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TONGDA GROUP HOLDINGS LIMITED

通達集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 698)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

HIGHLIGHTS

- Our turnover for the financial period ended 30 June 2018 reached approximately HK\$4,150,302,000, representing an increase of approximately 14.7% as compared with that for the financial period ended 30 June 2017.
- Our net profit attributable to owners of the Company for the financial period ended 30 June 2018 reached approximately HK\$418,943,000, representing an increase of approximately 44.2% as compared with that for the financial period ended 30 June 2017.
- Basic earnings per share for the financial period ended 30 June 2018 was HK6.91 cents, representing an increase of approximately 40.4% as compared with that for the financial period ended 30 June 2017.
- The Directors propose to declare an interim dividend of HK2.0 cents per Share for the financial period ended 30 June 2018.

The board (the “Board”) of directors (the “Directors”) of Tongda Group Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2018 (the “Period” or the “Period under Review”) together with comparative figures for the corresponding period as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
		2018	2017
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE	4	4,150,302	3,618,238
Cost of sales		(3,191,557)	(2,698,715)
Gross profit		958,745	919,523
Other income and gains, net		40,843	50,898
Selling and distribution expenses		(76,119)	(60,353)
Administrative expenses		(423,221)	(395,263)
Other operating income/(expenses), net		82,668	(88,756)
Finance costs		(81,122)	(42,713)
Share of profit of a jointly-controlled entity		979	2,483
PROFIT BEFORE TAX	5	502,773	385,819
Income tax expense	6	(85,488)	(86,303)
PROFIT FOR THE PERIOD		417,285	299,516
Attributable to:			
Owners of the Company		418,943	290,499
Non-controlling interests		(1,658)	9,017
		417,285	299,516
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	8		
– Basic		HK6.91 cents	HK4.92 cents
– Diluted		HK6.66 cents	HK4.64 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	<u>417,285</u>	<u>299,516</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Gain on property revaluation	1,706	1,614
Income tax effect	<u>(281)</u>	<u>(266)</u>
	1,425	1,348
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations		
– subsidiaries	394,547	(157,532)
– jointly-controlled entity	4,310	–
Release of exchange fluctuation reserve upon disposal of a subsidiary	<u>(116)</u>	<u>–</u>
	398,741	(157,532)
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD, NET OF TAX	<u>400,166</u>	<u>(156,184)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>817,451</u>	<u>143,332</u>
ATTRIBUTABLE TO:		
Owners of the Company	818,171	134,627
Non-controlling interests	<u>(720)</u>	<u>8,705</u>
	<u>817,451</u>	<u>143,332</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	9	4,865,221	4,238,665
Investment property		72,125	63,807
Prepaid land lease payments		290,204	272,120
Investments in associates		134	134
Investment in a jointly-controlled entity		72,900	67,611
Prepayments		55,211	52,669
Long term deposits		433,823	344,751
Loan receivables		59,636	59,439
Deferred tax assets		3,703	3,703
Total non-current assets		5,852,957	5,102,899
CURRENT ASSETS			
Inventories	10	2,973,989	2,676,519
Trade and bills receivables	11	3,317,931	3,890,809
Prepayments, deposits and other receivables		652,872	514,132
Due from a jointly-controlled entity		32,961	18,944
Loans to a jointly-controlled entity		153,585	144,380
Tax recoverable		8,393	1,825
Pledged deposits		485,492	481,700
Cash and cash equivalents		1,010,959	792,494
Total current assets		8,636,182	8,520,803
CURRENT LIABILITIES			
Trade and bills payables	12	2,768,209	2,755,932
Accrued liabilities and other payables		472,621	501,454
Interest-bearing bank and other borrowings		2,567,829	2,234,998
Convertible bonds		–	445,838
Due to a jointly-controlled entity		229,722	211,086
Tax payable		185,917	231,120
Total current liabilities		6,224,298	6,380,428
NET CURRENT ASSETS		2,411,884	2,140,375
TOTAL ASSETS LESS CURRENT LIABILITIES		8,264,841	7,243,274

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

	Unaudited 30 June 2018 <i>HK\$'000</i>	Audited 31 December 2017 <i>HK\$'000</i>
<i>Notes</i>		
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	1,634,647	1,240,301
Due to a former non-controlling shareholder of a subsidiary	30,034	30,034
Deferred tax liabilities	94,798	87,642
	<hr/>	<hr/>
Total non-current liabilities	1,759,479	1,357,977
	<hr/>	<hr/>
Net assets	6,505,362	5,885,297
	<hr/>	<hr/>
EQUITY		
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Share capital	62,972	60,517
Reserves	6,404,318	5,773,900
	<hr/>	<hr/>
	6,467,290	5,834,417
NON-CONTROLLING INTERESTS	38,072	50,880
	<hr/>	<hr/>
Total equity	6,505,362	5,885,297
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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Tongda Group Holdings Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands.

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

The principal activity of the Company is investment holding. The principal activities of the Company’s subsidiaries are manufacture and sale of components of handsets, notebook computers and electrical appliances, ironware products and other electronic products. There were no significant changes in the nature of the subsidiaries’ principal activities during the Period.

2. BASIS OF PRESENTATION

The unaudited condensed consolidated interim financial statements (the “Interim Financial Statements”) have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standards (“HKASs”) No. 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017.

3. ACCOUNTING POLICIES

The accounting policies and basis of preparation adopted are consistent with those adopted in the Group’s financial statements for the year ended 31 December 2017 except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) and HKASs, which are effective for accounting period beginning on 1 January 2018 and as disclosed below.

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

Other than as further explained below, the adoption of the new and revised HKFRSs and HKASs did not have any material effect on the financial position for the current or prior accounting period which have been prepared and presented.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The adoption of HKFRS 15 does not have any material impact on the Group's condensed consolidated interim financial statements.

HKFRS 9 Financial Instruments

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

(a) Classification and measurement

To determine their classification and measurement category, HKFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The HKAS 39 measurement categories of cash and cash equivalents, pledged deposits, loan receivables, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, loans to a jointly-controlled entity, and an amount due from a jointly-controlled entity, have been replaced by debt instruments at amortised cost under HKFRS 9.

The accounting for financial liabilities remains largely the same as it was under HKAS 39.

(b) Impairment

The Group applies 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. The Group applies the general approach and record twelve months expected losses on its financial assets included in prepayments, deposits and other receivables, loans to a jointly-controlled entity and an amount due from a jointly-controlled entity.

All the other amendments and interpretations applied for the first time in 2018, but do not have an impact on the interim condensed consolidated financial information of the Group.

4. OPERATING SEGMENT INFORMATION

During the Period, management changed its reporting segments to (i) handset casings and high-precision components; (ii) smart electrical appliances casings; (iii) household and sports goods; (iv) network communications facilities and others; and (v) notebook computers as a result of reorganisation of business units and spin-off of Tongda Hong Tai Holdings Limited (“THT”).

For the notebook computers segment, the operation was discontinued upon the spin-off of THT.

The corresponding information for the period ended 30 June 2017 and at 31 December 2017 has been re-presented accordingly.

	Unaudited six months ended 30 June											
	Handset casings and high-precision components				Smart electrical appliances casings				Household and sports goods			
	2018		2017		2018		2017		2018		2017	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	2,894,931	2,355,479	505,625	381,767	356,629	267,718	309,676	368,939	83,441	244,335	4,150,302	3,618,238
Segment results before depreciation and amortisation	596,179	469,159	46,902	29,927	69,749	71,196	67,243	(620)	1,009	20,664	781,082	590,326
Depreciation	(139,699)	(132,818)	(20,072)	(20,066)	(6,341)	(2,613)	(37,497)	(23,448)	(2,953)	(7,912)	(206,562)	(186,857)
Amortisation	(1,052)	(720)	(1,835)	(977)	–	–	(1,458)	(1,435)	–	–	(4,345)	(3,132)
Segment results	455,428	335,621	24,995	8,884	63,408	68,583	28,288	(25,503)	(1,944)	12,752	570,175	400,337
Unallocated income											40,843	50,898
Corporate and other unallocated expenses											(28,102)	(25,186)
Finance costs											(81,122)	(42,713)
Share of profit of a jointly-controlled entity											979	2,483
Profit before tax											502,773	385,819
Income tax expense											(85,488)	(86,303)
Profit for the period											417,285	299,516

4. OPERATING SEGMENT INFORMATION *(Continued)*

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	Unaudited 30 June 2018					Consolidated HK\$'000
	Handset casings and high-precision components HK\$'000	Smart electrical appliances casings HK\$'000	Household and sports goods HK\$'000	Network communications facilities and others HK\$'000	Notebook computers HK\$'000	
Segment assets	<u>8,663,329</u>	<u>2,137,258</u>	<u>334,903</u>	<u>1,525,886</u>	<u>–</u>	12,661,376
Unallocated assets						<u>1,827,763</u>
Total assets						<u>14,489,139</u>
Segment liabilities	<u>2,280,794</u>	<u>445,552</u>	<u>147,274</u>	<u>367,210</u>	<u>–</u>	3,240,830
Unallocated liabilities						<u>4,742,947</u>
Total liabilities						<u>7,983,777</u>
	31 December 2017					Consolidated HK\$'000
	Handset casings and high-precision components HK\$'000	Smart electrical appliances casings HK\$'000	Household and sports goods HK\$'000	Network communications facilities and others HK\$'000	Notebook computers HK\$'000	
Segment assets	<u>7,540,646</u>	<u>2,008,363</u>	<u>296,871</u>	<u>1,511,444</u>	<u>696,148</u>	12,053,472
Unallocated assets						<u>1,570,230</u>
Total assets						<u>13,623,702</u>
Segment liabilities	<u>2,127,230</u>	<u>453,767</u>	<u>159,940</u>	<u>404,178</u>	<u>112,271</u>	3,257,386
Unallocated liabilities						<u>4,481,019</u>
Total liabilities						<u>7,738,405</u>

4. OPERATING SEGMENT INFORMATION (Continued)

The following table presents unaudited revenue for the Group's geographical information for the six months ended 30 June 2018 and 2017.

	Unaudited six months ended 30 June						Consolidated	
	Mainland China		Southeast Asia		Others			
	2018	2017	2018	2017	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>3,799,260</u>	<u>3,258,415</u>	<u>83,295</u>	<u>142,354</u>	<u>267,747</u>	<u>217,469</u>	<u>4,150,302</u>	<u>3,618,238</u>

Information about major customers

For the six months ended 30 June 2018, revenue of approximately HK\$1,822,547,000 (30 June 2017: HK\$916,656,000), representing 43.9% (30 June 2017: 25.3%) of the Group's revenue, was derived from sales by the handset casings and high-precision components segment to one customer, including sales to a group of entities which are known to be under common control of this customer.

5. PROFIT BEFORE TAX

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

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Amortisation of prepaid land lease payments	3,530	2,395
Amortisation of prepayments	815	737
Depreciation	206,562	186,857
Research and development costs	212,099	167,397
Salaries and wages	969,772	754,637
Impairment of trade receivables	7,364	43,879
Impairment of other receivables	–	9,939
Write-back of impairment of trade receivables	(13,496)	–
Provision against obsolete inventories	9,094	15,821
Foreign exchange differences, net	(84,073)	22,690
Loss on disposal of items of property, plant and equipment	2,922	6,555
Gain on disposal of a subsidiary (Note)	(3,568)	–
Change in fair value of an investment property	(4,250)	(938)
Interest income	(5,092)	(2,497)
Equity-settled share option expense	<u>5,836</u>	<u>9,554</u>

Note: During the period ended 30 June 2018, the Group entered into an agreement with an independent third party, to dispose of 100% interest in 重慶新通達科技有限公司, resulting in a gain on disposal of HK\$3,568,000. The disposal was completed on 29 June 2018.

6. INCOME TAX

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

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

福建省石獅市通達電器有限公司 (Tongda Electrics Company Limited, Shishi City, Fujian), 深圳通達電子有限公司 (Shenzhen Tongda Electronic Company Limited), 通達(廈門)科技有限公司 (Tongda (Xiamen) Technology Limited), 通達五金(深圳)有限公司 (Tongda Ironware (Shenzhen) Company Limited) and 廈門市創智實業有限公司 (Tongda (Xiamen) Smart Tech Industry Company Limited) are subject to a preferential tax rate of 15% under High New Technology Enterprises.

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Current – Hong Kong	<u>10,736</u>	<u>9,996</u>
Current – Elsewhere		
Charge for the period	69,950	74,596
Overprovision in prior years	<u>(1,229)</u>	<u>(1,402)</u>
	<u>68,721</u>	<u>73,194</u>
Deferred	<u>6,031</u>	<u>3,113</u>
Total tax charge for the period	<u>85,488</u>	<u>86,303</u>

7. DIVIDENDS

Unaudited	
Six months ended 30 June	
2018	2017
HK\$'000	HK\$'000

Dividends paid during the period:

Final dividend declared of HK3.8 cents per ordinary share in respect of the financial year ended 31 December 2017 (2017: final dividend declared and paid in respect of the financial year ended 31 December 2016 – HK3.2 cents per ordinary share)	229,965	195,565
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Special interim dividend (<i>Note</i>)	366,174	–
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Note: On 14 February 2018, the board of directors declared a special interim dividend in relation to the spin-off of THT. The qualifying shareholders were entitled to one THT Share for every 40 Shares of the Company. On the basis of 6,051,725,553 Shares in issue as of 14 February 2018, a total of 151,293,138 THT Shares, representing all the THT Shares in issue on the same date, was distributed to the qualifying shareholders on a pro rata basis.

At the board meeting held on 21 August 2018, the board of directors declared and approved an interim dividend of HK2.0 cents per ordinary share (2017: HK1.6 cents) totalling HK\$125,944,000 (2017: HK\$96,828,000).

8. EARNINGS PER SHARE

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

Unaudited	
Six months ended 30 June	
2018	2017
HK\$'000	HK\$'000

Earnings:

Profit for the period attributable to owners of the Company used in the basic earnings per share calculation	418,943	290,499
Interest on convertible bonds	1,369	3,366

Profit for the period attributable to owners of the Company before interest on convertible bonds	420,312	293,865
	'000	'000

Number of shares:

Weighted average number of ordinary shares for the purpose of basic earnings per share	6,064,925	5,908,663
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Effect of dilutive potential ordinary shares arising from

– share options	–	28,025
– convertible bonds	250,045	391,197

Weighted average number of ordinary shares for the purpose of diluted earnings per share	6,314,970	6,327,885
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9. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired property, plant and equipment of approximately HK\$702,923,000 (30 June 2017: HK\$596,043,000). In addition, the Group disposed of certain items of property, plant and equipment with a carrying amount of approximately HK\$16,505,000 (30 June 2017: HK\$51,221,000) for proceeds of approximately HK\$13,583,000 (30 June 2017: HK\$44,666,000).

At 30 June 2018, the Group's leasehold building situated in Hong Kong was revalued at the end of the reporting period based on valuations performed by Asset Appraisal Ltd., an independent firm of professionally qualified valuers, at HK\$51,300,000 (31 December 2017: HK\$50,200,000). In the opinion of the directors, the current use of the leasehold building in Hong Kong is its highest and best use.

A revaluation surplus of HK\$1,706,000 (30 June 2017: HK\$1,614,000), resulting from the above valuation, has been credited to asset revaluation reserve. The resulting increase in deferred tax liability of HK\$281,000 (30 June 2017: HK\$266,000) arising from the revaluation has also been debited in the asset revaluation reserve.

The Group's leasehold building situated in Hong Kong with a net carrying amount of HK\$51,300,000 (31 December 2017: HK\$50,200,000) was pledged to secure bank loans granted to the Group.

10. INVENTORIES

	Unaudited	Audited
	30 June	31 December
	2018	2017
	HK\$'000	HK\$'000
Raw materials	771,145	602,622
Work in progress	643,945	726,350
Finished goods	1,558,899	1,347,547
	<u>2,973,989</u>	<u>2,676,519</u>

As at 30 June 2018, moulds of HK\$543,654,000 (31 December 2017: HK\$430,710,000) are included in the finished goods.

11. TRADE AND BILLS RECEIVABLES

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
Trade receivables	3,330,365	3,654,865
Impairment allowances	<u>(46,107)</u>	<u>(53,266)</u>
	3,284,258	3,601,599
Bills receivables	<u>33,673</u>	<u>289,210</u>
	<u>3,317,931</u>	<u>3,890,809</u>

It is the general policy of the Group to allow a credit period of three to six months. In addition, for certain customers with long-established relationships and good repayment histories, a longer credit period may be granted in order to maintain a good relationship. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by management. Trade receivables are non-interest bearing. At the end of reporting period, 52.7% (31 December 2017: 37.9%) and 62.5% (31 December 2017: 59.6%) of the total trade and bills receivables were due from the Group's largest customer and the five largest customers, respectively.

The following is an analysis of trade and bills receivables by age, presented based on the invoice date:

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
Within 3 months	3,075,870	3,632,123
4 to 6 months, inclusive	229,390	212,220
7 to 9 months, inclusive	10,430	23,240
10 to 12 months, inclusive	4,931	11,821
More than 1 year	<u>43,417</u>	<u>64,671</u>
	3,364,038	3,944,075
Impairment allowances	<u>(46,107)</u>	<u>(53,266)</u>
	<u>3,317,931</u>	<u>3,890,809</u>

12. TRADE AND BILLS PAYABLES

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
Trade payables	1,386,256	1,446,832
Bills payable	<u>1,381,953</u>	<u>1,309,100</u>
	<u>2,768,209</u>	<u>2,755,932</u>

The trade payables are non-interest bearing and are normally settled on 60 to 90 days terms. The following is an analysis of trade and bills payables by age, presented based on the invoice date:

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
Within 3 months	2,008,740	1,965,095
4 to 6 months, inclusive	671,422	753,955
7 to 9 months, inclusive	28,185	6,221
10 to 12 months, inclusive	39,178	11,117
More than 1 year	<u>20,684</u>	<u>19,544</u>
	<u>2,768,209</u>	<u>2,755,932</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 June 2018, the Group's turnover grew from HK\$3,618.2 million in the corresponding period of last year by 14.7% to HK\$4,150.3 million. Profit attributable to owners of the Company increased from HK\$290.5 million in the corresponding period of last year by 44.2% to HK\$418.9 million.

Revenue

During the Period, the Group mainly benefited from the growth in shipment volume of handset casings, resulting in an increase in revenue by 14.7% as compared with the corresponding period of last year.

Gross Profit and Margin

The Group's gross profit for the Period increased by 4.3% to HK\$958.7 million and the gross profit margin was 23.1%, which was 2.3 percentage points lower than that for the corresponding period of last year. The decrease in gross profit margin was mainly due to the decrease of gross profit margin of handset casings, which is the largest business segment in proportion of sales. As the trend in the handset market shifted from being dominated by metal casings last year to introducing In-Mold Transfer (IMT) uni-body casings, the gross profit margin decreased in 2.6 percentage points correspondingly. In spite of the fact that the gross profit margin decreased, a large shipment volume and a high price-performance ratio on IMT resulted in the increase in the gross profit.

Other Income and Gains, net

During the Period under Review, other income and gains, net decreased by 19.8% or HK\$10.1 million to HK\$40.8 million as compared with the corresponding period of last year. The decrease in other income and gains, net was mainly attributable to the decrease in government subsidy.

Selling and Distribution Expenses

During the Period under Review, selling and distribution expenses increased by 26.0% or HK\$15.7 million to HK\$76.1 million, accounting for 1.8% of the Group's revenue, which was approximately 0.1 percentage point higher than that for the corresponding period of last year. The increase was mainly attributable to the increase in freight expenses.

Administrative Expenses

During the Period under Review, administrative expenses increased by 7.1% or HK\$27.9 million to HK\$423.2 million, accounting for 10.2% of the Group's revenue, which was approximately 0.7 percentage point lower than that for the corresponding period of last year. The increase in administrative expenses was mainly attributable to the increase in research and development ("R&D") expenses. The increase in R&D expenses was attributable to the continuous investment in R&D projects and further business development.

Other Operating Income/(Expenses), net

During the Period under Review, other operating income/(expenses), net, recorded an income of HK\$82.7 million, as compared with an expense of HK\$88.8 million for the corresponding period of last year, which was mainly attributable to the increase in write-back of impairment of trade receivables and net gain from exchange differences.

Finance Costs

During the Period under Review, finance costs increased by 89.9% or HK\$38.4 million to HK\$81.1 million. The increase was mainly attributable to the increase in bank borrowings and increase in interest rate.

Profit before Tax

For the six months ended 30 June 2018, profit before tax amounted to HK\$502.8 million, representing a period-on-period increase of 30.3% from HK\$385.8 million, which was attributable to the increase in write-back of impairment of trade receivables and net gain from exchange differences.

Profit Attributable to Owners of the Company for the Period

Profit attributable to owners of the Company increased 44.2% from HK\$290.5 million in the corresponding period of last year to HK\$418.9 million, and the net profit margin attributable to owners of the Company increased to 10.1% (30 June 2017: 8.0%), which was mainly attributable to the increase in gross profit, write-back of impairment of trade receivables and net gain from exchange differences.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group had a solid financial position and continued to maintain a strong and steady cash inflow from operating activities.

The table below summarises the Group's cash flows for the six months ended 30 June 2018 and 30 June 2017:

	For the six months ended 30 June	
	2018	2017
	<i>HK\$ million</i>	<i>HK\$ million</i>
Net cash from operating activities	203.5	224.8
Net cash used in investing activities	(814.1)	(885.5)
Net cash from financing activities	725.6	487.0

The Group derives its working capital mainly from cash on hand and net cash generated from operating activities. The Board expects that the Group will rely on net cash generated from operating activities, bank borrowings and debt financing to meet its working capital and other capital expenditure requirements in the short run. In the long run, the Group will be funded by net cash from operating activities, and if necessary, by additional bank borrowings and debt financing. There were no material changes in the funding and financial policies of the Group for the six months ended 30 June 2018.

As at 30 June 2018, the Group has cash and cash equivalents and pledged deposits balance of HK\$1,496.5 million (31 December 2017: HK\$1,274.2 million) without holding any structural investment contract.

The Group's cash and bank balances remained at about HK\$1,496.5 million (31 December 2017: HK\$1,274.2 million), of which approximately HK\$485.5 million (31 December 2017: HK\$481.7 million) has been pledged to banks as security for trade financing.

As at 30 June 2018, the Group had total assets of HK\$14,489.1 million (31 December 2017: HK\$13,623.7 million), net current assets of HK\$2,411.9 million (31 December 2017: HK\$2,140.4 million) and equity of HK\$6,505.4 million (31 December 2017: HK\$5,885.3 million).

Management believes that the Group's current cash and cash equivalents, together with available credit facilities and expected cash flow from operations, will be sufficient to satisfy the current operational requirements of the Group.

CAPITAL EXPENDITURE

The total capital expenditure incurred for the Period was HK\$707.2 million (31 December 2017: HK\$1,353.1 million), which was mainly used in acquisition of production equipments and construction of new manufacturing plants.

TREASURY POLICY

The Group's sales were principally denominated in Hong Kong dollars, RMB and US dollars while purchases were transacted mainly in Hong Kong dollars, RMB, US dollars and Japanese Yen. As the foreign currency risks generated from the sales and purchases can be off set against each other and the fluctuation of RMB during the period did not materially affect the costs and operations of the Group for the period, the Directors do not foresee significant risk in exchange rate fluctuation. Currently, the Group has not entered into any financial instrument for hedging purposes. However, the Group will closely monitor its overall foreign exchange exposures and interest rate exposures, and consider hedging against the exposures should the need arise.

CHARGES ON GROUP ASSETS

Apart from bank deposits amounting to HK\$485.5 million (31 December 2017: HK\$481.7 million) that were pledged to banks and a leasehold building in Hong Kong with a carrying amount of approximately HK\$51.3 million (31 December 2017: HK\$50.2 million) mortgaged by the Group as at 30 June 2018, the Group had not pledged its assets to any financial institutions.

HUMAN RESOURCES

As at 30 June 2018, the Group employed a total of approximately 19,000 permanent employees (30 June 2017: 20,000 employees) in Hong Kong and the PRC. The total salaries and wages for the six months ended 30 June 2018 amounted to HK\$969.8 million (30 June 2017: HK\$754.6 million).

The Group offers remuneration packages for employees mainly based on their performance and experiences, and with reference to prevailing industry practices. In addition to enrolling our new employees into the mandatory provident fund scheme in Hong Kong and State-managed pension scheme in mainland China and making contributions for them on a periodic basis, the Group also provides medical coverage, internal and external training programs and grants share options and discretionary bonuses to employees based on employees' individual performance and the Group's overall performance. The Group reviews the remuneration policies and packages on a regular basis.

GEARING RATIO AND INDEBTEDNESS

As at 30 June 2018, the gearing ratio of the Group (consolidated net borrowings/total equity) was 41.6% (31 December 2017: 45.0%).

As at 30 June 2018, other than the non-current portion of bank borrowings of HK\$1,634.6 million (31 December 2017: HK\$1,240.3 million), the Group had bank and other borrowings of HK\$2,567.8 million (31 December 2017: bank loans of HK\$2,235.0 million and convertible bonds of HK\$445.8 million) which will be repayable within one year from the end of the reporting period.

Bank borrowings carry interest rate ranging from 2.4% per annum (“p.a.”) to 6.97% p.a. (31 December 2017: carry interest rate ranging from 2.05% p.a. to 6.175% p.a.).

BUSINESS REVIEW

The Group is a world-leading solutions provider of high-precision structures for smart mobile communications and consumer electronic products, which principally engages in the design, research and development (“R&D”), manufacture and sales of exterior parts and high-precision components. Its major products cover the markets of handsets, home appliances, automotive, household and sports goods and network communications facilities, etc. During the Period, with the growth in the shipment volume from major handset customers, revenue grew by 14.7% from HK\$3,618.2 million in the corresponding period of last year to approximately HK\$4,150.3 million and the gross profit margin decreased slightly to 23.1%. Net profit attributable to owners of the Company increased from HK\$290.5 million in the corresponding period of last year by 44.2% to approximately HK\$418.9 million.

Handset Casings and High-precision Components

This business primarily consists of various handset casings, tri-proof (waterproof/dustproof/shockproof) high-precision components, high-precision insert molding parts and high-precision rubber molding parts. This business recorded an increase of 22.9% from HK\$2,355.5 million in the corresponding period of last year to HK\$2,894.9 million, representing 69.7% of the total turnover. During the Period, the major growth of a variety of domestic handset brands were derived from export markets. The performances of the Group’s major customers in overseas markets have been satisfactory. Therefore the Group has continued to adjust the customer mix and product portfolio during the Period, and to expand the scope of its cooperation with major handset customers.

In order to cater to the physical demand for wireless charging and changes in design of international high-end handsets, the trend in the handset market shifted from being dominated by metal casings last year to introducing In-Mold Transfer (IMT) uni-body casings with a texture similar to glass or metal middle frames with non-metal back covers (such as 2.5D/3D IMT, composite materials, glass or ceramic back covers) as fashionable specifications. As a major domestic supplier of IMT casings, the Group focuses on providing non-metal back covers and uni-body casings for handset models with a large shipment volume and a high price-performance ratio. The demand for these models has risen rapidly during the Period while that for traditional metal handset casings has remained stable.

As for the tri-proof and high-precision components, the Group's additional production capacity for these components was gradually put into production in the first half of the year. In addition, the Group proactively carried out product R&D, staff recruitment and training for the new project of a major customer in the second half of the year, in order to deal with further diversified products and orders during that time. The expansion of production capacity, increase in staff and major R&D and trial production for new products has combined to affect our profit margin. The specialised team of the Group worked closely with its customers and is currently participated in their different business divisions to achieve horizontal expansion of multiple products and lay a firm foundation for long-term partnership.

Smart Electrical Appliances Casings

During the Period under Review, the sales of the smart electrical appliances casings business has increased by 32.4% from HK\$381.8 million in the corresponding period of last year to HK\$505.6 million, representing 12.2% of the total turnover. This business primarily engages in manufacturing control panels, metal accessories and casings for high-end electrical appliances for Chinese and international brands, and its products include smart home appliances, such as air-conditioners, washing machines and refrigerators, which are applicable to the Internet of Things (IoT).

Household and Sports Goods

During the Period under Review, revenue of this division increased by 33.2% from HK\$267.7 million in the corresponding period of last year to HK\$356.6 million, representing 8.6% of the turnover. The Group primarily supplies durable household goods, household utensils and sports goods to European and American brands.

Network Communications Facilities and Others

During the Period under Review, revenue of this division has decreased by 16.0% from HK\$368.9 million in the corresponding period of last year to HK\$309.7 million, representing 7.5% of the turnover. The Group mainly produces set top boxes casings and interior decorations of automotive for customers in Europe and the United States of America (the “U.S.”). The Group has currently secured over 30 orders from ten automotive brands, for part of which the design and trial production have been undergone in the first half of this year. Together with the stable production for the existing projects, the overall business has rapidly developed.

A percentage breakdown of total revenue by product categories for the six months ended 30 June 2018 and a comparison with the corresponding period of last year are as follows:

	2018	2017
i. Handset Casings and High-precision Components	69.7%	65.1%
ii. Smart Electrical Appliances Casings	12.2%	10.6%
iii. Household and Sports Goods	8.6%	7.4%
iv. Network Communications Facilities and Others	7.5%	10.2%
v. Notebook Computers	2.0%	6.7%

Prospects

With the rapid growth in the past few years, the handset industry is reaching its maturity with the continuous integration of various brands in China. The Group faces increasingly intensified competition, which requires it to optimise its own competitive advantages in order to secure its market share in a saturated market. The surface decorating technology owned by the Group is applicable to different materials, forming a matrix with various craftsmanship techniques and technologies for a wide range of products to lead the market in quality and scale. Some examples include the film processing technology applicable to high-precision plastics, composite materials and glass back covers, techniques applied to metal casings including compound die casting, Nano molding technology, CNC processing and anodization, the hot bending technology for manufacturing 3D glass, molding technologies for producing high-precision rubber and liquid-silicone rubber and the high-precision molding craftsmanship necessary for various high-precision customized products. All of these enable the Group to cater to shifting trends more efficiently.

The proportion of the high-precision components business will keep increasing at a fast pace. The Group is working closely with various business divisions of its major customers. In the future, more efforts will be devoted to R&D so as to broaden its own technical capabilities. The Group will be dedicated to closely coordinate and carry out development with them in close concert at the initial design stage in order to seize greater involvements in projects and a larger share of their business. It would also proactively expand the product lines with its customers so as to forge a more solid and lasting partnership.

In face of the unstable global markets and maturing handset industry, together with the potential risks of a U.S.-China trade dispute and the swift depreciation of the Renminbi, our gross profit margin may be subject to continuous pressure if situation worsens. The Group will keep abreast of the market conditions based on its technological development and quality customer base. It is committed to increase the Company's production efficiency and comprehensive competitiveness through enhancing its capacity for product innovation, and improving cost control and management, in order to ultimately achieve sustainable and stable growth.

SUPPLEMENTARY INFORMATION

Interim Dividend

The Board declared an interim dividend of HK2.0 cents (2017: HK1.6 cents) per ordinary share for the six months ended 30 June 2018 payable on or about 5 October 2018 to shareholders whose names appear on the register of members of the Company on 12 September 2018.

Closure of Register of Members

The record date for the interim dividend will be 12 September 2018. The register of members of the Company will be closed from 10 September 2018 to 12 September 2018, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's 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 for registration by no later than 4:00 p.m. on 7 September 2018.

Purchase, Sale or Redemption of the Company's Securities

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

Corporate Governance

The Company has complied with all the applicable code provisions of the Corporate Governance Code set out in Appendix 14 of the Listing Rules, throughout the Period, except for the deviations as mentioned below.

The independent non-executive Directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Articles of Association.

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

Audit Committee

The Audit Committee (the "AC") comprises three independent non-executive Directors, Mr. Ting Leung Huel Stephen ("Mr. Ting"), Dr. Yu Sun Say and Mr. Cheung Wah Fung, Christopher. Mr. Ting takes the chair of the AC. The term of reference of the AC are aligned with the recommendations as set out in "A Guide for Effective Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The AC provides accounting and financial advices and recommendations to the Board as well as monitor and safeguard the independence of external auditors and relevant auditing matters. Also, the AC is responsible for reviewing and supervising the risk management and internal control system of the Group.

The AC had reviewed the unaudited interim results of the Group for the six months ended 30 June 2018 prior to the submission to the Board for approval.

Model Code of Securities Transactions by Directors

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. All Directors have confirmed, following specific enquiry of all Directors that they have fully complied with the required standard set out in the Model Code throughout the Period under Review.

Events after the Reporting Period

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

APPRECIATION

Lastly, I would like to thank all the staff and the management team for their hard work during the Period. I would also like to express heartfelt gratitude to all of our customers and suppliers on behalf of the Group, and wish for their continuous supports in the future. We will keep working closely with our shareholders and employees to steer the Group to a more modernised and sophisticated level of operation, through which we aspire to turn to a new chapter in the Group’s development.

On behalf of the Board
Tongda Group Holdings Limited
Wang Ya Nan
Chairman

Hong Kong, 21 August 2018

As at the date of this announcement, the Board comprises Mr. Wang Ya Nan, Mr. Wang Ya Hua, Mr. Wong Ah Yeung, Mr. Choi Wai Sang and Mr. Wang Ming Che as executive Directors; Mr. Wong Ah Yu as non-executive Director; and Dr. Yu Sun Say, GBM, GBS, SBS, JP, Mr. Cheung Wah Fung, Christopher, SBS, JP and Mr. Ting Leung Huel Stephen as independent non-executive Directors.