**	140,946
Non-current assets	**391,625**	503,384
Current liabilities	**(489,518)**	(435,077)
Non-current liabilities	**–**	(74,031)
Net assets	**126,160**	135,222
Reconciliation to the Group's interest in the jointly-controlled entity:		
Proportion of the Group's ownership	**50%**	50%
Group's share of net assets of the jointly-controlled entity, excluding goodwill	**63,080**	67,611
Carrying amount of the investment	**63,080**	67,611
Revenue	**233,907**	321,904
Profit/(loss) for the year	**(5,204)**	5,541
Other comprehensive income/(expense)	**(3,858)**	1,356
Total comprehensive income/(expense) for the year	**(9,062)**	6,897

17. PREPAYMENTS

	Prepaid rental HK$'000	Prepaid premises cost HK$'000	Total HK$'000
31 December 2018			
Cost:			
At 1 January 2018	**2,221**	**69,328**	**71,549**
Exchange realignment	**(63)**	**(1,979)**	**(2,042)**
At 31 December 2018	**2,158**	**67,349**	**69,507**
Amortisation:			
At 1 January 2018	**718**	**18,162**	**18,880**
Amortised during the year	**48**	**1,442**	**1,490**
Exchange realignment	**(20)**	**(520)**	**(540)**
At 31 December 2018	**746**	**19,084**	**19,830**
Net book value:			
At 31 December 2018	**1,412**	**48,265**	**49,677**
31 December 2017			
Cost:			
At 1 January 2017	2,198	68,602	70,800
Exchange realignment	23	726	749
At 31 December 2017	2,221	69,328	71,549
Amortisation:			
At 1 January 2017	662	16,503	17,165
Amortised during the year	49	1,484	1,533
Exchange realignment	7	175	182
At 31 December 2017	718	18,162	18,880
Net book value:			
At 31 December 2017	1,503	51,166	52,669

17. PREPAYMENTS *(continued)*

The prepaid rental represents the 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 PRC legal counsel of the Group, the lessor of the Land has the right to lease the Land and these premises and the leasing agreement entered into by the Group with the lessor is legally enforceable under PRC law.

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.

18. LONG TERM DEPOSITS

	2018	2017
	HK$'000	HK$'000
Deposits for acquisitions of property, plant and equipment	**626,029**	344,751

19. INVENTORIES

	2018	2017
	HK$'000	HK$'000
Raw materials	**614,982**	602,622
Work in progress	**503,845**	726,350
Finished goods	**1,410,123**	1,347,547
	2,528,950	2,676,519

As at 31 December 2018, moulds of HK$486,978,000 (2017: HK$430,710,000) were included in the finished goods.

20. TRADE AND BILLS RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**3,020,622**	3,654,865
Impairment allowances	**(41,818)**	(53,266)
	2,978,804	3,601,599
Bills receivable	**135,989**	289,210
	3,114,793	3,890,809

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

It is the general policy of the Group to allow a credit period of three to six months. In addition, for certain customers with long-established relationships and good repayment histories, a longer credit period may be granted in order to maintain a good relationship. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by management. Trade receivables are non-interest-bearing. At the end of the reporting period, 22.6% (2017: 37.9%) and 56.2% (2017: 59.6%) of the total trade and bills receivables were due from the Group's largest customer and the five largest customers, respectively.

An ageing analysis of the Group's trade and bills receivables as at 31 December 2018, based on the invoice date, is as follows:

	2018 HK$'000	2017 HK$'000
Within 3 months	**2,916,025**	3,632,123
4 to 6 months, inclusive	**192,167**	212,220
7 to 9 months, inclusive	**9,435**	23,240
10 to 12 months, inclusive	**6,170**	11,821
More than 1 year	**32,814**	64,671
	3,156,611	3,944,075
Impairment allowances	**(41,818)**	(53,266)
	3,114,793	3,890,809

20. TRADE AND BILLS RECEIVABLES *(continued)*

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

	2018 HK$'000	2017 HK$'000
At 1 January	**53,266**	35,725
Impairment of trade receivables (note 7)	**10,406**	17,899
Reversal of impairment of trade receivables (note 7)	**(11,440)**	(447)
Write-off of impairment of trade receivables	**(9,869)**	(30)
Exchange realignment	**(545)**	119
At 31 December	**41,818**	53,266

Impairment under HKFRS 9 for the year ended 31 December 2018

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

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

As at 31 December 2018

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

20. TRADE AND BILLS RECEIVABLES *(continued)*

Impairment under HKAS 39 for the year ended 31 December 2017

The impairment allowances for trade receivables as at 31 December 2017, which were measured based on incurred credit losses under HKAS 39, were allowances for impaired trade receivables with a gross carrying amount of HK$84,486,000. The impaired trade receivables as at 31 December 2017 related 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 ageing analysis of the trade and bills receivables as at 31 December 2017 that were not considered to be impaired under HKAS 39 was as follows:

	2017 HK$'000
Neither past due nor impaired	3,722,017
Past due:	
Within 3 months	113,601
4 to 6 months, inclusive	13,465
7 to 9 months, inclusive	10,506
	3,859,589

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

Receivables that were past due but not impaired related to a number of independent customers that had a good repayment record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

21. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	2018 HK$'000	2017 HK$'000
Cash and cash equivalents	**768,404**	792,494
Time deposits	**507,684**	481,700
	1,276,088	1,274,194
Less: Pledged deposits*	**(507,684)**	(481,700)
	768,404	792,494

* Pledged deposits as at 31 December 2018 included HK$507,684,000 (2017: HK$464,866,000) for the bank facilities granted to the Group (note 24).

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to HK$470,521,000 (2017: HK$589,938,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

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

22. TRADE AND BILLS PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables	**1,144,985**	1,446,832
Bills payable	**1,480,740**	1,309,100
	2,625,725	2,755,932

22. TRADE AND BILLS PAYABLES *(continued)*

The trade payables are non-interest-bearing and are normally settled on 60 to 90-days terms. An ageing analysis of the Group's trade and bills payables as at 31 December 2018, based on the invoice date, is as follows:

	2018 HK$'000	2017 HK$'000
Within 3 months	**1,817,144**	1,965,095
4 to 6 months, inclusive	**777,987**	753,955
7 to 9 months, inclusive	**3,680**	6,221
10 to 12 months, inclusive	**6,591**	11,117
More than 1 year	**20,323**	19,544
	2,625,725	2,755,932

23. LOAN RECEIVABLES

	Notes	2018 HK$'000	2017 HK$'000
Loan to a non-controlling shareholder of a subsidiary	(a)	**–**	1,500
Other loan	(b)	**47,581**	57,939
		47,581	59,439

(a) A loan to a non-controlling shareholder of a subsidiary of HK$1,500,000 bears interest at 3.0% per annum for a period of five years commencing from the agreement date on 6 October 2015, and supported by a personal guarantee provided by the non-controlling shareholder in favour to the Group which shall only be discharged upon full repayment of the loan and interest thereon. 70% of any dividend payable by the Group to the non-controlling shareholder shall be used to repay the Group for the loan and interest or part thereof until the loan and interest thereto have been fully repaid. During the year ended 31 December 2018, the Group has distributed dividend to the non-controlling shareholder, and the dividend was used to repay the loan by the non-controlling shareholder.

(b) A loan to a supplier of HK$47,581,000 (2017: HK$57,939,000) bears interest at 4.35% per annum repayable on 31 December 2019. The loan is secured by a parcel of land and three buildings in Mainland China and repayable on demand.

24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018			2017		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Other loans, unsecured	**4.1%-6.7%**	**2019**	**19,448**	5.7%-6.1%	2018	9,164
Current portion of long term bank loans, secured	**HIBOR+1.85%***	**2019**	**145,573**	HIBOR+1.85%*	2018	72,773
Current portion of long term bank loans, unsecured	**HIBOR+1.27% to 1.55%*/ COF+1.55% to 1.65%****	**2019**	**704,640**	HIBOR+1.27% to 1.9%*/ COF+1% to 1.65%**	2018	465,844
Bank loans, unsecured	**4.2%-6.2%/ HIBOR+1.5%*/ COF+1% to 1.25%**/ LIBOR+1.75%*****	**2019**	**1,585,234**	3.8%-6.09%/ LIBOR+2.5% to 3%***/ PBOC****	2018	1,687,217
			2,454,895			2,234,998
Non-current						
Bank loans, secured	**HIBOR+1.85%***	**2020**	**77,845**	HIBOR+1.85%*	2019	207,171
Bank loans, unsecured	**HIBOR+1.27% to 2.05%*/ COF+1.55% to 1.65%**/ 5.7%-6.175%**	**2022**	**1,619,118**	HIBOR+1.27% to 1.55%*/ COF+1.6% to 1.65%**/ 4.75%-6.175%	2020	1,033,130
			1,696,963			1,240,301
Total			**4,151,858**			3,475,299

* "HIBOR" means the Hong Kong Interbank Offered Rate.
** "COF" means the cost of funding.
*** "LIBOR" means the London Interbank Offered Rate.
**** "PBOC" means the rate of the People's Bank of China.

24. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

	2018 **HK$'000**	2017 HK$'000
Analysed into:		
Bank and other borrowings repayable:		
Within one year	**2,454,895**	2,234,998
In the second year	**1,054,477**	752,048
In the third year	**642,486**	488,253
	4,151,858	3,475,299
Analysed into:		
HK$	**2,796,222**	1,632,244
RMB	**1,339,212**	1,583,208
US$	**16,424**	259,847
	4,151,858	3,475,299

Notes:

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

(a) the pledge of bank deposits of approximately HK$507,684,000 (2017: HK$464,866,000) (note 21);

(b) corporate guarantees from the Company and certain of its subsidiaries; and

(c) mortgages over the Group's leasehold building in Hong Kong with a carrying amount of approximately HK$54,500,000 (2017: HK$50,200,000) (note 12).

25. CONVERTIBLE BONDS

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

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

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

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

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

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

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

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

25. CONVERTIBLE BONDS *(continued)*

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

	2018 HK$'000	2017 HK$'000
Principal amount of convertible bonds issued during the year	**880,000**	880,000
Equity component	**(6,972)**	(6,972)
Liability component at the issuance date	**873,028**	873,028
Conversion	**(837,999)**	(432,999)
Interest expense	**20,437**	19,068
Interest paid	**(20,437)**	(13,259)
Repayment upon maturity	**(35,029)**	–
Liability component at 31 December	**–**	445,838

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

– the trustee shall in its absolute discretion deem not materially less beneficial to the interests of the bondholders, or

– shall be approved by an extraordinary resolution of the bondholders.

26. DEFERRED TAX

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

Deferred tax liabilities

	Withholding taxes HK$'000	Revaluation of properties HK$'000	Total HK$'000
At 1 January 2017	56,340	18,171	74,511
Debited to the income statement during the year (note 9)	10,491	1,392	11,883
Deferred tax debited to equity during the year	–	1,124	1,124
Exchange realignment	–	124	124
At 31 December 2017 and 1 January 2018	66,831	20,811	87,642
Debited to the income statement during the year (note 9)	530	1,719	2,249
Deferred tax debited to equity during the year	–	917	917
Exchange realignment	–	(378)	(378)
At 31 December 2018	67,361	23,069	90,430

Deferred tax assets

	Accelerated tax depreciation HK$'000
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	3,703

The Group has estimated tax losses arising in Hong Kong of approximately HK$72,529,000 (2017: HK$14,472,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

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

26. DEFERRED TAX *(continued)*

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

However, deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of certain subsidiaries of the Group established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$3,476,869,000 at 31 December 2018 (2017: HK$3,164,964,000).

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

27. SHARE CAPITAL

	2018 **HK$'000**	2017 HK$'000
Authorised:		
20,000,000,000 (2017: 20,000,000,000) ordinary shares	**200,000**	200,000
Issued and fully paid:		
6,479,505,097 (2017: 6,051,725,553) ordinary shares	**64,795**	60,517

27. SHARE CAPITAL *(continued)*

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

	Notes	Number of ordinary shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
Issued:					
As at 1 January 2017		5,780,450,000	57,805	1,228,053	1,285,858
Shares issued upon exercise of share options	(i)	90,400,000	904	100,414	101,318
Conversion of convertible bonds	(ii)	240,555,553	2,405	434,025	436,430
Shares repurchased	(iii)	(59,680,000)	(597)	(130,171)	(130,768)
		6,051,725,553	60,517	1,632,321	1,692,838
Final 2016 dividend (note 10)		–	–	(194,565)	(194,565)
Interim 2017 dividend (note 10)		–	–	(96,828)	(96,828)
As at 31 December 2017 and 1 January 2018		6,051,725,553	60,517	1,340,928	1,401,445
Conversion of convertible bonds	(iv)	245,454,544	2,455	405,753	408,208
Redemption of convertible bonds	(v)	–	–	333	333
Issue of shares	(vi)	182,325,000	1,823	154,977	156,800
		6,479,505,097	64,795	1,901,991	1,966,786
Final 2017 dividend (note 10)		–	–	(229,965)	(229,965)
Interim 2018 dividend (note 10)		–	–	(125,944)	(125,944)
Special interim dividend (note 10)		–	–	(366,174)	(366,174)
As at 31 December 2018		6,479,505,097	64,795	1,179,908	1,244,703

27. SHARE CAPITAL *(continued)*

Notes:

(i) During the year ended 31 December 2017, an aggregate of 90,400,000 share options have been exercised at a weighted average subscription price of HK$0.8274 per share resulting in the issue of 90,400,000 shares of HK$0.01 each for a total amount of HK$74,798,000, representing new share capital of HK$904,000 and share premium of HK$73,894,000 for a total cash consideration, before expenses, of HK$74,798,000. An amount of HK$26,520,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

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

(iii) During the year ended 31 December 2017, the Company repurchased 59,680,000 shares at prices ranging from HK$1.97 to HK$2.46 per share at a total consideration of HK$130,768,000. The 59,680,000 repurchased ordinary shares were cancelled during the year. The premium of HK$130,171,000 paid on the repurchase of such shares was debited to the share premium account and an amount of HK$597,000 was transferred from retained profits of the Company to the capital redemption reserve.

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

(v) During the year ended 31 December 2018, HK$333,000 was credited to share premium and HK$333,000 was debited to the equity component of convertible bonds upon the maturity of the convertible bonds.

(vi) On 5 December 2018, the Group issued 182,325,000 ordinary shares to acquire the remaining 30% interest of Tongda Precision Technology Company Limited. The details of the acquisition were set out in note 42 to the financial statements.

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

Share option schemes

Details of the Company's share option schemes and the share options issued under the schemes are included in note 28 to the financial statements.

28. SHARE OPTION SCHEMES

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

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

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

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

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

28. SHARE OPTION SCHEMES *(continued)*

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

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

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

	2018		2017	
	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	**1.8**	**58,000**	1.2075	148,400
Exercised during the year	**–**	**–**	0.8274	(90,400)
At 31 December	**1.8**	**58,000**	1.8	58,000

The weighted average share price at the date of exercise for the share options exercised was HK$2.7776 per share during the year ended 31 December 2017.

28. SHARE OPTION SCHEMES *(continued)*

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

2018

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

2017

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

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

The fair value of the share options under the New Scheme granted during the year ended 31 December 2016 was HK$30,781,000 (approximately HK$0.53 each), of which the Group recognised a share option expense of HK$8,073,000 (2017: HK$16,816,000) during the year ended 31 December 2018.

At the end of the reporting period and date of approval of these financial statements, the Company had 58,000,000 (2017: 58,000,000) share options outstanding under the New Scheme which represented approximately 1% of the Company's shares in issue as at these dates. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 58,000,000 additional ordinary shares of the Company and additional share capital of HK$580,000 and share premium of HK$103,820,000 (before issue expenses).

29. RESERVES

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

(i) Capital reserve

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

(ii) Statutory reserve

In accordance with the Macau Commercial Codes, Tongda Overseas Macao Commercial Offshore Limited ("Tongda Macao"), a wholly-owned subsidiary of the Company, whose principal operation is conducted in Macau, is required to appropriate annually not less than 25% of its profit after tax to the statutory reserve, until the balance of the reserve reaches 50% of the entity's capital fund. The statutory reserve may be utilised by the entity for certain restricted purposes including the set-off against accumulated losses, if any, arising under certain specified circumstances. As the reserve has already reached 50% of Tongda Macao's capital fund, no transfer was made in the current year (2017: Nil).

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

30. CONTINGENT LIABILITIES

At 31 December 2018, the Company had provided corporate guarantees for banking facilities granted to certain subsidiaries, which were utilised to the extent of approximately HK$3,081,332,000 (2017: HK$2,554,467,000) at the end of the reporting period.

Save as disclosed above, the Company and the Group did not have any significant contingent liabilities at the end of the reporting period.

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

During the year ended 31 December 2018, the Group sub-leases one of its factories under operating lease arrangements with leases negotiated for terms of three years. The terms of the leases also require the tenants to pay security deposits and monthly utilities expenses.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenant falling due as follows:

	2018	2017
	HK$'000	HK$'000
Within one year	**4,557**	4,691
In the second to fifth years, inclusive	**1,519**	6,254
	6,076	10,945

(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 office properties under operating lease arrangements for terms of over five years.

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

	2018	2017
	HK$'000	HK$'000
Within one year	**13,549**	34,015
In the second to fifth years, inclusive	**28,894**	39,760
After five years	**10,193**	17,067
	52,636	90,842

32. COMMITMENTS

In addition to the operating lease commitments set out in note 31(b) above, the Group had the following capital commitments contracted, but not provided for, at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
Contracted for commitments in respect of		
– Purchases of property, plant and equipment	327,787	429,430
– Construction of leasehold buildings in Mainland China	284,898	237,540
	612,685	666,970

The Company had no significant commitments at the end of the reporting period (2017: Nil).

33. RELATED PARTY TRANSACTIONS

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

	Notes	2018 HK$'000	2017 HK$'000
Related companies controlled by directors of the Company:			
Rental expense	(i)	4,521	4,653
Purchase of raw materials	(ii)	–	21,053
Rental income	(iii)	133	–
Consultancy fee	(iv)	2,202	–
A jointly-controlled entity:			
Rental income and utility charges	(v)	10,135	11,919
Subcontracting fee	(vi)	233,907	321,796
Interest income	(vii)	4,239	1,438
Purchase of property, plant and equipment	(viii)	110,711	–

33. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes:

(i) The rental expense paid to a related company controlled by a director of the Company was charged at a monthly rate of RMB330,000 for the year ended 31 December 2018 (2017: RMB330,000) by reference to a lease agreement entered into between the related company and the Group on 23 December 2015.

(ii) The purchase from a related company was made on a basis mutually agreed by both parties.

(iii) The rental income from a related company controlled by directors of the Company was charged at a monthly rate of HK$11,000 for the year ended 31 December 2018 by reference to a lease agreement entered into by the related company and the Group on 8 February 2018.

(iv) The consultancy fee paid to a related company controlled by a director of the Company was charged at a yearly rate of HK$1,895,000 for the year ended 31 December 2018 by reference to an agreement entered into by the related company and the Group on 8 January 2018.

(v) The rental income and utility charges from a jointly-controlled entity represented the rental charged for factory premises at a monthly rate of RMB332,640, equivalent to HK$379,726 and RMB390,120, equivalent to HK$445,342, respectively, for the year ended 31 December 2018 by reference to lease agreements entered into by the jointly-controlled entity and the Group on 1 May 2017 and 31 January 2018, respectively, and the related utility charges.

(vi) The subcontracting fee to the jointly-controlled entity was made on a basis mutually agreed by both parties.

(vii) The interest income was charged at 2% per annum on the loan balances to the jointly-controlled entity.

(viii) The purchase of property, plant and equipment from the jointly-controlled entity was made on a basis mutually agreed by both parties.

The related party transactions in respect of item (i) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

33. RELATED PARTY TRANSACTIONS *(continued)*

(b) Outstanding balances with related parties

(i) Details of the Group's balances with its non-controlling shareholders of subsidiaries and the related companies as at the end of the reporting period are disclosed in notes 16 and 23 to the financial statements, respectively.

(ii) Included in prepayments, deposits and other receivables is a prepayment to a related company of HK$4,553,000 (2017: Nil) directly controlled by a director, Mr. Wong Ah Yu. The maximum amount outstanding during the year was HK$5,643,000 (2017: Nil).

(iii) Included in prepayments, deposits and other receivables is an amount due from a related company of HK$84,000 (2017: Nil) directly controlled by Mr. Wang Ya Nan and Mr. Wong Ah Yu, two directors of the Company, which is unsecured, interest-free and repayable on demand. The maximum amount outstanding during the year was HK$110,000 (2017: Nil).

(iv) Included in accrued liabilities and other payables is an amount due to a related company of HK$1,040,000 (2017: Nil) controlled by a director, Mr. Wang Ya Nan, which is unsecured, interest-free and repayable on demand.

(v) Included in trade and bills receivables are bills receivable from related companies of HK$32,261,000 directly or indirectly controlled by a director, Mr. Wang Ming Che as at 31 December 2017.

(vi) Included in prepayments, deposits and other receivables is an amount due from a related company of HK$194,000 controlled by a director, Mr. Wong Ah Yeung, which is unsecured, interest-free and has no fixed terms of repayment as at 31 December 2017.

(c) Compensation of key management personnel of the Group

	2018	2017
	HK$'000	HK$'000
Short term employee benefits	**5,033**	5,521
Post-employment benefits	**–**	264
Equity-settled share option expense	**273**	576
Total compensation paid to key management personnel	**5,306**	6,361

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

34. DISPOSAL OF A SUBSIDIARY

	Notes	2018 HK$'000
Net assets disposed of:		
Property, plant and equipment	12	**7,764**
Inventories		**2,058**
Prepayments, deposits and other receivables		**14,632**
Cash and cash equivalents		**512**
Trade and bills payables		**(5,587)**
Accrued liabilities and other payables		**(7,831)**
		11,548
Exchange fluctuation reserve		**(116)**
		11,432
Gain on disposal of a subsidiary	5	**3,568**
		15,000
Satisfied by:		
Cash consideration		**15,000**

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

	Note	2018 HK$'000
Consideration received	36(a)(iii)	**7,500**
Cash and cash equivalents disposed of		**(512)**
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary		**6,988**

35. SPIN-OFF OF THT

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

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

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

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

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

36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

(i) Save as disclosed elsewhere in the financial statements, during the year ended 31 December 2018, deposits for the acquisition of property, plant and equipment of HK$340,817,000 (2017: HK$198,364,000) were utilised as additions to property, plant and equipment (note 18).

(ii) As at 31 December 2018, accrued interest of HK$2,187,000 (2017: HK$2,415,000) was included in a loan receivable which will be paid upon repayment of the loan during the year ending 31 December 2019.

(iii) As at 31 December 2018, HK$7,500,000 of the consideration for disposal of a subsidiary of HK$15,000,000 (2017: Nil) remained unsettled and was recorded in "Prepayments, deposits and other receivables" in the consolidated statement of financial position.

(iv) As at 31 December 2018, dividend to a non-controlling shareholder of HK$12,088,000 was offset against the loan to a non-controlling shareholder.

(b) Changes in liabilities arising from financing activities

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

	2017 Interest-bearing bank and other borrowings HK$'000
As at 1 January 2017	2,099,827
New bank loans	4,767,828
Repayment of bank loans	(3,392,356)
As at 31 December 2017	3,475,299

37. FINANCIAL INSTRUMENTS BY CATEGORY

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

2018

Financial assets

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

Financial liabilities

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

37. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

2017

Financial assets

	Loans and receivables HK$'000
Trade and bills receivables	3,890,809
Financial assets included in prepayments, deposits and other receivables	24,355
Due from a jointly-controlled entity	18,944
Loans to a jointly-controlled entity	144,380
Pledged deposits	481,700
Cash and cash equivalents	792,494
Loan receivables	59,439
	5,412,121

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	2,755,932
Financial liabilities included in accrued liabilities and other payables	147,592
Interest-bearing bank and other borrowings	3,475,299
Convertible bonds	445,838
Due to a jointly-controlled entity	211,086
Due to a former non-controlling shareholder of a subsidiary	30,034
Due to associates (note 15)	3,766
	7,069,547

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

The fair values of the non-current portion of the interest-bearing bank borrowings and an amount due to a former non-controlling shareholder have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2018 was assessed to be insignificant. The fair values of the interest-bearing bank borrowings approximate to their carrying amounts as at the end of the reporting period.

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2018

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

39. TRANSFERRED FINANCIAL ASSETS

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

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

2018

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

2017

	Trade receivables Note (a) HK$'000	Bills receivable Notes (b) and (c) HK$'000	Total HK$'000
Carrying amount of assets that continued to be recognised	401,211	101,813	503,024
Carrying amount of associated liabilities	364,333	101,813	466,146

39. TRANSFERRED FINANCIAL ASSETS *(continued)*

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

Notes:

(a) Trade receivables factoring

As part of its normal business, the Group entered into a trade receivable factoring arrangement (the "Factoring Arrangement") and transferred certain trade receivables to a bank. Under the Factoring Arrangement, the Group may be required to reimburse the bank for loss of interest if any trade debtors have late payment up to 30 days. The Group is not exposed to default risks of the trade debtors after the transfer. Subsequent to the transfer, the Group did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. The original carrying value of the trade receivables transferred under the Factoring Arrangement that have not been settled as at 31 December 2018 was HK$46,318,000 (2017: HK$401,211,000). The carrying amount of the assets that the Group continued to recognise as at 31 December 2018 was HK$46,318,000 (2017: HK$401,211,000) and that of the associated liabilities as at 31 December 2018 was HK$44,929,000 (2017: HK$364,333,000).

(b) Discounting of bills receivable

At 31 December 2018, the Group discounted certain bills receivable (the "Discounted Bills") with a carrying amount of HK$25,156,000 (2017: HK$9,164,000) to a local bank and certain local financial institutions in the PRC for cash. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to the Discounted Bills, and accordingly, it continued to recognise the full carrying amount of the Discounted Bills and the respective bank and other loans. Subsequent to the discounting, the Group does not retain any rights on the use of the Discounted Bills, including sale, transfer or pledge of the Discounted Bills to any other third parties. The aggregate carrying amount of the bank and other loans recognised due to the Discounted Bills was HK$25,156,000 (2017: HK$9,164,000) as at 31 December 2018.

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

At 31 December 2018, the Group endorsed certain bills receivable accepted by certain local banks and certain local financial institutions in the PRC (the "Endorsed Bills") with a carrying amount of HK$72,479,000 (2017: HK$92,649,000) to certain of its suppliers in order to settle the trade payables due to such suppliers. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to the Endorsed Bills, and accordingly, it continued to recognise the full carrying amount of the Endorsed Bills and the associated trade payables settled. Subsequent to the endorsement, the Group does not retain any rights on the use of the Endorsed Bills, including sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the year to which the suppliers have recourse was HK$72,479,000 (2017: HK$92,649,000) as at 31 December 2018.

39. TRANSFERRED FINANCIAL ASSETS *(continued)*

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

(a) Discounting of bills receivable

At 31 December 2018, the Group discounted certain bills receivable (the "Derecognised Discounted Bills") with a carrying amount of HK$220,777,000 (2017: HK$310,901,000) to certain reputable banks and a financial institution in the PRC. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Discounted Bills have a right of recourse against the Group if the bills default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Discounted Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Discounted Bills. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Discounted Bills and the undiscounted cash flows to repurchase these Derecognised Discounted Bills is equal to their carrying amounts of HK$220,777,000 (2017: HK$310,901,000). In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Discounted Bills are not significant. All Derecognised Discounted Bills have a maturity period from three to six months.

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

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

At 31 December 2018, the Group endorsed certain bills receivable accepted by certain reputable banks in the PRC (the "Derecognised Endorsed Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of HK$265,103,000 (2017: HK$100,802,000). The Derecognised Endorsed Bills have a maturity from one to six months at the end of the reporting period. In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Endorsed Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Endorsed Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Endorsed Bills and the undiscounted cash flows to repurchase these Derecognised Endorsed Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Endorsed Bills are not significant.

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Interest rate risk

The interest rates of the interest-bearing bank and other borrowings of the Group are disclosed in note 24 to the financial statements.

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

	Increase/ (decrease) in percentage points	Increase/ (decrease) in profit after tax and equity HK$'000
2018		
Hong Kong dollars	**0.5%**	**(11,674)**
Hong Kong dollars	**(0.5%)**	**11,674**
2017		
Hong Kong dollars	0.5%	(7,771)
Hong Kong dollars	(0.5%)	7,771

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

Commodity price risk

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

Foreign currency risk

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

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

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

	Increase/ (decrease) in RMB rate %	Increase/ (decrease) in the Group's net profit HK$'000
2018		
If the Hong Kong dollar weakens against RMB	**5**	**25,565**
If the Hong Kong dollar strengthens against RMB	**(5)**	**(25,565)**
2017		
If the Hong Kong dollar weakens against RMB	5	20,867
If the Hong Kong dollar strengthens against RMB	(5)	(20,867)

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

Credit risk

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

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Debt investments at fair value through other comprehensive income:					
– Trade receivables*	–	–	–	714,027	714,027
– Bills receivable					
– Normal**	62,178	–	–	–	62,178
Trade and bills receivables*	–	–	–	2,338,588	2,338,588
Financial assets included in prepayments, deposits and other receivables					
– Normal**	20,886	–	–	–	20,886
Due from a jointly-controlled entity					
– Not yet past due	33,768	–	–	–	33,768
Loans to a jointly-controlled entity					
– Not yet past due	140,260	–	–	–	140,260
Pledged deposits					
– Not yet past due	507,684	–	–	–	507,684
Cash and cash equivalents					
– Not yet past due	768,404	–	–	–	768,404
Loan receivables					
– Not yet past due	47,581	–	–	–	47,581
	1,580,761	–	–	3,052,615	4,633,376

* For trade and bills receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.

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

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

Credit risk *(continued)*

Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which comprise pledged deposits, cash and cash equivalents, an amount due from a jointly-controlled entity, loans to a jointly-controlled entity, loan receivables and financial assets included in prepayments, deposits and other receivables, 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 bank loans and other banking facilities such as trust receipt loans.

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

	2018				
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade and bills payables	–	2,625,725	–	–	2,625,725
Financial liabilities included in accrued liabilities and other payables	153,288	–	–	–	153,288
Due to a former non-controlling shareholder of a subsidiary	–	–	–	30,034	30,034
Due to a joint-controlled entity	200,584	–	–	–	200,584
Interest-bearing bank and other borrowings	–	954,501	1,539,082	1,817,825	4,311,408
	353,872	3,580,226	1,539,082	1,847,859	7,321,039

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

Liquidity risk *(continued)*

	2017				
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade and bills payables	–	2,755,932	–	–	2,755,932
Financial liabilities included in accrued liabilities and other payables	147,592	–	–	–	147,592
Due to a former non-controlling shareholder of a subsidiary	–	–	–	30,034	30,034
Due to associates	3,766	–	–	–	3,766
Due to a joint-controlled entity	211,086	–	–	–	211,086
Interest-bearing bank and other borrowings	–	1,158,226	1,103,550	1,305,915	3,567,691
Convertible bonds	–	–	506,282	–	506,282
	362,444	3,914,158	1,609,832	1,335,949	7,222,383

Capital management

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

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

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

	2018 HK$'000	2017 HK$'000
Interest-bearing bank and other borrowings	**4,151,858**	3,475,299
Add: Convertible bonds	**–**	445,838
Less: Cash and cash equivalents	**(768,404)**	(792,494)
Less: Pledged deposits	**(507,684)**	(481,700)
Net debt	**2,875,770**	2,646,943
Total equity	**5,937,157**	5,885,297
Gearing ratio	**48%**	45%

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**117,862**	117,862
Loan to a subsidiary	**12,610**	12,610
Total non-current assets	**130,472**	130,472
CURRENT ASSETS		
Due from subsidiaries	**2,734,956**	2,376,316
Prepayments, deposits and other receivables	**680**	1,999
Loan to a subsidiary	**7,857**	7,857
Cash and cash equivalents	**1,693**	39,339
Total current assets	**2,745,186**	2,425,511
CURRENT LIABILITIES		
Accrued liabilities and other payables	**2,460**	9,820
Interest-bearing bank borrowings	**480,933**	72,773
Convertible bonds	**–**	445,838
Tax payable	**61,927**	7,971
Total current liabilities	**545,320**	536,402
NET CURRENT ASSETS	**2,199,866**	1,889,109
TOTAL ASSETS LESS CURRENT LIABILITIES	**2,330,338**	2,019,581
NON-CURRENT LIABILITY		
Interest-bearing bank borrowings	**634,009**	560,008
Net assets	**1,696,329**	1,459,573
EQUITY		
Issued capital	**64,795**	60,517
Reserves (Note)	**1,631,534**	1,399,056
Total equity	**1,696,329**	1,459,573

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

Note:

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

	Share premium account HK$'000	Share option reserve HK$'000	Equity component of convertible bonds HK$'000	Contributed surplus HK$'000	Capital redemption reserve HK$'000	(Accumulated losses)/ retained profits HK$'000	Total HK$'000
At 1 January 2017	1,228,053	32,412	6,972	79,179	287	(71,768)	1,275,135
Profit for the year	–	–	–	–	–	24,181	24,181
Repurchase and cancellation of shares (note 27(iii))	(130,171)	–	–	–	597	(597)	(130,171)
Shares issued upon conversion of convertible bonds (notes 25 and 27(ii))	434,025	–	(3,431)	–	–	–	430,594
Shares issued upon exercise of share options (notes 27(i) and 28)	100,414	(26,520)	–	–	–	–	73,894
Equity-settled share option arrangements (note 28)	–	16,816	–	–	–	–	16,816
Final 2016 dividend declared and paid (note 10)	(194,565)	–	–	–	–	–	(194,565)
Interim 2017 dividend declared and paid (note 10)	(96,828)	–	–	–	–	–	(96,828)
At 31 December 2017 and 1 January 2018	1,340,928	22,708	3,541	79,179	884	(48,184)	1,399,056
Profit for the year	–	–	–	–	–	267,792	267,792
Shares issued upon conversion of convertible bonds (notes 25 and 27(iv))	405,753	–	(3,208)	–	–	–	402,545
Redemption of convertible bonds (notes 25 and 27(v))	333	–	(333)	–	–	–	–
Equity-settled share option arrangements (note 28)	–	8,073	–	–	–	–	8,073
Issue of shares (note 27(vi))	154,977	–	–	–	–	–	154,977
Release upon the Distribution of THT	–	–	–	–	–	121,174	121,174
Final 2017 dividend declared and paid (note 10)	(229,965)	–	–	–	–	–	(229,965)
Interim 2018 dividend declared and paid (note 10)	(125,944)	–	–	–	–	–	(125,944)
Special interim dividend (note 10)	(366,174)	–	–	–	–	–	(366,174)
At 31 December 2018	1,179,908	30,781	–	79,179	884	340,782	1,631,534

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

Note: *(continued)*

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

(ii) As at 31 December 2018, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to HK$1,599,869,000 (2017: HK$1,371,923,000) subject to the restriction stated in note (i) above.

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

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

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary share/ paid-up registered capital	Percentage of equity attributable to the Company 2018	2017	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, raw material sourcing and trading of electrical appliances and ironware products
福建省石獅市通達電器有限公司 (Tongda Electrics Company Limited, Shishi City, Fujian)[1, 3]	PRC/Mainland China	Registered HK$720,000,000 (2017: HK$340,000,000)	**100**	100	Manufacture and sale of accessories for electrical appliance products

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

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

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary share/ paid-up registered capital	Percentage of equity attributable to the Company 2018	2017	Principal activities
Indirectly held *(continued)*					
福建省石獅市通達電子有限公司 (Tongda Electronic Company Limited, Shishi, Fujian)[1, 3]	PRC/Mainland China	Registered Renminbi ("RMB") 32,000,000	**100**	100	Manufacture and sale of resistors and other electronic products
通達五金(深圳)有限公司 (Tongda Ironware (Shenzhen) Company Limited)[1, 3]	PRC/Mainland China	Registered HK$100,000,000	**100**	100	Manufacture and sale of ironware products
通達(廈門)科技有限公司 (Tongda (Xiamen) Technology Limited)[2, 3]	PRC/Mainland China	Registered RMB213,776,300 (2017: RMB113,776,300)	**100**	100	Manufacture and sale of precise injection and printing parts
深圳通達電子有限公司 (Shenzhen Tongda Electronic Company Limited)[2, 3]	PRC/Mainland China	Registered HK$45,000,000	**100**	100	Manufacture and sale of plastic injection and printing parts
通達宏泰科技(蘇州)有限公司 (Tongda HT Technology (Suzhou) Company Limited)[1, 5]	PRC/Mainland China	Registered HK$200,000,000	**–**	100	Manufacture and sale of casings of notebook and tablet
Tongda Precision Technology Company Limited ("Tongda Precision")[3, 4]	Hong Kong	Ordinary HK$5,000,000	**100**	70	Investment holding and trading of high-precision components
通達(廈門)精密橡塑有限公司 Tongda (Xiamen) Elastomers Company Limited ("Xiamen Elastomers")[1, 3, 4]	PRC/Mainland China	Registered HK$30,000,000	**100**	70	Manufacture and sale of high-precision components
Tongda Precision Technology (Singapore) Pte. Limited ("Precision Singapore")[3, 4]	Singapore	Ordinary	**100**	70	Provision of business and management consultancy service

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

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

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary share/ paid-up registered capital	Percentage of equity attributable to the Company 2018	2017	Principal activities
Indirectly held *(continued)*					
Tongda Hong Tai Holdings Limited[5]	Cayman Islands	Ordinary HK$1,433,913	–	100	Investment holding
Tongda HT Holdings (BVI) Limited[5]	BVI	Ordinary HK$16	–	100	Investment holding
Tongda HT Technology (Hong Kong) Company Limited[5]	Hong Kong	Ordinary HK$2	–	100	Investment holding

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

Notes:

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

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Notes: *(continued)*

4. Pursuant to a sale and purchase agreement entered into between the Group and the non-controlling shareholder of Tongda Precision on 28 August 2018 (the "Agreement"), the Group acquired the remaining 30% of the issued share capital of Tongda Precision of 1,500,000 shares from the non-controlling shareholder (the "Acquisition") for 182,325,000 ordinary shares of the Company (the "Consideration Shares") at the closing market price on the completion date of the Acquisition.

   Tongda Precision is a private company incorporated in Hong Kong. Its principal activities are investment holding and the trading of tri-proof (i.e. waterproof, dustproof and shockproof) and high-precision components. Its principal assets were its entire equity interests in Xiamen Elastomers, an indirectly held subsidiary of the Group established in the PRC engaging in the manufacture and sale of tri-proof and high-precision components and Precision Singapore, an indirectly held subsidiary of the Group established in the Singapore engaging in business and management consultancy services.

   On 15 December 2018, the Group issued 182,325,000 ordinary shares at the then market price of HK$0.86 each to the non-controlling shareholder to settle the Consideration Shares, resulted in additional share capital of HK$1,823,000 and share premium of HK$154,977,000 (before issue expenses). Management considered the closing market price of HK$0.86 per share as at the date of issue was the fair value of the Consideration Shares. The purchase of Tongda Precision was completed on 15 December 2018.

   Taking into account the above consideration, the net assets of Tongda Precision of HK$84,351,000 acquired and an amount of HK$9,000,000 due to the Vendor which was extinguished upon the transfer of shares, a net difference of HK$63,449,000 was resulted and debited to the capital reserve upon the completion of the Acquisition. Thereafter, Tongda Precision, the former non-controlling shareholder of Xiamen Elastomer and Precision Singapore, and Xiamen Elastomer and Precision Singapore, the former 70%-owned subsidiaries of the Company, became wholly-owned subsidiaries of the Company.

5. A board of directors' meeting was convened on 14 February 2018, at which the Board approved that all the shares held by the Group in THT will be distributed by way of conditional distribution in specie to the qualifying shareholders of the Company in connection with the spin-off of THT and the listing of the shares of THT on the Main Board of The Stock Exchange of Hong Kong Limited. On 16 March 2018, the distribution of all the Company's shares in THT to the qualifying shareholders were completed and THT became a listed company on the Main Board of The Stock Exchange of Hong Kong Limited, and thereafter THT and its subsidiaries ceased to be wholly-owned subsidiaries of the Company.

43. COMPARATIVE AMOUNTS

During the year, certain comparative amounts have been reclassified to conform with the current year's presentation of the financial statements.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 March 2019.

Five-Year Financial Summary

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

RESULTS

	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**8,899,306**	8,562,830	7,825,077	6,074,061	4,791,346
Gross profit	**1,793,894**	2,231,094	1,885,355	1,512,029	1,143,635
Profit for the year attributable to:					
Owners of the Company	**542,821**	1,006,125	1,003,996	702,839	501,701
Non-controlling interests	**19,937**	52,530	16,478	35,136	46,509

EARNINGS PER SHARE

	2018	2017	2016	2015	2014
Basic	**HK8.76 cents**	HK16.82 cents	HK17.50 cents	HK12.60 cents	HK9.44 cents
Diluted	**HK8.61 cents**	HK16.03 cents	HK16.14 cents	HK11.97 cents	HK9.30 cents

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**5,921,845**	5,102,899	3,876,065	3,053,854	2,101,461
Current assets	**7,720,294**	8,520,803	6,713,928	5,535,008	4,265,649
Total assets	**13,642,139**	13,623,702	10,589,993	8,588,862	6,367,110
Non-current liabilities	**(1,817,427)**	(1,357,977)	(1,590,928)	(1,484,465)	(399,007)
Current liabilities	**(5,887,555)**	(6,380,428)	(4,332,760)	(3,065,079)	(2,331,634)
Total liabilities	**(7,704,982)**	(7,738,405)	(5,923,688)	(4,549,544)	(2,730,641)
Net assets	**5,937,157**	5,885,297	4,666,305	4,039,318	3,636,469
Total assets less current liabilities	**7,754,584**	7,243,274	6,257,233	5,523,783	4,035,476
Equity attributable to owners of the Company	**(5,962,817)**	(5,834,417)	(4,667,898)	(4,057,186)	(3,477,194)
Non-controlling interests	**25,660**	(50,880)	1,593	17,868	(159,275)