

TONGDA HONG TAI HOLDINGS LIMITED

Interim Report

2020

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wong Ming Li (*Chief Executive Officer*)

Mr. Wong Ah Yu

Mr. Wang Ming Zhi

Non-executive Director

Mr. Wang Ya Nan (*Chairman*)

Independent Non-executive Directors

Ms. Leung Pik Kwan

Mr. Sun Wai Hong

Mr. Wu Kin San Alfred

AUDIT COMMITTEE

Ms. Leung Pik Kwan (*Chairman*)

Mr. Sun Wai Hong

Mr. Wu Kin San Alfred

REMUNERATION COMMITTEE

Ms. Leung Pik Kwan (*Chairman*)

Mr. Sun Wai Hong

Mr. Wu Kin San Alfred

NOMINATION COMMITTEE

Mr. Wang Ya Nan (*Chairman*)

Ms. Leung Pik Kwan

Mr. Sun Wai Hong

Mr. Wu Kin San Alfred

COMPANY SECRETARY

Mr. Chan Paan Paan

(*Resigned on 7 February 2020*)

Mr. Tam Hei Lap, Hedley

(*Appointed on 7 February 2020*)

AUDITORS

Ernst & Young

Certified Public Accountants

AUTHORISED REPRESENTATIVES

Mr. Wang Ya Nan

Mr. Wong Ming Li

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

Hang Seng Bank Limited

Standard Chartered Bank (Hong Kong) Limited

In the PRC:

HSBC Bank (China) Company Limited Changshu Sub-Branch

Bank of Tokyo-Mitsubishi UFJ (China), Ltd., Suzhou Branch

United Overseas Bank (China) Limited Suzhou Branch

China Construction Bank Changshu Branch

Shanghai Pudong Development Bank Changshu Branch

LEGAL ADVISERS

As to Hong Kong laws:

Michael Li & Co.

As to PRC laws:

Winhand Law Firm

As to Cayman Islands laws:

Conyers Dill & Pearman

INVESTOR RELATIONS

Strategic Financial Relations Limited

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Hong Kong

REGISTERED OFFICE

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Cayman Islands

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LISTING INFORMATION

Listed on the Hong Kong Stock

Exchange (Main Board)

Stock short name: Tongda Hong Tai

Stock code: 2363

Board lot: 2,500 shares

Listing date: 16 March 2018

HONG KONG BRANCH SHARE REGISTRAR

Union Registrars Limited

Suites 3301-04, 33/F.

Two Chinachem Exchange Square

338 King's Road

North Point, Hong Kong

PRINCIPAL SHARE REGISTRAR

Conyers Trust Company (Cayman) Limited

Cricket Square, Hutchins Drive

PO Box 2681, Grand Cayman KY1-1111

Cayman Islands

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The board (the “Board”) of directors (the “Directors”) of the Company submit herewith the unaudited consolidated interim results of the Group for the six months ended 30 June 2020 (the “Period”). The Group is a “one-stop” manufacturing solutions provider of notebook casings, components and other accessories. The Group is principally engaged in the manufacture and sale of a variety of casings and components of notebooks.

During the Period, the outbreak of Covid-19 pandemic (the “Pandemic”) has casted a pervasive and severe impact to the worldwide economy. The Group was inevitably affected by the Pandemic and faced enormous challenges. During the Period, the revenue of the Group recorded a drop from approximately HK\$253.1 million during the six months ended 30 June 2019 to approximately HK\$188.0 million. Due to the continuing fierce competition among other industry participants and the disruption to the operation chain of the personal computers (“PC”) manufacturing sector during the Pandemic, the gross profit reduced from approximately HK\$36.0 million for the six months ended 30 June 2019 to approximately HK\$9.4 million for the Period. The net loss attributable to the equity holders of the Company had increased from approximately HK\$9.4 million during the six months ended 30 June 2019 to approximately HK\$31.4 million for the Period.

BUSINESS PROSPECTS

The uncertainties arising from the Pandemic and the continuing fierce competition among other competitors within the industry will remain as the major challenges to the Group. As such, it is anticipated that the gross profit margin will remain under pressure.

Nevertheless, the Group expects that the operation chain of PC manufacturing will gradually restore its order in the second half of 2020 as the increasing trend of remote working and studying will ultimately stimulate the demand of the PCs and notebooks. The Group's efficient production facilities, comprehensive manufacturing solutions and strong research and development capabilities have provided a solid foundation for the Group to face the headwind amid the challenging times. The management of the Group will remain vigilant to the market changes and adopt a prudent decision-making approach on resources allocation in order to make a timely and efficient responses and achieve the best outcome for the Group.

FINANCIAL REVIEW

For the Period, the Group's total revenue decreased by approximately 25.7%, from approximately HK\$253.1 million for the six months ended 30 June 2019 to approximately HK\$188.0 million. The decline was mainly attributable to the disruption of the Group's operation resulted from the Pandemic and the persisting fierce competition environment which created pressure on the Group's pricing of the products.

As a result, the Group's gross profit was subject to pressure and decreased by approximately 73.9% from approximately HK\$36.0 million for the six months ended 30 June 2019 to approximately HK\$9.4 million during the Period.

The Group's selling and distribution expenses decreased by approximately 15.7%, from approximately HK\$5.1 million for the six months ended 30 June 2019 to approximately HK\$4.3 million during the Period. This decline was mainly due to the decline in freight charges during the Period.

The Group's general and administrative expenses decreased by approximately 11.0%, from approximately HK\$32.8 million for the six months ended 30 June 2019 to approximately HK\$29.2 million during the Period, which was primarily due to the decline in staff costs during the Period.

The Group's finance costs decreased by approximately 36.8%, from approximately HK\$8.7 million for the six months ended 30 June 2019 to approximately HK\$5.5 million during the Period. The decrease was due to both average loan balances and interest rates recorded a decline during the Period.

The Group's other income and gains increased from approximately HK\$0.2 million for the six months ended 30 June 2019 to approximately HK\$1.03 million during the Period, which was mainly due to an increase in government grants and the sales of scrap during the Period.

The Group's net other operating income changed from a gain of approximately HK\$1.1 million for the six months ended 30 June 2019 to a loss of approximately HK\$2.7 million during the Period. The change was resulted from an exchange loss of approximately HK\$2.7 million recognised during the Period in comparison to an exchange gain for the six months ended 30 June 2019.

As a result of the foregoing, the Group recorded a loss for the Period attributable to equity holders of the Company of approximately HK\$31.4 million and basic loss per share attributable to equity holders of the Company of approximately HK16.59 cents for the Period, compared with loss attributable to equity holders of the Company of approximately HK\$9.4 million and basic loss per share attributable to equity holders of the Company of approximately HK4.97 cents for the six months ended 30 June 2019.

The Group's inventory turnover days increased from approximately 251.7 days for the year ended 31 December 2019 to approximately 343.6 days for the Period, the increase was primarily due to the decline in sales as the Pandemic had caused disruptions to the Group's operations and the seasonal effect as the Group's products usually face a higher demand during the second half of the year. Therefore, the inventory turnover days is higher than that as at 31 December 2019.

The Group's trade and bills receivables turnover days were approximately 232.0 days for the Period, representing approximately 46.7 days more than the approximately 185.3 days for the year ended 31 December 2019.

In light of the financial performance of the Group for the Period as set out above and the uncertain impact of the Pandemic on the business of the Group in the foreseeable future, the Board considers that it is vital for the Group to have access to additional funding and working capital in order to maintain its competitiveness in the market. Hence, the Group may consider conducting fundraising exercise to raise fund for the general working capital of the Group.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2020, the Group had cash and bank balances of approximately HK\$13.1 million (31 December 2019: HK\$24.7 million), most of which were denominated in Hong Kong Dollars, US dollars and Renminbi. Included in the cash and bank balances, the Group had restricted bank balances of approximately HK\$3.6 million as at 30 June 2020 (31 December 2019: approximately HK\$6.5 million).

As at 30 June 2020, total interest-bearing bank borrowings of the Group repayable within one year were approximately HK\$244.7 million (31 December 2019: approximately HK\$282.3 million). As at 30 June 2020, the Group had no interest-bearing bank borrowings payable more than one year (31 December 2019: Nil).

As at 30 June 2020, the gearing ratio of the Group (consolidated net debt/total equity) was approximately 84.5% (31 December 2019: approximately 84.0%). The Group's operations were mainly financed by internal resources including but not limited to, existing cash and cash equivalents, cash flow from its operating activities, loan from related parties and the net proceeds generated from the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 March 2018 (the "Listing") and bank borrowings. The Board believes that the Group's liquidity needs will be satisfied.

EMPLOYEE INFORMATION

As at 30 June 2020, the Group employed a total of 832 permanent employees (31 December 2019: 916 permanent employees). Employees of the Group are remunerated based on their individual performance, professional qualifications, experience in the industry and relevant market trends. During the Period, the total employee remuneration of the Group, including the remuneration of the Directors, was approximately HK\$27.8 million (six months ended 30 June 2019: approximately HK\$35.6 million). The management team 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 People's Republic of China (the "PRC"), the Group participates in the social insurance schemes operated by the relevant local government authorities and our employees in Hong Kong participate in the mandatory provident fund scheme.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Unaudited	
		Six months ended 30 June	
		2020	2019
		HK\$'000	HK\$'000
REVENUE	4	188,011	253,076
Cost of sales		(178,624)	(217,051)
Gross profit		9,387	36,025
Other income		1,026	230
Selling and distribution expenses		(4,284)	(5,140)
General and administrative expenses		(29,231)	(32,849)
Other operating income/(expense), net		(2,734)	1,064
Finance costs		(5,535)	(8,724)
LOSS BEFORE TAX	5	(31,371)	(9,394)
Income tax expense	6	–	–
LOSS FOR THE PERIOD			
ATTRIBUTABLE TO EQUITY			
HOLDERS OF THE COMPANY		(31,371)	(9,394)
LOSS PER SHARE ATTRIBUTABLE			
TO EQUITY HOLDERS OF			
THE COMPANY			
Basic and diluted	8	(HK16.59 cents)	(HK4.97 cents)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
LOSS FOR THE PERIOD	(31,371)	(9,394)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to the income statement in subsequent periods:		
Exchange differences on translation of a foreign operation	2,229	9,498
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	(29,142)	104

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	9	84,247	92,633
Right-of-use assets		10,648	12,906
Long term deposits		4,237	4,467
Total non-current assets		99,132	110,006
CURRENT ASSETS			
Inventories	10	330,626	341,965
Trade and bills receivables	11	218,088	259,850
Prepayments, deposits and other receivables		13,790	10,914
Tax recoverable		809	809
Restricted bank balances		3,583	6,528
Cash and bank balances		13,130	24,718
Total current assets		580,026	644,784
CURRENT LIABILITIES			
Trade payables	12	103,978	129,555
Other payables and accruals		17,708	30,106
Amounts due to related parties	13	31,265	–
Interest-bearing bank borrowings	14	244,729	282,309
Lease liabilities		2,087	8,750
Total current liabilities		399,767	445,721

		Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
	Notes		
NET CURRENT ASSETS		180,259	199,063
TOTAL ASSETS LESS CURRENT LIABILITIES		279,391	309,069
NON-CURRENT LIABILITIES			
Lease liabilities		9,472	10,008
Net assets		269,919	299,061
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	15	1,891	1,891
Reserves		268,028	297,170
Total equity		269,919	299,061

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Issued capital HK\$'000 (Note 15)	Share premium HK\$'000	Capital reserve HK\$'000	Statutory reserve fund HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated Loss HK\$'000	Total equity HK\$'000
At 1 January 2020	1,891	121,933	198,566	16,031	(32,740)	(6,620)	299,061
Loss for the period	-	-	-	-	-	(31,371)	(31,371)
Other comprehensive income for the period:							
Exchange differences on translation of a foreign operation	-	-	-	-	2,229	-	2,229
Total comprehensive expense the period	-	-	-	-	2,229	(31,371)	(29,142)
At 30 June 2020	1,891	121,933*	198,566*	16,031*	(30,511)*	(37,991)*	269,919

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

	Issued capital HK\$'000 (Note 15)	Share premium HK\$'000	Capital reserve HK\$'000	Statutory reserve fund HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
Balance at 31 December 2018 as originally presented	1,891	121,933	198,566	16,031	(19,501)	62,544	381,464
Effect on adoption of HKFRS 16	-	-	-	-	-	562	562
Restated total equity at 1 January 2019	1,891	121,933	198,566	16,031	(19,501)	63,106	382,026
Loss for the period	-	-	-	-	-	(9,394)	(9,394)
Other comprehensive income for the period: Exchange differences on translation of a foreign operation	-	-	-	-	9,498	-	9,498
Total comprehensive income for the period	-	-	-	-	9,498	(9,394)	104
At 30 June 2019	1,891	121,933*	198,566*	16,031*	(10,003)*	53,712*	382,130

* These reserve accounts comprise the consolidated reserves of approximately HK\$268,028,000 (six months ended 30 June 2019: approximately HK\$380,239,000) in the consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations	293	25,014
Interest paid	(5,535)	(8,724)
Overseas taxes refund	259	271
Net cash flows generated from/(used in) operating activities	(4,983)	16,561
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	45	66
Purchases of items of property, plant and equipment	(1,645)	(5,594)
(Increase)/decrease in long term deposits	230	(857)
(Increase)/decrease in restricted bank balances	2,945	(3,195)
Exchange realignment	(5)	465
Net cash flows generated from/(used in) investing activities	1,570	(9,115)

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	225,890	292,121
Repayment of bank loans	(264,086)	(305,109)
Principal elements of lease payments	(1,986)	(1,509)
Increase in loan from related parties	31,265	–
Exchange realignment	120	(9,202)
	<hr/>	<hr/>
Net cash flows used in financing activities	(8,797)	(23,699)
	<hr/>	<hr/>
NET DECREASE IN CASH AND BANK BALANCES		
	(12,210)	(16,253)
Cash and cash equivalents at beginning of period	24,718	59,994
Effect of foreign exchange rate changes, net	622	828
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
	13,130	44,569
	<hr/>	<hr/>
ANALYSIS OF BALANCES OF CASH AND BANK BALANCES		
Cash and bank balances	16,713	52,538
Less: Restricted bank balances	(3,583)	(7,969)
	<hr/>	<hr/>
	13,130	44,569
	<hr/>	<hr/>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The principal activity of the Company is investment holding. The Company's subsidiaries are principally involved in the manufacture and sale of casings and components of notebook. There were no significant changes in the nature of the subsidiaries' principal activities during the Period.

2. BASIS OF PRESENTATION

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

3. ACCOUNTING POLICIES

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

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

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

4. OPERATING SEGMENT INFORMATION

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

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

Information about major customers

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

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Customer A	65,133	103,648
Customer B	52,951	34,163
Customer C	25,512	40,210
	143,596	178,021

5. LOSS BEFORE TAX

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

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Cost of inventories sold	178,624	217,051
Depreciation of property, plant and equipment	10,070	12,043
Depreciation of right-of-use assets	2,387	2,974
Research and development costs	9,182	10,265
Salaries and wages	24,943	32,993
Impairment of trade receivables	–	126
Foreign exchange differences, net	2,734	(1,190)

6. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the Period (six months ended 30 June 2019: Nil). No provision for profits tax in Mainland China has been made as the Group did not generate any assessable profits in Mainland China during the Period.

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

Unaudited	
Six months ended 30 June	
2020	2019
HK\$'000	HK\$'000

Total current tax charge for the period from

Mainland China	–	–
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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 a subsidiary established in Mainland China in respect of earnings generated from 1 January 2008.

6. INCOME TAX *(continued)*

Deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of a subsidiary of the Group established in Mainland China. In the opinion of the directors, it is not probable that this subsidiary will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with the subsidiary in Mainland China for which deferred tax liabilities have not been recognised totaled approximately HK\$7,323,000 as at 30 June 2020 (31 December 2019: approximately HK\$39,212,000).

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

7. DIVIDENDS

The Directors do not recommend the payment of any interim dividend for the Period (six months ended 30 June 2019: Nil).

8. LOSS PER SHARE

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

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Loss:		
Loss for the period attributable to owners of the Company used in the basic loss and diluted per share calculation	31,371	9,394
Number of shares:		
Number of ordinary shares for the purpose of basic and diluted loss per share	189,115,638	189,115,638

The Group had no potentially dilutive ordinary shares in issue during the Period and for the six months ended 30 June 2019.

9. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired property, plant and equipment of approximately HK\$1,646,000 (six months ended 30 June 2019: approximately HK\$12,483,000).

10. INVENTORIES

	Unaudited	Audited
	30 June	31 December
	2020	2019
	HK\$'000	HK\$'000
Raw materials	48,678	48,709
Work in progress	172,193	160,326
Finished goods	109,755	132,930
	330,626	341,965

11. TRADE AND BILLS RECEIVABLES

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
Trade receivables	207,181	244,774
Impairment	(930)	(1,075)
	206,251	243,699
Bills receivable	11,837	16,151
	218,088	259,850

As at 30 June 2020, gross trade receivables of certain customers of approximately HK\$135,177,000 (31 December 2019: approximately HK\$155,479,000), which are designated in a trade receivable factoring arrangement entered into between the Group and a bank in the PRC, and bills receivable of approximately HK\$11,837,000 (31 December 2019: approximately HK\$16,151,000) were measured at fair value through other comprehensive income as these trade and bills receivables are managed within a business model with the objective of both holding to collect contractual cash flows and selling for working capital management and the contractual terms of these receivables give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

11. TRADE AND BILLS RECEIVABLES (continued)

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one to four months. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing. As at 30 June 2020, approximately 36.7% (31 December 2019: approximately 42.8%) of the total trade and bills receivables, and approximately 82.0% (31 December 2019: approximately 81.3%) 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 the end of the Period, based on the invoice date and net of provisions, is as follows:

	Unaudited	Audited
	30 June	31 December
	2020	2019
	HK\$'000	HK\$'000
Within 3 months	214,781	183,639
4 to 6 months, inclusive	2,464	75,116
7 to 9 months, inclusive	635	598
10 to 12 months, inclusive	193	10
More than 1 year	15	487
	218,088	259,850

12. TRADE PAYABLES

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

	Unaudited	Audited
	30 June	31 December
	2020	2019
	HK\$'000	HK\$'000
Within 3 months	79,524	94,532
4 to 6 months, inclusive	20,057	30,948
7 to 9 months, inclusive	3,350	3,719
10 to 12 months, inclusive	506	271
Over 1 year	541	85
	103,978	129,555

13. AMOUNT DUE TO RELATED PARTIES

The loans from related parties are denominated in HK\$. Except from a loan of RMB13,000,000, that is interest free, all loans from related parties are unsecured, interest-bearing at 2% per annum and repayable within one year.

14. INTEREST-BEARING BANK BORROWINGS

During the Period, the Group repaid bank borrowings of approximately HK\$264,086,000 (six months ended 30 June 2019: approximately HK\$305,109,000) and raised new bank borrowings of approximately HK\$225,890,000 (six months ended 30 June 2019: approximately HK\$292,121,000).

15. ISSUED CAPITAL

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
Authorised:		
1,000,000,000 (31 December 2019: 1,000,000,000) ordinary shares of HK\$0.01 each	10,000	10,000
Issued and fully paid:		
189,115,638 (31 December 2019: 189,115,638) ordinary shares of HK\$0.01 each	1,891	1,891

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

	Number of ordinary shares of Notes HK\$0.01 each	Nominal value of ordinary shares HK\$'000
Authorised:		
At 31 December 2019, 1 January 2020 and 30 June 2020	1,000,000,000	10,000
At 31 December 2019 and 30 June 2020	189,115,638	1,891

16. COMMITMENTS

The Group had the following capital commitments contracted but not provided for as at 30 June 2020:

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
Contracted, but not provided for: Purchases of items of property, plant and equipment	4,631	6,199

17. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2020.

18. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group

	Unaudited Six months ended 30 June 2020 HK\$'000	2019 HK\$'000
Short term employee benefits	1,619	2,083
Post-employment benefits	126	168
Total compensation paid to key management personnel	1,745	2,251

19. FAIR VALUE AND FAIR VALUE HIERARCHY

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

The fair values of cash and bank balances, restricted bank balances, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, trade payables, interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The estimated fair values of the lease liabilities are estimated based on discounting future cash flows at currently available interest rates with comparable terms as at 30 June 2020.

Fair value hierarchy

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

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

During the Period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

20. TRANSFERRED FINANCIAL ASSETS

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

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

(a) Discounting of bills receivable

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
Carrying amount of assets that continued to be recognised	11,837	11,220
Carrying amount of associated liabilities	11,837	11,220

As at 30 June 2020, the Group discounted certain bills receivable (the “Discounted Bills”) with a carrying amount of approximately HK\$11,837,000 (31 December 2019: approximately HK\$11,220,000) to a bank in the PRC for cash proceeds on a full recourse basis. In the opinion of the Directors, the Group has retained the substantial risks and rewards, which include default risks relating to the Discounted Bills, and accordingly, it continued to recognise the full carrying amount of the Discounted Bills and the respective bank loans. Subsequent to the discounting, the Group does not retain any rights on the use of the Discounted Bills, including the sale, transfer or pledge of the Discounted Bills to any other third parties. The aggregate carrying amount of the bank loans recognised due to the Discounted Bills was approximately HK\$11,837,000 as at 30 June 2020 (31 December 2019: approximately HK\$11,220,000).

20. TRANSFERRED FINANCIAL ASSETS *(continued)*

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

(b) Trade receivables factoring

As part of its normal business, the Group entered into a trade receivable factoring arrangement (the “Arrangement”) and transferred certain trade receivables to a bank. Under the Arrangement, the Group may be required to reimburse the bank for loss of interest if any trade debtors have late payment up to 120 days. 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 Arrangement that have not been settled as at 30 June 2020 was approximately HK\$58,987,000 (31 December 2019: approximately HK\$53,764,000). The carrying amount of the assets that the Group continued to recognise as at 30 June 2020 was approximately HK\$53,088,000 (31 December 2019: approximately HK\$48,388,000) and that of the associated liabilities as at 30 June 2020 was approximately HK\$53,088,000 (31 December 2019: approximately HK\$48,388,000).

21. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

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

SUPPLEMENTARY INFORMATION

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the Period (six months ended 30 June 2019: Nil).

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

As at 30 June 2020, the interests or short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of The Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules (the "Model Code") were as follows:

Long positions in shares of the Company

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

Notes:

- 35,712,250 shares are held by Landmark Worldwide Holdings Limited, the issued share capital of which is beneficially owned as to 25% by each Messrs. Wang Ya Nan, Wang Ya Hua, Wong Ah Yu and Wong Ah Yeung (collectively referred to as the "Wong Brothers").
- 7,400,000 shares are held by E-Growth Resources Limited, the entire issued share capital of which is beneficially owned by Mr. Wang Ya Nan.

Save as disclosed above, as at 30 June 2020, there were no other interests or short positions of the Directors in the shares or underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) or pursuant to section 352 of the SFO, required to be recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2020, the following persons/entities (other than the Directors or the chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or otherwise notified to the Company were as follows:

Long positions in shares of the Company

Name of shareholder	Nature of interest	Number of shares interested	Percentage of shareholding in the Company
Mr. Wong Ah Yeung (Note 1)	Beneficial owner Interest of controlled corporation	2,982,500 35,712,250	1.58% 18.88%
Mr. Wang Ya Hua (Note 1)	Beneficial owner Interest of controlled corporation	2,280,500 35,712,250	1.21% 18.88%
Landmark Worldwide Holdings Limited (Note 1)	Beneficial owner	35,712,250	18.88%
Wykeham Capital Asia Value Fund (Note 2)	Beneficial owner	17,078,500	9.03%
Wykeham Capital Limited (Note 2)	Investment manager	17,078,500	9.03%
Mr. Howel Gruffudd Rhys Thomas (Note 2)	Interest of controlled corporation	17,078,500	9.03%

Notes:

1. 35,712,250 shares are held by Landmark Worldwide Holdings Limited, the issued share capital of which is beneficially owned as to 25% by each of the Wong Brothers.
2. Mr. Howel Gruffudd Rhys Thomas was deemed to be interested in the 17,078,500 shares owned by Wykeham Capital Asia Value Fund by virtue of his 100% shareholding interest in Wykeham Capital Limited (which was the investment manager of Wykeham Capital Asia Value Fund).

Save as disclosed above, as at 30 June 2020, the Company has not been notified by any persons/entities (other than the Directors or the chief executive of the Company) who held an interest or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the section headed "Share Option Scheme" below, at no time during the Period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debenture of the Company or any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") which allows the Company to grant options to eligible persons as rewards for their contributions to the Group. The Share Option Scheme has been adopted by the Company on 8 February 2018. No share options were granted, exercised or cancelled by the Company under the Share Option Scheme during the Period and there were no outstanding share options under the Share Option Scheme as at 30 June 2020 and on the date of this report.

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

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

USE OF NET PROCEEDS FROM THE LISTING

The Company was successfully listed on the Main Board of the Stock Exchange on 16 March 2018. Net proceeds from the Listing (after deducting underwriting fee and relevant expenses payable by the Group in connection with the Listing) amounted to approximately HK\$48.5 million. As at 30 June 2020, a total amount of approximately HK\$37.8 million out of the net proceeds had been used by the Group according to the allocation as set out in the Company's prospectus dated 28 February 2018.

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

Purpose	Percentage to total amount	Net proceeds HK\$ million	Utilised amount (as at 30 June 2020) HK\$ million	Unutilised amount (as at 30 June 2020) HK\$ million	Expected timeline of full utilisation of the balance
Lease of factory	15.1%	7.3	1.4	5.9	2028-2029
Refurbish the new factory	19.9%	9.6	7.5	2.1	End of 2021
Capital expenditure for additional production facilities and machineries	46.2%	22.4	20.2	2.2	End of 2020
Capital expenditure on enhancing the automation in the Group's manufacturing process	16.1%	7.8	7.3	0.5	End of 2020
Additional effort in sales and marketing activities	0.3%	0.2	0.2	-	-
Enhancement of research and development capabilities	2.4%	1.2	1.2	-	-
Total	100%	48.5	37.8	10.7	

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and to the knowledge of the Directors, the Company has maintained a sufficient public float for the Period and up to the date of this report.

CORPORATE GOVERNANCE CODE

During the Period and up the date of this report, the Company has complied with all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

AUDIT COMMITTEE

As at the date of this report, the audit committee of the Company (the “Audit Committee”) consists of three independent non-executive Directors including Ms. Leung Pik Kwan, Mr. Sun Wai Hong and Mr. Wu Kin San Alfred. Ms. Leung Pik Kwan is the chairman of the Audit Committee.

The Audit Committee has reviewed with the management of the Company the accounting principles and policies adopted by the Group, and the financial information of the Group, the unaudited interim results announcement of the Company for the Period and this report, and considered that they were prepared in compliance with the relevant accounting standards and that adequate disclosures have been made.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding director's securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made with all the Directors and all of them confirmed that they have complied with the Model Code throughout the Period.

EVENTS AFTER THE PERIOD

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

PUBLICATION OF INTERIM REPORT

This report is published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the Company's website at <http://www.tongdahongtai.com>.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises Mr. Wong Ming Li, Mr. Wong Ah Yu and Mr. Wang Ming Zhi as executive Directors; Mr. Wang Ya Nan as non-executive Director; and Ms. Leung Pik Kwan, Mr. Sun Wai Hong and Mr. Wu Kin San Alfred as independent non-executive Directors.

By order of the Board

Tongda Hong Tai Holdings Limited

Wang Ya Nan

Chairman

Hong Kong, 20 August 2020