通達宏泰
TONGDA HONG TAI

TONGDA HONG TAI HOLDINGS LIMITED

2017 Annual Report

Incorporated in the Cayman Islands with limited liability
Stock Code: 2363

Contents

Corporate Information

BOARD OF DIRECTORS
Executive Directors
Mr. Wong Ming Li
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
Ms. Lam Siu Wa

AUDITORS
Ernst & Young
Certified Public Accountants

AUTHORISED REPRESENTATIVES
Mr. Wang Ya Nan
Mr. Wong Ming Li

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

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

As to PRC laws:
Winhand Law Firm

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

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

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Website: http://www.tongdahongtai.com
Email: info@tongdahongtai.com

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

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

I am pleased to present the annual results for the year ended 31 December 2017 (the "Year") of Tongda Hong Tai Holdings Limited (the "Company") and its subsidiaries (the "Group") on behalf of the Board of Directors (the "Board") of the Company. The Group is a "one-stop" manufacturing solution provider of notebook and tablet casings and other accessories which is engaged in the manufacturing and sales of a variety of casings and components of notebooks and tablets. 2018 is a year of transition for the Group when we successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited on 16 March 2018 (the "Listing").

High-performance gaming notebooks and commercial notebooks are expected to remain as the two major fast growing markets. The increasing popularity of e-Sports all over the world has raised the demand for gaming dedicated, high-performance notebooks. Global shipment of gaming notebooks is expected to increase at a CAGR of over 10.0% between 2017 and 2021. Besides gaming notebooks, ultrabooks, which have high-performance as well as thinner and lighter designs, have become another growing segment due to consumer's growing demand, and it is expected that ultrabooks will maintain a CAGR of over 5.0% between 2017 and 2021.

As one of the market player of notebook and tablet casings manufacturing industry, the business of the Group is always kept abreast with market trend. The Group will continue to focus on the notebook and tablet casings businesses and grasp the opportunities arising from market improvement to deliver better results. On the other hand, the rapid growth of the e-Sports industry drives the development of the notebook and tablet markets and virtual reality products provide a tailwind to the computer market. While the market demand of commercial notebooks is developing steadily, the internet information technology will inject new momentum to the global notebook and tablet casings markets.

The Group will continue to monitor the market trend and adjust its operational strategies and direction in a timely manner with its sharp market insight to grasp the market opportunities.

ACKNOWLEDGEMENT

The Group's success this year relies on the efforts made by all our staff and the management team during the past year. I would like to express my sincere gratitude on behalf of the Board to the management and staff for their tremendous efforts and valuable contribution in the past year and hope that we will continue to receive all your support in the future. We will continue to join hands with the shareholders and staff members to turn to a new and brighter future!

Management Discussion and Analysis

BUSINESS REVIEW

The Group is a "one-stop" manufacturing solution provider of casings of notebooks, tablets and other accessories. Its customer base comprises the original equipment manufacturers ("OEMs") of international and domestic leading brand owners, such as Quanta Computer Inc., Compal Electronics, Inc., etc. The international and domestic leading brand owners who use the products of the Group include Lenovo and Acer, etc.

The services provided by the Group include design of manufacturing solutions, mould fabrication, plastic injection moulding, surface decoration, metal tooling and stamping, and assembly of notebook and tablet casings. Through the"one-stop" manufacturing solutions, the Group integrates lengthy and complex production processes vertically to lower production cost and to enhance efficiency and mass production capacity.

The Group has extensive technical experience in the production of notebook and tablet casings and it is able to provide a wide range of decorative methods, including but not limited to in-mould lamination ("IML"), in-mould decoration by roller ("IMR"), laminated metal filming ("LMF"), spray painting and double-shot injection to cater for the specific needs of OEMs, who serve international and domestic leading brand owners. The principal products of the Group include metal or plastic notebook and tablet casings and other accessories and components. Meanwhile, the Group has a strong research and development team which is responsible for the research and development of new production technologies, as well as continuous improvement on product quality and production process. In addition, the Group has also established quality management systems which conform with the international quality standard and was accredited ISO9001:2008 since August 2010.

Notebook Casings

The business of the Group mainly involves the manufacturing of precision metal and precision plastic notebook components. As the core business of the Group, during the Year, the sales of notebook casings contributed to approximately 95.9% of the Group's total revenue. The Group's products include precision plastic components of IML, IMR and double-shot technologies and anodised, electrophoresed and spray-painted precision metal components, etc. During the Year, the Group continued to make strenuous efforts in improving the technology and utilising production capacity. The Group develops a wide range of technologies, from mould development, in-mould lamination, spray painting, printing to anodisation and drill cutting technologies which are applied to metal casing components as well as precision metal casing manufacturing technology, through internal efforts to enhance the diversity and functionality of the Group's products. Revenue increased by approximately 24.2% from approximately HK$448.1 million in last year to approximately HK$556.6 million during the Year.

Tablet Casings

During the Year, the Group sold over 0.6 million units of tablet casing products, mainly driven by the mass production and sales of new projects. Revenue derived from tablet casings increased by approximately 28.7% from approximately HK$8.7 million in last year to approximately HK$11.2 million during the Year.

Other accessories

During the Year, the Group sold nearly 1.0 million units of other accessories, mainly driven by the mass production and sales of new projects. Revenue derived from other accessories increased by approximately 78.9% from approximately HK$7.1 million in last year to approximately HK$12.7 million during the Year.

As one of the market player of notebook and tablet casings manufacturing industry, the Group will actively and continuously optimise and improve its production technology, enhance automation in production and increase production capacity in order to enhance the profitability and market share of the Group, with an aim to maximise the value of the shareholders.

To enlarge its market share and maintain its competitiveness in the industry in accordance with the future plans, the Group intends to lease a new factory with a total gross floor area of approximately 5,000 square metres for a term of ten years for expanding its business and catering the need for expanding the Group's production capacity in the future. Moreover, the Group also plans to expand its production facilities and upgrade its production equipment. With the utilisation of a higher level of automation, the production volume of quality products would be increased and the Group's labour cost would be reduced, thereby improving its productivity.

The Group will keep focusing on the research and development and devote more efforts to research and development activities, including but not limited to recruitment of additional qualified technical personnel, provision of training to staff of the research and development department and purchase of additional advanced examination equipment. In order to enlarge its market share and maintain the Group's competitiveness in the industry, the Group strives to constantly strengthen its distribution network by improving its relationship with the existing clients and increasing the number of sales and marketing staff in soliciting new clients.

Business Prospects

As there is downward pressure from the popularity of smartphones, the global shipment volume of notebooks will continue to record a slight drop. The users of internet literature and network video experienced steady growth during the past five years in China and are expected to maintain growth in the future five years. At the same time, the robust development of live broadcast industry also rendered it an increasingly popular entertainment genre and the number of users is expected to grow continuously. The development of online content will generate sustainable demand for notebooks.

In addition, it is expected that the gaming notebook market will expand and become a new driver for the notebook market as well as the notebook casing industry due to the relatively high replacement rate of gaming notebooks. During the Reporting Period, three of the existing major brand owners of gaming notebooks are users of the Group's products. It is expected that the Group will benefit from such development in view of the growing popularity of gaming notebooks market in the near future.

Compared with notebooks, tablets are more widely used in professional fields and the special requirements on tablets provide sustainable support to tablet products. On the other hand, tablets are used to display products for customers to preview and choose, which is particularly popular in the retail, food and beverage as well as the real estate agency industries. Meanwhile, detachable 2-in-1 tablets are gradually becoming more popular. However, the continuous development of smartphones still has a negative impact on the overall tablet market. The Group would pay close attention to the development of tablet market constantly so as to benefit from it.

FINANCIAL REVIEW

For the year ended 31 December 2017, the Group's total revenue reached approximately HK$580.5 million, representing an increase of approximately HK$116.6 million or approximately 25.1% as compared with the year ended 31 December 2016, mainly due to the strong growth delivered by the notebook casings segment.

During the Year, revenue derived from notebook casings was the Group's major source of revenue, contributing approximately 95.9% (2016: 96.6%) of the Group's total revenue. Revenue derived from notebook casings increased by 24.2% from approximately HK$448.1 million in last year to approximately HK$556.6 million during the Year, mainly attributable to the mass production and sales of several new notebook casing projects during the Year, which led to an increase in both total sales volume and unit price.

The Group's gross profit during the Year amounted to approximately HK$110.2 million, representing an increase of approximately HK$7.0 million or approximately 6.8% as compared to approximately HK$103.2 million in last year, mainly due to the increase in sales during the Year as compared to the same period in last year. Meanwhile, gross profit margin decreased by approximately 3.3 percentage points from approximately 22.3% in last year to approximately 19.0% during the Year. Decrease in gross profit margin was mainly attributable to the lower gross profit margin generated from certain projects during the Year.

The Group's selling and distribution expenses during the Year amounted to approximately HK$11.4 million, representing an increase of approximately HK$1.4 million or approximately 14.0% when comparing to approximately HK$10.0 million in last year, mainly due to the increase in sales to the new clients located farther away from the Group's factory in Suzhou during the Year which resulted in the increase in the related transportation costs.

The Group's general and administrative expenses during the Year amounted to approximately HK$64.2 million, representing an increase of approximately HK$8.4 million or approximately 15.1% when comparing to approximately HK$55.8 million in last year, mainly attributable to the increase in the listing expenses, salaries and research and development expenses.

The Group's finance cost during the Year amounted to approximately HK$8.9 million, representing an increase of approximately HK$2.3 million or approximately 34.8% when comparing to approximately HK$6.6 million in last year, mainly due to the increased bank loans raised for the Group's expansion and development.

The Group's other income and gains during the Year amounted to approximately HK$4.8 million, representing an increase of approximately HK$3.3 million or approximately 220.0% when comparing to approximately HK$1.5 million in last year, mainly attributable to government grants.

The Group's other operating expenses, net during the Year amounted to approximately HK$3.3 million, representing an increase of approximately HK$2.4 million or approximately 266.7% when comparing to approximately HK$0.9 million in last year, mainly attributable to exchange losses.

Basic earnings per share for 2017 was approximately HK15.82 cents, representing a decrease of approximately 5.9% when comparing to approximately HK16.81 cents for 2016, which is in line with the decrease in profit for the year attributable to equity owners of the Company during the Year. If the listing expenses of approximately HK$13.9 million and approximately HK$12.5 million were excluded for the year ended 31 December 2017 and 2016, respectively, basic earnings per share for 2017 would be approximately HK25.44 cents, representing a decrease of approximately 0.3% from 2016.

As for tax, the Group's major operating subsidiaries fall under different tax regimes in the PRC where different laws and regulations applied, and enjoy specific concessionary incentives. In last year, the major operating subsidiary of the Group was awarded as a High New Technology Enterprise and was subjected to a preferential tax rate of 15%. Other than this, there have been no major changes in the taxation laws and regulations which have impacted tax expenses for the Group.

The working capital turnover days improved from approximately 274.7 days for the year ended 31 December 2016 to approximately 265.3 days for the year ended 31 December 2017. The inventory turnover days reduced from approximately 199.3 days to approximately 190.4 days for 2017 and the trade and bills receivables turnover days was approximately 135.9 days, 2.3 days shorter when compared with that of 2016 whilst the turnover days of trade payables decreased from 62.8 days for 2016 to 61.0 days for the year ended 31 December 2017. The Group also exerted a more tighten inventory management control which led to the improvement in the working capital cycle.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2017, the Group had cash and bank balances of HK$23.2 million (2016: HK$31.3 million), most of which were denominated in US dollars and Renminbi.

As at 31 December 2017, the Group had restricted bank balances of HK$5.1 million (2016: HK$4.6 million).

As at 31 December 2017, the Group had interest-bearing bank borrowings payable within one year of HK$250.2 million (2016: HK$192.8 million).

As at 31 December 2017, the Group had no interest-bearing bank borrowings payable more than one year (2016: Nil).

Average trade and bills receivable turnover days was 135.9 days (2016: 138.2 days).

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

Average inventory turnover days was 190.4 days (2016: 199.3 days). Overall, the Group maintained a current ratio of 1.35 as at 31 December 2017 (2016: 1.33).

As at 31 December 2017, the gearing ratio (consolidated net debt/total equity) was 82.9% (2016: 64.8%).

Following the Listing, the Group's operations were mainly financed by internal resources including but not limited to existing cash and cash equivalents, anticipated cash flow from its operating activities and the net proceeds generated from the Listing. The Board believes that the Group's liquidity needs will be satisfied. With strengthened liquidity position, the Group is able to expand in accordance with its business strategy.

LISTING EXPENSES

Listing expenses represented fees to various professional parties in connection with the Listing. Listing expenses for 2016 and 2017 were approximately HK$12.5 million and approximately HK$13.9 million.

CAPITAL EXPENDITURE

The Group incurred capital expenditure of HK$18.5 million during the year ended 31 December 2017 (2016: HK$8.0 million), mainly for the additions and expansions of property, plant and equipment. Management believes that the Group's ability to invest in capital expenditure in timely anticipation of demand is a competitive advantage of the Group. In the foreseeable future, a higher proportion of capital expenditure will likely be focused on resources for moulding machine development, production equipment and automation equipment.

FOREIGN EXCHANGE

Given the increasingly international nature of our operations and business coverage, the Group faces foreign exchange exposure including transaction and translation exposure. As far as possible, the Group aims to achieve natural hedging by investing and borrowing in the functional currencies. Where a natural hedge is not possible, the Group will mitigate foreign exchange risks via appropriate foreign exchange contracts. The Group has not entered nor will it enter into any derivative transactions for speculative trading purposes at 31 December 2017.

EVENTS AFTER THE REPORTING PERIOD

On 23 February 2018, the Company allotted and issued 6,781,888 shares of HK$0.01 each credited as fully paid to Tong Da Holdings, by way of capitalising an amount due from the Company to Tong Da Holdings of HK$45,000,000 at that date.

On 15 March 2018, in connection with the listing of the Company's share on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), 37,822,500 shares of HK$0.01 each were issued at a price of HK$2.30 each for a total consideration, before expenses, of approximately HK$86,992,000. The 37,822,500 shares comprised 18,910,000 shares issued pursuant to placing of shares made to certain institutional and professional investors and 18,912,500 shares issued pursuant to public offer.

On 16 March 2018, the shares of the Company were listed on the Main Board of the Stock Exchange.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant contingent liabilities (2016: Nil).

EMPLOYEE INFORMATION

As at 31 December 2017, the Group employed a total of 946 permanent employees, who are mainly employees in production department, up from 808 as at 31 December 2016. Employees of the Group are remunerated based on their individual performance, professional qualifications, experience in the industry and relevant market trends. The management regularly reviews the Group's remuneration policy and appraises the work performance of its staff. Employee remuneration includes salaries, allowances, bonuses, social insurance and mandatory pension fund contribution. As required by the relevant regulations in the PRC, the Group participates in the social insurance schemes operated by the relevant local government authorities. Our employee in Hong Kong participates in the mandatory provident fund scheme.

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.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wong Ming Li (王明利), aged 36, is an executive Director and the general manager of the Group. He is responsible for overall strategic directions and business operations of the Group. He has been the general manager of Tongda HT Technology (Suzhou) Company Limited ("Tongda Suzhou") since May 2010 and was re-designated as an executive Director on 21 March 2016. He was employed by Tongda Electrics Company Limited, Shishi City, Fujian Province ("Tongda Shishi") as a manager of the procurement department from September 2007 to May 2010. Tongda Shishi principally manufactures and sells casings and accessories for handsets and electrical appliance products and Mr. Wong Ming Li was responsible for the overall management of the procurement cycle. He graduated from Macquarie University, Australia with a bachelor's degree of Commerce in April 2007. He has over 8 years' experience in the electronics and electrical industry. He is a son of Mr. Wong Ah Yu, an executive Director and nephew of Mr. Wang Ya Nan, a non-executive Director.

Mr. Wong Ah Yu (王亞榆), aged 65, is an executive Director. He is responsible for overall strategic directions and business operations of the Group. He is the non-executive director of Tongda Group Holdings Limited, a company listed on the Stock Exchange of Hong Kong Limited. He has been the executive director of Tongda Suzhou since March 2010 and was re-designated as an executive Director on 19 April 2016. Mr. Wong Ah Yu has joined Tongda since December 1988 and has been an executive director of Tongda since September 2000 before completion of the Listing of the Group, and he is responsible for the overall strategic directions, financial management, human resources and administration of Tongda. He has over 35 years' experience in the electronics and electrical industry. He is a brother of Mr. Wang Ya Nan, a non-executive Director and father of Mr. Wong Ming Li, an executive Director.

Mr. Wang Ming Zhi (王明志), aged 36, is an executive Director and is responsible for overall strategic directions and financial reporting of the Group. He was appointed as a financial manager of Tongda Suzhou in May 2010 and was re-designated as an executive Director on 21 March 2016. He was an accounting, financial laws and regulations teacher in Shishi Peng Shan Trade and Industrial School* (石獅鵬山工貿學校) from August 2004 to September 2006. From September 2006 to October 2009, he served as an office supervisor in Shishi Wannian Plastic Co., Ltd.* (石獅萬年塑料有限公司) which principally operates in the plastic packaging business and he was responsible for the overall human resources and administration of the company. He has held the position of leader of cost department in Tongda Shishi from October 2009 to May 2010, which he was mainly responsible for cost control, budget forecast and cost analyses of Tongda Shishi. As mentioned above, Tongda Shishi principally manufactures and sells casings and accessories for handsets and electrical appliance products. He has over 6 years' experience in the electronics and electrical industry. He obtained a bachelor's degree in Management (School of Tourism) from Fujian Agriculture and Forestry University (福建農林大學) in July 2004.

NON-EXECUTIVE DIRECTOR

Mr. Wang Ya Nan (王亞南), aged 60, is a non-executive Director and the chairman of the Board. He is responsible for overall strategic directions of the Group. He is currently an executive director, the chairman and chief executive officer of Tongda. Mr. Wang Ya Nan has joined Tongda since December 1988 and has been an executive director of Tongda since September 2000, and he is mainly responsible for the overall strategic planning and business development of Tongda. He was appointed as a non-executive Director on 19 April 2016 for an initial term of 3 years commencing on the Listing Date. He has over 35 years' experience in the electronics and electrical industry. He graduated with an Executive Master of Business Administration degree from Xiamen University in December 2012 and serves as a member of the Standing Committee of the Chinese People's Political Consultative Conference. He is a brother of Mr. Wong Ah Yu, an executive Director and an uncle of Mr. Wong Ming Li, an executive Director.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Leung Pik Kwan (梁碧君), aged 39, was appointed as an independent non-executive Director on 8 February 2018. Ms. Leung is currently a certified public accountant practising as a sole proprietor and provides audit and assurance services. Ms. Leung obtained a bachelor's degree of Arts in Accountancy from the Hong Kong Polytechnic University in November 2001. Ms. Leung was admitted as a member of the HKICPA in January 2005 and a practicing member of the HKICPA since 2009.

Ms. Leung commenced her career with Deloitte Touche Tohmatsu from September 2001 to August 2006 as a staff accountant and she became a senior accountant before she left. She was a manager in KPMG from February 2007 to May 2008. During her employment with the international accounting firms, Ms. Leung was mainly involved in audit engagements of various manufacturing companies. From June 2008 to December 2010, she worked as financial controller in Kerson Technology Limited and was responsible to solve accounting issues and improve internal control. She has over 14 years of experience in accounting, auditing and financial management.

Mr. Sun Wai Hong (孫偉康), aged 32, was appointed as an independent non-executive Director on 8 February 2018. Mr. Sun obtained a bachelor's degree of Professional Accountancy from Chinese University of Hong Kong in December 2007. He was admitted as a member of the HKICPA in January 2011.

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

Mr. Wu Kin San Alfred (胡健生), aged 36, was appointed as an independent non-executive Director on 8 February 2018. Mr. Wu obtained a bachelor's degree of Arts in Accounting and Financial Analysis and a Master's degree of Arts in International Financial Analysis from University of Newcastle upon Tyne (currently known as Newcastle University), the United Kingdom in July 2002 and December 2003, respectively. He has been a member of the HKICPA since March 2009.

Mr. Wu has approximately 12 years of experience in auditing, corporate finance and investment banking. Mr. Wu worked in the audit department of Deloitte Touche Tohmatsu, from January 2004 to August 2007 when he left the firm as a senior. Mr. Wu then commenced his career in corporate finance and investment banking in August 2007 when he served as an analyst in the investment banking division in ICEA Capital Limited which was a licensed corporation under SFC. In April 2009, Mr. Wu joined the investment banking division in ICBC International Holdings Limited until February 2010 when he left that company as an associate. In February 2010, Mr. Wu joined as a vice president in CMB International Capital Corporation Limited, a licensed corporation under the SFC, and left the company in May 2013. In May 2013, Mr. Wu joined the corporate finance department in Haitong International Capital Limited, a corporate finance firm (being a subsidiary of Haitong International Securities Group Limited, a financial institution whose shares are listed on the Stock Exchange (stock code: 665)) until August 2014 when he left that company as a vice president. In August 2014, Mr. Wu joined the investment banking department for IPO execution in Guosen Securities (HK) Financial Holdings Co., Ltd. until April 2016 when he left that company as a director and a responsible officer. From April 2016 to present, Mr. Wu is a executive director in the corporate finance department of Fortune Financial Capital Limited, being a subsidiary of China Fortune Financial Group Limited, a financial institution whose shares are listed on the Stock Exchange (stock code: 290).

SENIOR MANAGEMENT

Mr. Guo Qi Cai (郭啟才), aged 67, has been a deputy general manager and a chief engineer of the Group since May 2010 who is primarily responsible for the overall research and development activities for mould fabrication and technologies applied by the Group. Before joining the Group, Mr. Guo worked in Nanjing 6902 Factory* (南京6902工廠) from 1970 to 1985 as an engineer. He then worked in Xiamen Gaoning Electronics Co., Ltd.* (廈門高寧電子有限公司) from 1985 to 1994 and his last position was a general manager. Mr. Guo worked in Tongda Shishi from 1994 to 2010 as the assistant general manager and chief engineer. He has over 40 years of experience in design and development of moulds in the electronics industry. He studied machinery manufacturing in Chongqing Institution of Communication Engineering* (重慶通訊工程學院) from 1975 to 1978. He has not held any directorships in any public listed companies in the past three years.

Mr. Ba Ping An (巴平安), aged 42, is the head of the engineering department and is primarily responsible for the overall project development and to improve the production process of the Group. He studied plastic moulding technology and its related equipment in Huazhong University of Science and Technology, Hankou Branch (華中理工大學(漢口分校)) (currently known as Jianghan University) from September 1992 to July 1995. Mr. Ba has over 10 years of experience in engineering field and specialises in computer applicant moulding design in the PRC. Before he joined the Group, Mr. Ba worked in Dading Company Accessory (Shanghai) Co., Ltd. (大碇電腦配件(上海)有限公司) from July 2004 to March 2012 and his last position was an assistant manager in the engineering department. Mr. Ba joined the Group in April 2012 as a manager of the engineering department and has been promoted as the head of the engineering department since April 2014. He has not held any directorships in any public listed companies in the past three years.

Mr. Liu Qiang (劉强), aged 41, is the head of the sales department and is primarily responsible for the overall business development and customer relationship management of the Group. Before joining the Group, Mr. Liu worked in ShengMei Precision Industrial (Kunshan) Co., Ltd. (聖美精密工業(昆山)有限公司) from 1998 to 2012 and his last position was a manager of the mould technology department. Mr. Liu joined the Group in May 2012 as a manager of the injection moulding department and promoted as the head of the sales department since March 2014 up to the present. Mr. Liu had over 17 years of working experience in the electronics and electrical industry. He has not held any directorships in any public listed companies in the past three years.

COMPANY SECRETARY

Ms. Lam Siu Wa (林少華), aged 44, was appointed as a company secretary on 20 May 2016 and is primarily responsible for overall company secretarial matters of the Group. Ms. Lam is a fellow member of both the Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators and has approximately 5 years of experience in corporate governance. From June 2015 to December 2015, Ms. Lam served as a joint company secretary in SEEC Media Group Limited (stock code: 205), the shares of which are listed on the Main Board of the Stock Exchange.

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. She has not held any directorships in any public listed companies in the past three years.

* *For identification purpose only*

Corporate Governance Report

The Board hereby presents this corporate governance report in the Group's annual report for the year ended 31 December 2017.

CORPORATE GOVERNANCE PRACTICES

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

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

The CG Code has been applicable to the Company with effect from the Listing Date and was not applicable to the Company during the year ended 31 December 2017. The Board is of the view that since the Listing Date up to the date of this report (the "Relevant Period"), the Company has complied with all applicable code provisions as set out in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

The Model Code was not applicable to the Company before the Listing Date. Specific enquiry has been made with all the Directors and the Directors have confirmed that they have complied with the Model Code and the Securities Dealing Code throughout the Relevant Period.

During the Relevant Period, the Company is not aware of any incident of non-compliance of the Securities Dealing Code by the relevant employees.

BOARD OF DIRECTORS

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

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

The Board currently comprises the following Directors:

Executive Directors:
Mr. Wong Ming Li
Mr. Wong Ah Yu
Mr. Wang Ming Zhi

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

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

The biographical information of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 10 to 13 of this annual report.

The relationships between the Directors are also disclosed in the respective Director's biography under the section "Biographical Details of Directors and Senior Management" on pages 10 to 13 of this annual report.

Attendance Records of Directors and Committee Members

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

The attendance record of each director at the Board and Board Committee meetings held during the Relevant Period is set out in the table below:

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

Chairman and Chief Executive Officer

The position of Chairman is by Mr. Wang Ya Nan and he provides leadership and is responsible for the effective functioning and leadership of the Board as well as the overall management of the Group's corporate strategies planning. The Company does not at present have any officer with the title "chief executive officer". Nevertheless, the executive Director, Mr. Wong Ming Li carries out the duties of the chief executive officer of the Company since Listing Date.

Independent Non-executive Directors

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

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

Appointment and Re-election of Directors

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

The Articles of Association provides that all Directors appointed by the Board to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting after appointment.

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

Responsibilities of the Directors

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

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

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

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

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

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

Continuous Professional Development of Directors

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

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

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

Prior to the Listing, all Directors have been given the training regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors and duty of disclosure of interest.

BOARD COMMITTEES

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

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

Audit Committee

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

The Audit Committee held a meeting on 28 March 2018 to review, in respect of the year ended 31 December 2017, the annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and relevant scope of works and, continuing connected transactions.

Remuneration Committee

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

The Remuneration Committee held a meeting on 28 March 2018 to review, in respect of the year ended 31 December 2017, the remuneration packages of the Directors.

Nomination Committee

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

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

The Nomination Committee held a meeting on 28 March 2018 to review the independence of the Independent Non-executive Directors, to consider the qualifications of the retiring directors standing for election at the 2018 annual general meeting, to review the structure, size and composition of the Board and to review the Policy. In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate’s character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board. Having reviewed the composition of the Board, details of which are set out under the section headed “Board of Directors” on page 15 of this report, the Nomination Committee considered that there is an appropriate balance of Board diversity.

Corporate Governance Functions

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

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

AUDITOR'S REMUNERATION

During the year ended 31 December 2017, the remuneration paid/payable in respect of services provided by the Group's external auditor are set out below:

Type of services	**Amounts** HK$'000
Annual audit services	1,600
Non-audit services:	
Professional service fees in relation to the Listing	4,229
Total	5,829

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

MAIN FEATURES OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

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

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

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

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

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

RISK MANAGEMENT PROCESS

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

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

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

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

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

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

INSIDE INFORMATION DISCLOSURE POLICY

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

- setting out the processes for identifying, assessing and escalating potential inside information to the Board;
- setting out the responsibilities of officers in preserving the confidentiality of inside information, escalating upwards any such potential information and cascading down the message and responsibilities to relevant staff; and
- identifying who are the Company's authorised spokespersons and their responsibilities for communications with stakeholders of the Company.

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

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

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2017.

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

COMPANY SECRETARY

The Company Secretary of the Company is Ms. Lam Siu Wa, who fulfils the qualification requirements laid down in the Listing Rules. Biographical details of Ms. Lam are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. During the year ended 31 December 2017, Ms. Lam has taken not less than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

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

Convening an Extraordinary General Meeting

Pursuant to article 58 of the Articles of Association, an extraordinary general meeting shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two calendar months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

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

Putting Forward Enquiries to the Board

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

Contact Details

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

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

CONSTITUTIONAL DOCUMENTS

In preparation for the Listing, the Company has adopted the amended and restated Memorandum and Articles of Association pursuant to a special resolution passed by the sole shareholder on 8 February 2018. Since then, the Company has not made any changes to its Memorandum and Articles of Association. An up to date version of the Company's Memorandum and Articles of Association is also available on the websites of the Company and of Hong Kong Exchanges and Clearing Limited.

Report of the Directors

The directors are pleased to present this annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands on 21 March 2016.

In preparation for the Listing, the Group underwent the reorganisation, details of the reorganisation are set out in the Company's prospectus dated 28 February 2018 (the "Prospectus").

The shares of the Company were listed on the Main Board of the Stock Exchange with effect from 16 March 2018 (the "Listing Date").

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2017 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 42 to 91 of this annual report.

The directors did not recommend the payment of any dividend for the year ended 31 December 2017.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 is set out in the "Management Discussion and Analysis" on pages 4 to 9 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

Liquidity risk

The Group aims at maintaining a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is within one year.

Foreign currency risk

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

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

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

As at 31 December 2017, the Group had certain concentrations of credit risk as 56.3% (2016:22.9%) and 92.4% (2016: 86.6%) of the Group's trade and bills receivables were due from the Group's largest customer and the five largest customers, respectively.

The credit risk of the Group's other financial assets, which comprise cash and bank balances and financial assets included prepayments, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Interest rate risk

The Group is exposed to interest rate risk which mainly arises from bank deposits and interest-bearing bank borrowings. The Group monitors the interest rate exposure on a continuous basis and adjusts the portfolio of the bank deposits and borrowings where necessary.

ENVIRONMENTAL PROTECTION POLICY

The Group has strong commitment towards environmental protection and is committed to supporting the environmental sustainability. The Group is principally engaged in the manufacture and sale of the casings of notebook and tablet in the PRC, which is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the year ended 31 December 2017 and up to the date of this annual report, the Group did not incur any significant cost in relation to environmental protection or have any material environmental-related incident, and the Group had not been penalised by competent government authority for environmental-related violations.

COMPLIANCE WITH LAW AND REGULATIONS

The Board believes the compliance with laws and regulations as the cornerstone of a business and attaches considerable importance to it. To the best knowledge of the Board, during the year ended 31 December 2017 and up to the date of this annual report, the Group has complied with relevant laws and regulations that have significant impact on the business and operations of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

RELATIONS WITH KEY STAKEHOLDERS

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

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and equity of the Group for the last four financial years, as extracted from the Prospectus and the published audited financial statements, is set out on page 92. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2017 are set out in note 13 to the financial statements.

BANK BORROWINGS

Details of movements in the bank borrowings of the Group during the year ended 31 December 2017 are set out in note 20 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2017 are set out in note 21 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company did not have reserves available for distribution to shareholders in accordance with the Articles of Association.

Details of movements in the reserves of the Group and the Company during the year ended 31 December 2017 are set out in the consolidated statement of changes in equity on page 45 of this annual report and note 30 to the financial statements on page 91 of this annual report, respectively.

DIRECTORS

The Directors during the year ended 31 December 2017 and up to the date of this report were:

Executive Directors:

Mr. Wong Ming Li (appointed on 21 March 2016)
Mr. Wong Ah Yu (appointed on 19 April 2016)
Mr. Wang Ming Zhi (appointed on 21 March 2016)

Non-executive Directors:

Mr. Wang Ya Nan (appointed on 19 April 2016)

Independent non-executive Directors:

Ms. Leung Pik Kwan (appointed on 8 February 2018)
Mr. Sun Wai Hong (appointed on 8 February 2018)
Mr. Wu Kin San Alfred (appointed on 8 February 2018)

In accordance with article 83(3) of the Company's articles of association (the "Articles of Association"), any Director appointed by the Board to fill a casual vacancy on the Board shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting.

In accordance with article 83(3) of the Articles of Association, all the Directors, namely, Mr. Wong Ming Li, Mr. Wong Ah Yu, Mr. Wang Ming Zhi, Mr. Wang Ya Nan, Ms. Leung Pik Kwan, Mr. Sun Wai Hong and Mr. Wu Kin San Alfred will offer himself/herself for re-election as an executive/non-executive/independent non-executive Director (as the case may be).

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' SERVICE CONTRACTS

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

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

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

Since the shares of the Company were not listed on the Stock Exchange as at 31 December 2017, Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO"), section 352 of the SFO and the Model Code contained in the Listing Rules were not applicable to the Company and the Directors and chief executive of the Company as at 31 December 2017.

As at the date of this report, 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 SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interests in the Company

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

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

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

Since the shares of the Company were not listed on the Stock Exchange as at 31 December 2017, Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO were not applicable to the Company and the substantial shareholders as at 31 December 2017.

As at the date of this report, the Company had not been notified by any persons (other than the Directors or chief executive of the Company) who had interests or short positions in the shares or 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 required, pursuant to section 336 of the SFO, to be recorded in the register referred to therein.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2017 was the Company or any of its holding company or subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

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

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

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

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

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

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

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

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 2017.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year ended 31 December 2017 are set out in note 26 to the financial statements.

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as those disclosed in note 26 to the financial statements, no other transactions, arrangements or contracts of significance, to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with him/her had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2017 or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2017.

COMPETING BUSINESS

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

Non-Competition Undertaking by Controlling Shareholders

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

PERMITTED INDEMNITY PROVISIONS

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

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Company since 16 March 2018.

EMOLUMENT POLICY

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

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, (i) the Group's largest customer and five largest customers accounted for approximately 57.2% and 95.1% respectively of the Group's total revenue; and (ii) the Group's largest supplier and five largest suppliers accounted for approximately 6.6% and 21.7% respectively of the Group's total purchases (not including purchases of items which are of a capital nature).

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

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

As the Company's shares were not listed on the Stock Exchange as at 31 December 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

CORPORATE GOVERNANCE

As the Company was not a listed company during the year ended 31 December 2017, the CG Code was not applicable to the Company during that period, but has been applicable to it since the Listing Date.

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with code provisions set out in the CG Code contained in Appendix 14 to the Listing Rules during the period between Listing Date and date of this report except for code provision of A.2.1.

Code Provision A.2.1

The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. The Company does not at present have any officer with the title "chief executive officer". Nevertheless, the executive Director, Mr. Wong Ming Li carries out the duties of the chief executive officer of the Company since Listing Date. Details of corporate governance report are set out on pages 14 to 25 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period of the Company are set out in the chapter headed "Management Discussion and Analysis" on pages 4 to 9 of this annual report.

USE OF NET PROCEEDS FROM THE LISTING

The shares of the Company were listed on the Main Boards of the Stock Exchange on the Listing Date with net proceeds received by the Company from the Listing in the amount of approximately HK$48.5 million, after deducting underwriting commission and all related expenses. The net proceeds received from the Listing will be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds from the Share Offer" in the Prospectus.

Since the Listing Date and up to the date of this annual report, the net proceeds from the Listing have not yet been applied for any use.

AUDITOR

The financial statements have been audited by Ernst & Young, who retire and, being eligible, offer themselves for reappointment at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD

Wang Ya Nan
TONGDA HONG TAI HOLDINGS LIMITED
Chairman

Hong Kong
28 March 2018

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

OPINION

We have audited the consolidated financial statements of Tongda Hong Tai Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 42 to 91, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 assessment of trade and bills receivables	
As at 31 December 2017, the net carrying value of the Group's trade and bills receivables amounted to HK$217,423,000, after netting off with an impairment provision of HK$2,513,000, which represented 30% of the total assets of the Group. Significant judgements and estimates are applied by management in assessing whether the trade receivables are recoverable and if a provision for impairment is required. Management considers various factors, including the ageing of the trade receivables, credit history, historical payment pattern and prevailing market conditions. The significant accounting judgements and estimates and disclosures for the recognition of impairment of trade receivables are included in notes 3 and 15 to the consolidated financial statements.	Our audit procedures included, among others, evaluating management's assessment methodology based on the Group's circumstances, and evaluating the inputs and assumptions applied by management in performing the impairment assessment. We tested the ageing of the trade receivables, post year-end receipts from and the historical collection patterns of a sample of customer balances.
Provision for inventories	
As at 31 December 2017, the net carrying value of the Group's inventories amounted to HK$335,856,000, after netting off with a provision of HK$5,565,000, representing 47% of the total assets of the Group. Provision assessment is based on the estimated net realisable value of inventories, which requires significant management judgements and estimates. Management considers various factors, including the ageing of the inventories, historical sales patterns, post year-end sales, selling prices of inventories and prevailing market conditions. The significant accounting judgements and estimates and disclosures about inventories are included in notes 3 and 14 to the consolidated financial statements.	Our audit procedures included, among others, evaluating management's assessment methodology based on the Group's circumstances, and evaluating the inputs and assumptions applied by management in performing the provision assessment by reviewing the ageing of the inventories, the post year-end usage or sale and the selling prices of a sample of inventories, evaluating management's expected future demand and usage of inventories with reference to historical sales patterns and sales orders received by the Group.

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 Kwong Ka Yan.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong
28 March 2018

Consolidated Income Statement

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
REVENUE	5	**580,481**	463,937
Cost of sales		**(470,258)**	(360,692)
Gross profit		**110,223**	103,245
Other income and gains	5	**4,757**	1,500
Selling and distribution expenses		**(11,393)**	(9,954)
General and administrative expenses		**(64,229)**	(55,781)
Other operating expenses, net		**(3,349)**	(937)
Finance costs	6	**(8,870)**	(6,583)
PROFIT BEFORE TAX	7	**27,139**	31,490
Income tax expense	10	**(4,276)**	(7,386)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**22,863**	24,104
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	12	**HK15.82 cents**	HK16.81 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

	2017	2016
	HK$'000	HK$'000
PROFIT FOR THE YEAR	**22,863**	24,104
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income/(expense) to be reclassified to income statement in subsequent periods:		
Exchange differences on translation of a foreign operation	**2,685**	(8,920)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**25,548**	15,184

Consolidated Statement of Financial Position

31 December 2017

	Notes	**2017** **HK$'000**	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**107,840**	109,360
Long term deposits	16	**2,387**	2,263
Total non-current assets		**110,227**	111,623
CURRENT ASSETS			
Inventories	14	**335,856**	269,712
Trade and bills receivables	15	**217,423**	214,959
Prepayments, deposits and other receivables	16	**25,848**	7,679
Due from the Remaining Group	26	**853**	180
Restricted bank balances	17	**5,105**	4,636
Cash and bank balances	17	**23,199**	31,349
Total current assets		**608,284**	528,515
CURRENT LIABILITIES			
Trade payables	18	**106,393**	87,499
Other payables and accruals	19	**46,753**	56,637
Due to the Remaining Group	26	**47,023**	61,019
Interest-bearing bank borrowings	20	**250,165**	192,822
Tax payable		**667**	210
Total current liabilities		**451,001**	398,187
NET CURRENT ASSETS		**157,283**	130,328
TOTAL ASSETS LESS CURRENT LIABILITIES		**267,510**	241,951
Net assets		**267,510**	241,951
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	21	**1,445**	1,434
Reserves	22	**266,065**	240,517
Total equity		**267,510**	241,951

Wong Ming Li
Director

Wang Ming Zhi
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Attributable to equity holders of the Company					
	Issued capital	**Capital reserve**	**Statutory reserve fund**	**Exchange fluctuation reserve**	**Retained profits**	**Total equity**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	Note 21	Note 22(b)	Note 22(a)			
At 1 January 2016	–	145,000	8,833	(768)	18,702	171,767
Profit for the year	–	–	–	–	24,104	24,104
Other comprehensive expense for the year:						
Exchange differences related to translation of a foreign operation	–	–	–	(8,920)	–	(8,920)
Total comprehensive income/(expense) for the year	–	–	–	(8,920)	24,104	15,184
Capital contribution from the Remaining Group	–	55,000	–	–	–	55,000
Issue of shares	1,434	–	–	–	–	1,434
Acquisition of subsidiaries	–	(1,434)	–	–	–	(1,434)
Transfer to statutory reserve	–	–	3,263	–	(3,263)	–
At 31 December 2016 and 1 January 2017	1,434	198,566*	12,096*	(9,688)*	39,543*	241,951
Profit for the year	–	–	–	–	22,863	22,863
Other comprehensive income for the year:						
Exchange differences related to translation of a foreign operation	–	–	–	2,685	–	2,685
Total comprehensive income for the year	–	–	–	2,685	22,863	25,548
Issue of shares	11	–	–	–	–	11
Transfer to statutory reserve	–	–	2,981	–	(2,981)	–
At 31 December 2017	1,445	198,566*	15,077*	(7,003)*	59,425*	267,510

* These reserve accounts comprise the consolidated reserves of HK$266,065,000 (2016: HK$240,517,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**27,139**	31,490
Adjustments for:			
Finance costs	6	**8,870**	6,583
Depreciation	7	**21,177**	20,280
Bank interest income	5	**(122)**	(125)
Loss on disposal of an item of property, plant and equipment	7	**7**	–
Impairment of trade receivables	7	**988**	871
Provision/(write-back of provision) for inventories	7	**4,119**	(409)
		62,178	58,690
Increase in inventories		**(70,263)**	(33,874)
Increase in trade and bills receivables		**(3,452)**	(80,533)
Increase in prepayments, deposits and other receivables		**(18,169)**	(1,565)
Decrease in balances with the Remaining Group	23	**(14,658)**	(82,832)
Increase in trade payables		**18,894**	15,801
Decrease in other payables and accruals		**(9,884)**	(6,320)
Exchange realignment		**3,038**	(4,582)
Cash used in operations		**(32,316)**	(135,215)
Interest paid		**(8,870)**	(6,583)
Overseas taxes paid		**(3,819)**	(11,121)
Net cash flows used in operating activities		**(45,005)**	(152,919)

Year ended 31 December 2017

	Notes	**2017** **HK$'000**	2016 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**122**	125
Purchases of items of property, plant and equipment	23	**(16,247)**	(5,678)
Increase in long term deposits	23	**(2,387)**	(2,263)
Increase in restricted bank balances		**(469)**	(652)
Exchange realignment		**75**	(291)
Net cash flows used in investing activities		**(18,906)**	(8,759)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**438,030**	279,859
Repayment of bank loans		**(380,687)**	(165,469)
Capital contributions from the Remaining Group		**–**	55,000
Repayment of loan from the Remaining Group		**–**	(19,387)
Exchange realignment		**(2,039)**	4,550
Net cash flows from financing activities		**55,304**	154,553
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(8,607)**	(7,125)
Cash and cash equivalents at beginning of year		**31,349**	41,136
Effect of foreign exchange rate changes, net		**457**	(2,662)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**23,199**	31,349
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**28,304**	35,985
Less: Restricted bank balances		**(5,105)**	(4,636)
		23,199	31,349

1. CORPORATE AND GROUP INFORMATION

Tongda Hong Tai Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 March 2018 (the "Listing").

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

Prior to the Listing, the Company was indirectly wholly owned by Tongda Group Holdings Limited ("TDHL"), a company incorporated in the Cayman Islands and whose shares are listed on the Main Board of the Stock Exchange. TDHL and its subsidiaries, but excluding the Company and its subsidiaries, are collectively referred to as the "Remaining Group".

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

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

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

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

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

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held:				
Tongda HT Technology (HK) Company Limited	Hong Kong	HK$2	100	Investment holding
通達宏泰科技(蘇州)有限公司 (Tongda HT Technology (Suzhou) Company Limited) (Notes (a) and (b))	The People's Republic of China (the "PRC")/ Mainland China	HK$200,000,000	100	Manufacture and sale of accessories for electrical appliance products

Notes:

(a) 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.

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

2.1 BASIS OF PRESENTATION

To rationalise the corporate structure in preparation for the listing of the Company's shares on the Stock Exchange, the Company underwent a group reorganisation (the "Reorganisation"), further details of which are set out in the Company's prospectus dated 28 February 2018. Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 31 May 2016. As the Reorganisation only involved inserting new holding companies at the top of an existing company (i.e., Tongda HT Technology (Suzhou) Company Limited) and has not resulted in any change of economic substances, the consolidated financial statements for the year ended 31 December 2016 have been presented as a continuation of the existing company using the pooling of interests method. Accordingly, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2016 have been prepared as if the current group structure had been in existence throughout that year. The consolidated statement of financial position as at 31 December 2016 has been prepared to present the assets and liabilities of the companies now comprising the Group, as if the current group structure had been in existence at that date.

2.2 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. All HKFRSs effective for the accounting period commencing from 1 January 2017, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the financial statements for the year ended 31 December 2016. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 BASIS OF PREPARATION *(continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. 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.

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.

2.3 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 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
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.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed an assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis.

The Group will apply 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 and bills receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months.

The directors anticipate that the adoption of HKFRS 9 will have no significant impact on the financial performance and the financial position of the Group.

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

HKFRS 15, issued in July 2014, 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 standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. The Group has assessed the impact of this standard and expects that the standard will not have significant impact, when applied, on the consolidated financial statements of the Group.

HKFRS 16, issued in May 2016, 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 term 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 expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted.

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

As disclosed in note 24 to the financial statements, the Group had total future minimum lease payments under non-cancellable operating leases as at 31 December 2017 amounting to HK$21,549,000. The directors do not expect the adoption of HKFRS 16 would result in a significant impact on the Group's financial performance but expect that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

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.

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

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 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.

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

Leasehold improvements	Over the lease terms or 5 years, whichever is shorter
Plant and machinery	10 – 12 years
Furniture, fixtures and office equipment	3 – 10 years
Motor vehicles	5 – 10 years

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

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

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

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

Construction in progress represents leasehold improvements under construction, which is stated at cost less any impairment losses, and is 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.

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 lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Investments and other financial assets

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.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

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

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

Impairment of financial assets

The Group 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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost (continued)

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 impairment 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.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, 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, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, financial liabilities included in other payables and accruals, interest-bearing bank borrowings and amounts due to the Remaining Group.

Loans and borrowings

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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

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

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

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

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

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

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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.

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

Research and development costs

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

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

Revenue recognition

Revenue 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; and

(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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits

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

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

Foreign currencies

These financial statements are presented in Hong Kong dollar, 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 translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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 years are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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 JUDGEMENT 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.

Judgement

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

Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends from a subsidiary in the PRC according to the relevant tax jurisdiction is subject to judgement on the timing of the payment of the dividend, where the Group considered that if it is probable that the profits of the subsidiary in the PRC will not be distributed in the foreseeable future, then no withholding taxes should be provided.

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.

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

Estimation uncertainty *(continued)*

Provision for inventories

Management of the Group reviews the ageing analysis of inventories at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. Management estimates the net realisable value for such finished goods and work in progress based primarily on the ageing of the inventories, historical sales pattern, post year-end sales, latest invoice prices and prevailing market conditions. The carrying amount of inventories at 31 December 2017 was HK$335,856,000 (2016: HK$269,712,000). Further details of the inventories are given in note 14.

Impairment of trade and bills receivables

Impairment of trade and bills receivables is made by assessing the recoverability of trade and bills receivables based on credit history, historical payment pattern, ageing of trade 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 trade receivables as well as doubtful debt expenses or write-back of doubtful debt in the period in which such estimate has been changed. The carrying amount of trade and bills receivables was HK$217,423,000 (2016: HK$214,959,000). Further details of the trade and bills receivables are given in note 15.

4. OPERATING SEGMENT INFORMATION

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

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

Information about major customers

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

	2017	2016
	HK$'000	HK$'000
Customer A	**332,158**	159,410
Customer B	**159,361**	210,354
	491,519	369,764

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

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

	2017 HK$'000	2016 HK$'000
Other income and gains		
Bank interest income	**122**	125
Sale of scrap materials	**902**	1,278
Government grants*	**3,733**	76
Others	**–**	21
	4,757	1,500

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

6. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interests on bank borrowings	**8,870**	6,172
Interest on a loan from the Remaining Group	**–**	411
	8,870	6,583

7. PROFIT BEFORE TAX

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

	2017	2016
	HK$'000	HK$'000
Cost of inventories sold[1]	**470,258**	360,692
Depreciation	**21,177**	20,280
Research and development costs[2]	**17,904**	14,267
Minimum lease payments under operating leases	**5,664**	4,505
Employee benefit expense (excluding directors' remuneration – note 8):		
Salaries and wages	**69,636**	66,392
Pension scheme contributions	**3,039**	7,144
	72,675	73,536
Auditor's remuneration	**1,600**	30
Impairment of trade receivables*	**988**	871
Provision/(write-back of provision) for inventories	**4,119**	(409)
Loss on disposal of an item of property, plant and equipment*	**7**	–
Foreign exchange differences, net	**2,352**	66

* Impairment of trade receivables and loss on disposal of an item of property, plant and equipment are included in "Other operating expenses, net" on the face of the consolidated income statement.

1 Cost of inventories sold includes HK$78,820,000 (2016: HK$75,892,000) relating to employee benefit expense, operating lease rentals, provision/(write-back of provision) for inventories, and depreciation, which are also included in the respective total amounts disclosed above for each of these types of expenses for the year ended 31 December 2017.

2 Research and development costs include HK$13,977,000 (2016: HK$9,582,000) relating to depreciation of a research and development centre and employee benefit expense for research and development activities, which are also included in the respective total amounts disclosed above for each of these types of expenses for the year ended 31 December 2017.

8. 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:

	2017 **HK$'000**	2016 HK$'000
Fees	**–**	–
Salaries, allowances and benefits in kind	**682**	500
Pension scheme contributions	**194**	144
	876	644

(a) Independent non-executive directors

Subsequent to the end of the reporting period, Ms. Leung Pik Kwan, Mr. Sun Wai Hong and Mr. Wu Kin San Alfred were appointed as the independent non-executive directors of the Company on 8 February 2018. There were no fees or other emoluments payable to independent non-executive directors during the year (2016: Nil).

(b) Executive directors

Mr. Wong Ming Li, Mr. Wang Ming Zhi and Mr. Wong Ah Yu were appointed as the executive directors of the Company on 21 March 2016, 21 March 2016 and 19 April 2016, respectively.

	Fees **HK$'000**	**Salaries, allowances, and benefits in kind** **HK$'000**	**Pension scheme contributions** **HK$'000**	**Total** **HK$'000**
2017				
Mr. Wong Ming Li	**–**	**335**	**97**	**432**
Mr. Wang Ming Zhi	**–**	**347**	**97**	**444**
Mr. Wong Ah Yu	**–**	**–**	**–**	**–**
	–	**682**	**194**	**876**

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors *(continued)*

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2016				
Mr. Wong Ming Li	–	248	72	320
Mr. Wang Ming Zhi	–	252	72	324
Mr. Wong Ah Yu	–	–	–	–
	–	500	144	644

There were no arrangement under which a director waived or agreed to waive any remuneration during the year (2016: Nil).

(c) Non-executive director

Mr. Wang Ya Nan was appointed as a non-executive director of the Company on 19 April 2016. There were no fees or other emoluments payable to the non-executive director during the year (2016: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2016: one), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2016: four) non-director highest paid employees are as follows:

	2017 HK$'000	2016 HK$'000
Salaries, allowances and benefits in kind	**2,437**	1,951
Pension scheme contributions	**310**	296
	2,747	2,247

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

	Number of employees	
	2017	2016
Nil to HK$1,000,000	**4**	4

During the year, no remuneration was paid by the Group to the directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office (2016: Nil).

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2016: Nil). Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates.

	2017	2016
	HK$'000	HK$'000
Current tax – Mainland China		
Charge for the year	**4,276**	6,178
Underprovision in prior years	**–**	1,208
Total tax charge for the year	**4,276**	7,386

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

	2017	2016
	HK$'000	HK$'000
Profit before tax	**27,139**	31,490
Tax at the statutory tax rate	**8,175**	8,936
Lower applicable tax rate	**(4,350)**	(4,400)
Adjustments in respect of current tax of prior years	**–**	1,208
Expenses not deductible for tax	**2,226**	2,223
Income not subject to tax	**(1,775)**	(685)
Others	**–**	104
Tax charge at the Group's effective rate	**4,276**	7,386

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

通達宏泰科技（蘇州）有限公司 (Tongda HT Technology (Suzhou) Company Limited), as a High New Technology Enterprise, is subject to a preferential tax rate of 15% starting from the year ended 31 December 2016 for three years.

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.

10. 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 totalled approximately HK$94,538,000 as at 31 December 2017 (2016: HK$55,316,000).

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

11. DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31 December 2017 (2016: Nil).

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to the equity holders of the Company of HK$22,863,000 (2016: HK$24,104,000), and the weighted average number of ordinary shares of 144,505,113 (2016: 143,391,250) in issue during the year, on the assumption that the Reorganisation in connection with the Listing of the Company had been completed on 1 January 2016.

The weighted average number of ordinary shares used to calculate the basic earnings per share amount for the year ended 31 December 2017 included 1 ordinary share of the Company issued upon incorporation, 143,391,249 ordinary shares of the Company issued upon completion of the Reorganisation, and the weighted average number of 1,113,863 ordinary shares of the Company issued to Tong Da Holdings (BVI) Limited ("Tong Da Holdings"), a wholly-owned subsidiary of TDHL, as further detailed in note 21 to the financial statements.

The weighted average number of ordinary shares used to calculate the basic earnings per share amount for the year ended 31 December 2016 included 1 ordinary share of the Company issued upon incorporation and 143,391,249 ordinary shares of the Company issued upon completion of the Reorganisation, on the assumption that these shares had been in issue throughout the year ended 31 December 2016.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2017						
Cost:						
At 1 January 2017	26,122	154,181	12,207	2,941	–	195,451
Additions	652	17,128	360	370	–	18,510
Disposal	–	–	–	(166)	–	(166)
Exchange realignment	276	1,631	129	31	–	2,067
At 31 December 2017	27,050	172,940	12,696	3,176	–	215,862
Accumulated depreciation:						
At 1 January 2017	12,682	62,327	8,823	2,259	–	86,091
Provided during the year	4,812	15,277	985	103	–	21,177
Disposal	–	–	–	(159)	–	(159)
Exchange realignment	137	659	93	24	–	913
At 31 December 2017	17,631	78,263	9,901	2,227	–	108,022
Net book value:						
At 31 December 2017	9,419	94,677	2,795	949	–	107,840

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

	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2016						
Cost:						
At 1 January 2016	25,395	155,902	11,556	3,084	700	196,637
Additions	1,162	4,011	1,189	–	1,598	7,960
Transfers	746	1,519	–	–	(2,265)	–
Exchange realignment	(1,181)	(7,251)	(538)	(143)	(33)	(9,146)
At 31 December 2016	26,122	154,181	12,207	2,941	–	195,451
Accumulated depreciation:						
At 1 January 2016	8,633	50,437	7,793	2,159	–	69,022
Provided during the year	4,451	14,236	1,393	200	–	20,280
Exchange realignment	(402)	(2,346)	(363)	(100)	–	(3,211)
At 31 December 2016	12,682	62,327	8,823	2,259	–	86,091
Net book value:						
At 31 December 2016	13,440	91,854	3,384	682	–	109,360

14. INVENTORIES

	2017	2016
	HK$'000	HK$'000
Raw materials	34,298	28,608
Work in progress	132,278	71,342
Finished goods	169,280	169,762
	335,856	269,712

As at 31 December 2017, moulds of HK$1,970,000 (2016: HK$1,950,000) were included in finished goods.

15. TRADE AND BILLS RECEIVABLES

	2017	2016
	HK$'000	HK$'000
Trade receivables	211,062	216,468
Impairment	(2,513)	(1,509)
	208,549	214,959
Bills receivables	8,874	–
	217,423	214,959

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one to four months. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing. As at 31 December 2017, 56.3% (2016: 22.9%) of the total trade and bills receivables, and 92.4% (2016: 86.6%) of the total trade and bills receivables, were due from the Group's largest customer and the five largest customers, respectively.

15. TRADE AND BILLS RECEIVABLES *(continued)*

An ageing analysis of the Group's trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2017	2016
	HK$'000	HK$'000
Within 3 months	**216,440**	184,392
4 to 6 months, inclusive	**983**	30,567
	217,423	214,959

The movements in provision for impairment of trade receivables are as follows:

	2017	2016
	HK$'000	HK$'000
At the beginning of the year	**1,509**	669
Impairment of trade receivables (note 7)	**988**	871
Exchange realignment	**16**	(31)
At the end of the year	**2,513**	1,509

As at 31 December 2017, included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$2,513,000 (2016: HK$1,509,000) with a carrying amount before provision of HK$2,559,000 (2016: HK$1,884,000). The individually impaired trade receivables relate to customers that have been overdue for a long time and only a portion of the receivables is expected to be recovered.

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

	2017	2016
	HK$'000	HK$'000
Neither past due nor impaired	**217,089**	214,584
Within 3 months	**288**	–
	217,377	214,584

15. TRADE AND BILLS RECEIVABLES *(continued)*

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

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

Included in trade receivables as at 31 December 2016 was an amount due from Suzhou Jiatai Material Technology Co., Ltd ("Suzhou Jiatai"), a company established in the PRC, of HK$21,876,000 arising from the Group's sales to Suzhou Jiatai. Suzhou Jiatai is also the Group's subcontractor and one of the Group's landlords for the leasing of factory premises and staff quarters. During the year ended 31 December 2017, the Group's sales to and subcontracting fee charged by Suzhou Jiatai amounted to HK$2,293,000 (2016: HK$18,697,000) and HK$28,374,000 (2016: HK$2,931,000), respectively. The lease rentals charged by Suzhou Jiatai amounted to HK$1,472,000 during the year ended 31 December 2017 (2016: HK$1,457,000).

In addition, the Remaining Group had provided financial assistance to Suzhou Jiatai up to HK$65,084,000 during the year ended 31 December 2017 (2016: HK$58,140,000), of which HK$57,939,000 remained outstanding as at 31 December 2017 (2016: HK$55,930,000).

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 **HK$'000**	2016 HK$'000
Prepayments	**18,702**	6,080
Deposits and other receivables	**9,533**	3,862
	28,235	9,942
Less: Non-current portion for purchases of items of property, plant and equipment	**(2,387)**	(2,263)
Current portion	**25,848**	7,679

As at 31 December 2017, none of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

17. RESTRICTED BANK BALANCES AND CASH AND BANK BALANCES

	2017 HK$'000	2016 HK$'000
Cash and bank balances	**28,304**	35,985
Less: Restricted bank balances for import purchases in Mainland China	**(5,105)**	(4,636)
	23,199	31,349

As at 31 December 2017, the cash and bank balances of the Group denominated in RMB amounted to HK$2,510,000 (2016: HK$4,899,000). 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 earn interest at floating rates based on daily bank deposit rates. The bank balances and restricted bank balances are deposited with creditworthy banks with no recent history of default.

18. TRADE PAYABLES

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

	2017 HK$'000	2016 HK$'000
Within 3 months	**91,411**	73,753
4 to 6 months, inclusive	**14,982**	13,746
	106,393	87,499

19. OTHER PAYABLES AND ACCRUALS

	2017	2016
	HK$'000	HK$'000
Other payables	**4,843**	6,664
Accruals	**41,910**	49,973
	46,753	56,637

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

20. INTEREST-BEARING BANK BORROWINGS

	2017			2016		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current and repayable within one year						
Bank loans – unsecured	**4.2%/ People's Bank of China rate/ LIBOR + 2.5% to 3%**	**2018**	**250,165**	4.2%/ People's Bank of China rate/ LIBOR + 3%	2017	192,822
Total			**250,165**			192,822

Notes:

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

(b) As at 31 December 2017, the Group's banking facilities were supported by the corporate guarantees executed by the Remaining Group to the extent of HK$333,000,000 (2016: HK$254,000,000), of which an aggregate amount of HK$250,165,000 (2016: HK$192,822,000) was utilised.

21. ISSUED CAPITAL

	2017 HK$'000	2016 HK$'000
Authorised:		
1,000,000,000 (2016: 1,000,000,000) ordinary shares of HK$0.01 each	**10,000**	10,000
Issued and fully paid:		
144,511,250 (2016: 143,391,250) ordinary shares of HK$0.01 each	**1,445**	1,434

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

	Notes	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares HK$'000
Authorised:			
At 21 March 2016 (date of incorporation)	(a)	38,000,000	380
Increase in authorised share capital on 27 May 2016	(b)	962,000,000	9,620
At 31 December 2016, 1 January 2017 and 31 December 2017		1,000,000,000	10,000
Issued and fully paid:			
At 21 March 2016 (date of incorporation)	(a)	1	–
Issue of shares on 31 May 2016	(c)	143,391,249	1,434
At 31 December 2016		143,391,250	1,434
Issue of shares on 3 January 2017	(d)	1,120,000	11
At 31 December 2017		144,511,250	1,445
Issue of shares on 23 February 2018	(e)	6,781,888	68
Issue of shares on 15 March 2018	(f)	37,822,500	378
At 15 March 2018		189,115,638	1,891

21. ISSUED CAPITAL *(continued)*

Notes:

(a) The Company was incorporated on 21 March 2016 with an initial authorised share capital of HK$380,000 divided into 38,000,000 ordinary shares of a par value of HK$0.01 each. On 21 March 2016, 1 ordinary share of HK$0.01 each was issued and allotted by the Company at par to its then shareholder.

(b) On 27 May 2016, the authorised share capital of the Company was increased from HK$380,000 to HK$10,000,000 by the creation of an additional 962,000,000 ordinary shares of HK$0.01 each.

(c) On 31 May 2016, the Company issued 143,391,249 ordinary shares of HK$0.01 each credited as fully paid to its then shareholder.

(d) On 3 January 2017, the Company allotted and issued 1,120,000 ordinary shares of HK$0.01 each credited as fully paid to Tong Da Holdings, by way of capitalising an amount due from the Company to Tong Da Holdings of HK$11,200 at that date.

(e) On 23 February 2018, the Company allotted and issued 6,781,888 ordinary shares of HK$0.01 each credited as fully paid to Tong Da Holdings, by way of capitalising an amount due from the Company to Tong Da Holdings of HK$45,000,000 at that date.

(f) On 15 March 2018, in connection with the Listing, 37,822,500 ordinary shares of HK$0.01 each were issued at a price of HK$2.30 per share for a total consideration, before expenses, of approximately HK$86,992,000. 37,822,500 ordinary shares comprised of 18,910,000 ordinary shares issued pursuant to placing of shares made to certain institutional and professional investors and 18,912,500 ordinary shares issued pursuant to public offer.

22. RESERVES

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

(a) Statutory reserve fund

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

(b) Capital reserve

The capital reserve of the Group represents the capital contributions from the then equity holder of a subsidiary now comprising the Group before the completion of the Reorganisation.

23. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

(i) During the year ended 31 December 2017, deposits for the purchases of items of property, plant and equipment of HK$2,263,000 (2016: HK$2,282,000) were utilised for settlement of the purchase considerations of items of property, plant and equipment (note 16).

(ii) During the year ended 31 December 2016, the Company issued 143,391,249 ordinary shares of HK$0.01 each credited as fully paid to its then shareholder and the amount of approximately HK$1,434,000 was included in the amount due from the Remaining Group.

(iii) During the year ended 31 December 2017, the Company issued 1,120,000 ordinary shares of HK$0.01 each credited as fully paid to Tong Da Holdings by way of capitalising an amount due from the Company to Tong Da Holdings of HK$11,200.

(b) Reconciliation of liabilities arising from financing activities

	Interest-bearing bank borrowings HK$'000	Loan/ (repayment of loan) from the Remaining Group HK$'000
At 1 January 2016	78,432	19,387
Financing cash flows	118,940	(19,387)
Non-cash changes		
Effect of changes in foreign exchange	(4,550)	–
At 31 December 2016 and at 1 January 2017	192,822	–
Financing cash flows	55,304	–
Non-cash changes		
Effect of changes in foreign exchange	2,039	–
At 31 December 2017	250,165	–

24. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its factory, office premises and staff quarters under operating lease arrangements which are negotiated for terms of one to ten years.

As at 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017	2016
	HK$'000	HK$'000
Within one year	**5,776**	3,140
In the second to fifth years, inclusive	**9,884**	12,572
After five years	**5,889**	7,284
	21,549	22,996

Subsequent to the end of the reporting period, the Group entered into a lease agreement with the Remaining Group for the lease of certain office premise which will expire on 31 December 2020.

25. COMMITMENTS

In addition to the operating lease commitments set out in note 24 above, the Group had the following capital commitments contracted but not provided for at the end of the reporting period:

	2017	2016
	HK$'000	HK$'000
Contracted, but not provided for:		
Purchases of items of property, plant and equipment	**8,299**	10,047

26. RELATED PARTY TRANSACTIONS

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

	Notes	**2017** **HK$'000**	2016 HK$'000
Remaining Group:			
Sales of products	(i)	**–**	68
Purchases of products	(ii)	**1,714**	314
Interest expense	(iii)	**–**	411

Notes:

(i) The sales to the Remaining Group were made on mutually agreed terms.

(ii) The purchases from the Remaining Group were made on mutually agreed terms.

(iii) The interest expense in respect of loan from the Remaining Group, which is repayable within one year, was chargeable at 3% per annum.

(b) Save as disclosed elsewhere in the financial statements, balances with the Remaining Group were unsecured, interest-free and have no fixed terms of repayment. As at 31 December 2017 and 2016, amounts due from/(to) the Remaining Group were of non-trade nature.

(c) Compensation of key management personnel of the Group

	2017 **HK$'000**	2016 HK$'000
Short term employee benefits	**3,459**	2,751
Post-employment benefits	**601**	527
Total compensation paid to key management personnel	**4,060**	3,278

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

27. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments are as follows:

Financial assets – loans and receivables

	2017 HK$'000	2016 HK$'000
Trade and bills receivables	217,423	214,959
Financial assets included in prepayments, deposits and other receivables	2,088	523
Due from the Remaining Group	853	180
Restricted bank balances	5,105	4,636
Cash and bank balances	23,199	31,349
	248,668	251,647

Financial liabilities – financial liabilities at amortised cost

	2017 HK$'000	2016 HK$'000
Trade payables	106,393	87,499
Financial liabilities included in other payables and accruals	8,358	7,123
Due to the Remaining Group	47,023	61,019
Interest-bearing bank borrowings	250,165	192,822
	411,939	348,463

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

28. 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) Bills endorsement under the Law of Negotiable Instruments of the PRC

	2017	2016
	HK$'000	HK$'000
Carrying amount of assets that continued to be recognised	**8,874**	–
Carrying amount of associated liabilities	**8,874**	–

As at 31 December 2017, the Group endorsed certain bills receivable accepted by a bank in the PRC (the "Endorsed Bills") with a carrying amount of HK$8,874,000 to certain of its suppliers in order to settle the trade and other payables due to such suppliers (the "Endorsement"). 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 and other payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade and other payables settled by the Endorsed Bills during the year to which the suppliers have recourse was HK$8,874,000 as at 31 December 2017.

(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 180 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 31 December 2017 was HK$75,012,000 (2016: HK$55,614,000). The carrying amount of the assets that the Group continued to recognise as at 31 December 2017 was HK$67,511,000 (2016: HK$50,053,000) and that of the associated liabilities as at 31 December 2017 was HK$67,511,000 (2016: HK$50,053,000).

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Interest rate risk

The interest rates of the interest-bearing bank borrowings and loan from the Remaining Group of the Group are disclosed in notes 20 and 26, respectively, to the financial statements.

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

	Increase/ (decrease) in percentage points	**Increase/ (decrease) in the Group's profit before tax**
		HK$'000
2017		
United States dollar	0.5	(857)
United States dollar	(0.5)	857
RMB	0.5	(104)
RMB	(0.5)	104
2016		
United States dollar	0.5	(250)
United States dollar	(0.5)	250
RMB	0.5	(288)
RMB	(0.5)	288

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

Foreign currency risk

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

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

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

	Increase/ (decrease) in RMB rate	Increase/ (decrease) in the Group's profit before tax
	%	HK$'000
2017		
If Hong Kong dollar weakens against RMB	5	413
If Hong Kong dollar strengthens against RMB	(5)	(413)
If United States dollar weakens against RMB	5	4,123
If United States dollar strengthens against RMB	(5)	(4,123)
2016		
If Hong Kong dollar weakens against RMB	5	411
If Hong Kong dollar strengthens against RMB	(5)	(411)
If United States dollar weakens against RMB	5	(381)
If United States dollar strengthens against RMB	(5)	381

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

As at 31 December 2017, the Group had certain concentrations of credit risk as 56.3% (2016: 22.9%) and 92.4% (2016: 86.6%) of the Group's trade and bills receivables were due from the Group's largest customer and the five largest customers, respectively.

The credit risk of the Group's other financial assets, which comprise cash and bank balances 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.

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

Credit risk *(continued)*

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 15 to the financial statements.

Liquidity risk

The Group aims at maintaining a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is within one year.

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

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

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

	2017 HK$'000	2016 HK$'000
Interest-bearing bank borrowings	**250,165**	192,822
Less: Cash and bank balances	**(23,199)**	(31,349)
Less: Restricted bank balances	**(5,105)**	(4,636)
Net debt	**221,861**	156,837
Total equity	**267,510**	241,951
Gearing ratio	**83%**	65%

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	Note	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSET			
Investment in a subsidiary		**219,319**	219,319
CURRENT ASSETS			
Prepayment		**26**	23
Bank balance		**7,009**	1
Total current assets		**7,035**	24
CURRENT LIABILITIES			
Due to the Remaining Group		**7,901**	281
Due to subsidiaries		**106**	97
Accruals		**1,590**	–
Total current liabilities		**9,597**	378
NET CURRENT LIABILITIES		**(2,562)**	(354)
TOTAL ASSETS LESS CURRENT LIABILITIES		**216,757**	218,965
Net assets		**216,757**	218,965
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	21	**1,445**	1,434
Reserves (Note)		**215,312**	217,531
Total equity		**216,757**	218,965

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

Note:

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

	Capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Upon incorporation on 21 March 2016	–	–	–
Loss and total comprehensive expense for the year	–	(354)	(354)
Capital contribution from the Remaining Group	217,885	–	217,885
As at 31 December 2016 and 1 January 2017	217,885	(354)	217,531
Loss and total comprehensive expense for the year	–	(2,219)	(2,219)
As at 31 December 2017	217,885	(2,573)	215,312

31. EVENTS AFTER THE REPORTING PERIOD

In addition to the subsequent events detailed elsewhere in the financial statements, on 16 March 2018, the shares of the Company were listed on the Main Board of the Stock Exchange.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2018.

Four-Year Financial Summary

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

RESULTS

	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**580,481**	463,937	422,665	376,294
Gross profit	**110,223**	103,245	88,555	83,218
Listing expenses	**13,898**	12,478	600	–
Profit for the year attributable to equity holders of the Company	**22,863**	24,104	25,709	26,032

ASSETS, LIABILITIES AND EQUITY

	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**110,227**	111,623	129,897	131,957
Current assets	**608,284**	528,515	421,960	357,579
Total assets	**718,511**	640,138	551,857	489,536
Current liabilities	**451,001**	398,187	380,090	404,241
Net current assets/(liabilities)	**157,283**	130,328	41,870	(46,662)
Total assets less current liabilities	**267,510**	241,951	171,767	85,295
Net assets	**267,510**	241,951	171,767	85,295
Equity attributable to equity holders of the Company	**267,510**	241,951	171,767	85,295