

TONGDA GROUP HOLDINGS LIMITED

2016 Annual Report

Corporate Information	2
Chairman's Statement	3
Management Discussion and Analysis	5
Biographical Details of Directors and Senior Management	11
Corporate Governance Report	14
Report of the Directors	24
Independent Auditor's Report	39
Consolidated Income Statement	45
Consolidated Statement of Comprehensive Income	46
Consolidated Statement of Financial Position	47
Consolidated Statement of Changes in Equity	49
Consolidated Statement of Cash Flows	50
Notes to Financial Statements	52
Five-Year Financial Summary	132

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

Mr. Ting Leung Huel Stephen (*Chairman*)
Dr. Yu Sun Say
Mr. Cheung Wah Fung, Christopher

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Ms. Chan Sze Man

AUDITORS

Ernst & Young
Certified Public Accountants

AUTHORISED REPRESENTATIVES

Mr. Wang Ya Nan
Mr. Wang Ya Hua

PRINCIPAL BANKERS

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

In the PRC:

Bank of China Limited
China Construction Bank Corporation
China Merchant Bank

LEGAL ADVISERS

As to Hong Kong laws:
Michael Li & Co.

As to PRC laws:
Fujian Rede Law Firm

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

INVESTOR RELATIONS

Strategic Financial Relations Limited
Unit A, 29/F, Admiralty Centre I
18 Harcourt Road
Hong Kong

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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6-8 Harbour Road
Wanchai, Hong Kong
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Website: <http://www.tongda.com>
Email (Investor Relations): ir@tongda.com.hk

LISTING INFORMATION

Listed on the Hong Kong Stock Exchange (Main Board)
Stock short name: Tongda
Stock code: 698
Board lot: 10,000 shares

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL SHARE REGISTRAR

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

I am pleased to announce the annual results of Tongda Group Holdings Limited (the "Company", together with its subsidiaries, the "Group" or "Tongda Group") for the year ended 31 December 2016 (the "Year") on behalf of the board of directors of the Company (the "Board").

Riding on the increasing market share of our major customers and keeping abreast of the prevailing trend towards adapting metal casing, the total turnover of the Group surged by 28.8% to HK\$7,825.1 million (2015: HK\$6,074.1 million), gross profit increased by 24.7% to HK\$1,885.4 million (2015: HK\$1,512.0 million). Profit attributable to shareholders amounted to HK\$1,004.0 million (2015: HK\$702.8 million), representing a year-on-year growth of 42.8%. Gross profit margin is approximately 24.1% (2015: 24.9%) and net profit margin climbed to 12.8% (2015: 11.6%). The Group has been committed to bringing fruitful returns to shareholders and has maintained a stable dividend payout history. For the Year, the Board recommends payment of a final dividend of HK3.2 cents per share (2015: HK2.1 cents). Together with the paid interim dividend of HK2.0 cents per share (2015: HK1.6 cents), the total dividend for the Year will amount to HK5.2 cents per share (2015: HK3.7 cents).

2016 was an encouraging year, during which the major customers of the Group achieved excellent performance in the handsets market. Partnered with our major customers, we have consistently shown our brilliant ability in the design of precise molds, our quality metal treatment technologies and diversified surface decorating craftsmanship. During the Year, we further enhanced productivity of metal casings and endeavored to deliver casings with a better appearance, and our achievement have been well recognized. Since Chinese market is the largest handset market in the world and metal casings are still expected as a standard feature of domestic handsets in the future, we are setting up more plants to cope with the increasing demands.

During the Year, our product portfolio had been successfully extended from exterior parts to high-precision internal parts for handsets. There are increasing emphasis towards the waterproof function of handsets in the market, several international brands have taken the lead in applying waterproof design. With the high-quality and market-leading liquid-silicone rubber ("LSR") and precision rubber parts, the Group has been successfully entered the supply chain of the international leading handsets brand last year. This action not only enabled the Group to develop a new product line, but also demonstrated an important milestone of the Group to work with international brands on high-end handsets. The Group successfully developed a number of craftsmanship regarding the shockproof, waterproof and dustproof components such as plastic and liquid-silicone rubber forming (P+LSR), metal and liquid-silicone rubber forming (M+LSR) as well as glass and liquid-silicone rubber forming (G+LSR) during the year. With the operating scale of the waterproof parts and precision components growing gradually, the Group built new and separate plants for this customer in order to match with the demand of its popular products in the future.

Chairman's Statement

In addition, we expect that medium-range-to high-end handsets are likely to adopt the solutions applying back covers made of 2D/2.5D/3D glass, ceramic or other materials with metal middle frames, so as to solve the problem of signal shielding. We have carried out research and development on the craftsmanship of 3D glass surface processing in the previous year, coupled with our exterior parts with different textures produced over the years leveraging our excellent craftsmanship and extensive experience, it is believed that new products will be launched when there are opportunities.

The automotive business, which has been explored over the past few years, has entered into a period of rapid development. By continuously leveraging the advantages of its experience in the In-Mould Lamination ("IML") technology and surface treatment craftsmanship, the Group secured several new customers during last year. Given the previous stable growth of the domestic market and the domestic brands are putting increasing emphasis on the craftsmanship of interior decorative components, it is expected that such business will be another growth highlight of the Group in the future.

With the ever-changing trends in the materials for smart mobile device casing as well as the continuous upgrade and improvement of the decorating craftsmanship, we identify the need to enhance our precision, quality and efficiency. We will actively devote our best endeavor and seize every single second to strengthen our own competitiveness and pay efforts in consolidating the relationships with customers while further developing our existing businesses with blooming advantages.

APPRECIATION

The Group would not have achieved such an outstanding performance without the dedicated efforts of all the staff and the management team. On behalf of the Board, I would like to take this opportunity to express gratitude towards the dedicated effort and valuable contribution of the management and all the staff of the Group. We hope to have your continuous support in the future. We will continue to work hand in hand with our shareholders and staff so as to march together towards a brighter future.

Management Discussion and Analysis

BUSINESS REVIEW

Electrical Fittings Division

Being the world's leading solutions provider of high-precision components for smart mobile communications and consumer electronic products, the Group provides products including casings and components for handsets, electrical appliances and notebook computers and delivers one-stop product solutions for both domestic and international customers. During the Year, the Group continued to focus on technology advancement and expansion on production capacity, resulting in revenue growth by 34.7% from HK\$4,780.3 million last year to approximately HK\$6,439.3 million, representing 82.3% of the total turnover of the Group.

Handsets

During the Year, shipments from the major customers of the Group experienced rapid growth, and the market penetration of metal casings rose vigorously, driving revenue to increase by 44.7% from HK\$3,712.5 million in 2015 to approximately HK\$5,371.4 million, representing 68.6% of the total turnover.

The Group is committed to improving its edges in craftsmanship and customer base. The Group has previously seized the replacement opportunities of metal casings for handsets, and enhanced its production capacity actively during the Year. In terms of the craftsmanship of metal components, the Group has advanced technologies in areas such as vertically integrated metal forging technology, Nano Molding Technology and CNC processing, and the techniques necessary for casing processing, including anodic oxidation, painting and polishing, or even peripheral fittings of handset such as precision components ranging from 3D glass and ceramic back cover to metal casings with RF antenna integration, Liquid Silicone Rubber ("LSR") and precision rubber molding parts, the Group has been committed to the improvement of technology, leading to further improvement in the processing efficiency during the Year.

Furthermore, the continuous introduction of quality customers and increasing its shares within the customer base has brought more opportunities to the Group. Smartphone market in the People's Republic of China (the "PRC") remains the largest handset market worldwide, while most of our major customers have been ranked among top five brands of the PRC, and the Group joined force with them during the Year to offer metal handset casings for various flagship handsets and mid-range-to-high end handsets. In addition, leveraging on its high-quality and leading LSR and precision rubber pressing parts, the Group has expanded its customer base to an international leading brand during the Year. At the same time, the Group successfully developed a number of products regarding the shockproof, waterproof and dustproof components such as plastic and liquid-silicone rubber forming (P+LSR), metal and liquid-silicone rubber forming (M+LSR) as well as glass and liquid-silicone rubber forming (G+LSR). These products are the important components of waterproof and dustproof handsets and enable the Group to expand into the supply chain of its handset products, thereby enabling the Group to explore new room for development.

Management Discussion and Analysis

Electrical Appliances

While the domestic market of electrical appliances has shown a mild growth during the Year, the sales of the electrical appliances business still represents 7.7% of the turnover, amounting to HK\$599.0 million. The Group mainly focuses on offering casings and panels with trendy designs for high-end household appliances such as air-conditioners, refrigerators, washing machines and rice-cookers, as well as manufacturing sensors for the panels. Major customers of the Group include well-known household electrical appliance brands from China such as Haier, Gree and Midea and customers from overseas like Panasonic, Zojirushi, Electrolux, General Electric and Whirlpool.

Notebook Computers

As the business of notebook computers has improved in the second half of last year, revenue of the Year slightly decreased by 2.4% from HK\$480.3 million to HK\$468.9 million, representing 6.0% of the turnover. Such business mainly involves the production of ultrabook and tablet casings made of precision metal and plastics. During the year, the Group proposed spin-off of the notebook computer and tablet casing segments so as to concentrate its resources in the development of its handset-related core business.

Ironware Parts Division

Revenue of this division in the Year increased by 11.1% from HK\$471.9 million last year to HK\$524.3 million, representing 6.7% of the turnover. The increase was mainly attributable to the proportion of sales to customers of casings of metal set top boxes and electrical appliances increased the metal content with recognised brands including Arris, TP-Link and Ubiquiti. The Group also provided one-stop services to its electrical appliance customers for the production of aluminum parts and precision metal components with different surface effects.

Communication Facilities and Other Business

Sales of this division increased by 4.8% from HK\$821.9 million last year to HK\$861.4 million, representing 11.0% of the turnover. The division offers a wide variety of products, mainly including digital satellite TV receivers, plastic set top boxes casings, durable household goods, sports equipment and auto motors. By continuously leveraging on the advantages brought by the In-mold Lamination (“IML”) technology and surface treatment craftsmanship, the automotive business, for which the Group had laid foundations several years ago, maintained significant growth in last year. In addition to BYD and Ford, six new customers secured during the Year included Geely Auto, Mazda, General Motors and Wuling Motors, which highlighted another development milestone of the Group.

Percentage of total revenue by types of product for the year ended 31 December 2016 and a comparison with 2015 are as follows:

	2016	2015
Electrical Fittings Division	82%	79%
i. Handsets	68%	61%
ii. Electrical Appliances	8%	10%
iii. Notebook Computers	6%	8%
Ironware Parts Division	7%	8%
Communication Facilities and Other Business	11%	13%

Business Prospects

Handsets will remain a core business of the Group in the future. Major brands actively enhance the appearance and texture, price-performance ratio and differentiation of their products. Given the rising penetration rate of metal casings, metal casings with simple design will be applied to budget phones. While metal casings are becoming standard accessories, mid-range-to-high-end handsets changes to use back casings made of 2D/2.5D/3D glass, ceramic or other materials, accompanying with metal middle frame. In fact, with the introduction of new transmission modes such as power charging through wireless antennas and 5G communications, the signal shielding characteristic of metal casings has presented major challenges in antenna design. As such, it is necessary to manufacture back casings made of non-metallic materials, among which, with relatively mature development, back casings made of glass is expected to raise a burst of new trend. The Group has a large variety of glass processing technology, which will accelerate our new business development.

As waterproof feature enables full functioning of mobile devices at a wide variety of occasions, it is expected that this feature will become one of the important specifications for consumers to consider in the market. Some domestic or international handset brands have already incorporated the waterproof features. The high-quality and diverse waterproof parts of the Group will be beneficial to the expansion of market. In light of the increasing demand for waterproofing components and metal parts and in order to respond to our customer needs, the Group has separately built a new plant for the leading international brand for the production of waterproofing components and for potential new orders and expanded its production capacity for metal casings during the Year. The Group will also set up more plants mainly for the manufacturing of metal parts in the coming year.

The automotive business is also a long-term development direction of the Group. The Group will actively approach domestic and joint-venture automotive brands and strive for acquiring more customers and orders, so as to increase market share. At the same time, the Group will continue to ride on the advantages of its core technologies, IML technology and surface treatment craftsmanship, and explore other potential businesses, so as to optimise the synergy effects.

Management Discussion and Analysis

The Group has been awarded and recognized by customers, industry institutions as well as the capital market. All of these demonstrates the recognition and encouragement in relation to the products' quality and management level of the Group from the market and customers. The Group, as always, will continue its in-depth exploration of technologies in relation to the precision components sector and integrate the application of advanced materials, put emphasis in research and development, expand the market and be innovative as well as putting more efforts in research and development, technologies and markets, in order to maintain the leading role within the industry, enhance the level of corporate governance and seize future opportunities.

FINANCIAL REVIEW

For the year ended 31 December 2016, the Group's total revenue reached HK\$7,825.1 million, representing an increase of HK\$1,751.0 million, or 28.8%, compared with the year ended 31 December 2015. The handset segment continued to deliver strongest growth. Among the top 5 customers, handset customers contributed 64.7% in 2016, which is increased from 57.8% in 2015.

Gross profit of HK\$1,885.4 million was HK\$373.4 million, or 24.7%, higher than 2015. Gross profit margin was 24.1%, 0.8 percentage point lower than the corresponding period of last year. Profit attributable to owners of the Company amounted to HK\$1,004.0 million, representing a rise of 42.8% from HK\$702.8 million reported in the corresponding period of 2015. The selling and distribution expenses was decreased by HK\$27.7 million mainly attributed to the reduced commission which was in line with the decreased sales of the set-top boxes. The administrative expenses was increased by HK\$112.6 million mainly due to the listing expenses related to the spin-off, salaries and the research and development expenses. Compared with 2015, other operating expenses, net decreased by HK\$3.8 million, mainly attributable to written back of impairment of accounts receivables, reduction of bad debts due to better account receivables management, gain on disposal of associates and exchange losses resulted from depreciation of RMB. In addition, the Company continued to exert a strong financial discipline in managing operating costs in proportion to our expansion together with increased government grants received, leading to an improvement in net profit margin by 1.2 percentage points.

Basic earnings per share amounted to HK17.5 cents, up 38.9% from HK12.6 cents for 2015, in line with the growth in profit attributable to owners of the Company.

As for tax, the Group's major operating subsidiaries fall under different tax regimes in Hong Kong, the PRC and Singapore where different laws and regulations, and specific concessionary incentives apply for some specific locations. During the Year, two of the major subsidiaries are awarded as High New Technology Enterprises and are subjected to a preferential tax rate of 15%, other than this, there have been no major changes in these taxation laws and regulations which have impacted tax expenses for the Group.

The working capital turnover days are significantly improved from 150 days for the year ended 31 December 2015 to 129 days for the year 31 December 2016. The turnover days of inventory was largely reduced from 120 days to 103 days for 2016 and the turnover days of trade receivables was 141 days, 5 days shorter when compared with that of 2015; whilst the turnover days of trade payable remained stable at about 115 days for the year ended 31 December 2016. The handset segments played a more significant role in the business, whilst its working capital cycle is relatively shorter; at the same time, the Group also exert a more tighten inventory management control which lead to the improvement in the working capital cycle.

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. During the year ended 31 December 2016, the Group's primary sources of funding included cash generated from operating activities and the credit facilities provided by the Group's principal banks.

As at 31 December 2016, the Group had cash and cash equivalents and pledged deposits of HK\$1,131.2 million (31 December 2015: HK\$936.0 million), and without holding any structural investment contract, of which approximately HK\$262.2 million (31 December 2015: HK\$173.6 million) has been pledged to banks as security for trade financing. As at 31 December 2016, the Group had total assets of HK\$10,590.0 million (31 December 2015: HK\$8,588.9 million), net current assets of HK\$2,381.2 million (31 December 2015: HK\$2,469.9 million) and equity of HK\$4,666.3 million (31 December 2015: HK\$4,039.3 million). Management believes that the Group's current cash and cash equivalents, together with available credit facilities and expected cash flow from operations, will be sufficient to satisfy its current operational requirements.

GEARING RATIO AND INDEBTEDNESS

As at 31 December 2016, the gearing ratio of the Group (consolidated net debt/total equity) was 39.5% (31 December 2015: 35.5%). As at 31 December 2016, other than the non-current portion of bank loans of HK\$609.9 million (31 December 2015: HK\$519.3 million) and convertible bonds of HK\$876.5 million (31 December 2015: HK\$873.0 million), the Group had bank and other borrowings of HK\$1,490.0 million (31 December 2015: HK\$976.4 million) which will be repayable within one year from the end of the reporting period.

CAPITAL EXPENDITURE

The Group incurred capital expenditure of HK\$1,214.8 million during the year ended 31 December 2016 (31 December 2015: HK\$1,133.2 million), mainly for the additions of property, plant and equipment for expansion of its capacity in handset segment. Management believes that the Group's ability to invest in capital expenditure in timely anticipation of demand is a competitive advantage of the Group. In the foreseeable future, a higher proportion of capital expenditure will likely be focused on the handset segments. Capital expenditures are generally funded by internal resources and credit facilities.

FOREIGN EXCHANGE

Given our operations and presence become more international, the Group faces foreign exchange exposure including transaction and translation exposure. As far as possible, the Group aims to achieve natural hedging by investing and borrowing in the functional currencies. Where a natural hedge is not possible, the Group will mitigate foreign exchange risks via appropriate foreign exchange contracts. The Group has not entered nor will it enter into any derivative transactions for speculative trading purposes at 31 December 2016.

Management Discussion and Analysis

CHARGES ON GROUP ASSETS

Apart from bank deposits amounting to HK\$262.2 million (31 December 2015: HK\$173.6 million) that were pledged to banks and a leasehold building in Hong Kong with a carrying value amount of HK\$44.5 million (31 December 2015: HK\$40.5 million) mortgaged by the Group as at 31 December 2016, no other assets of the Group were charged to any financial institutions.

EMPLOYEE INFORMATION

As at 31 December 2016, the Group employed a total of approximately 18,000 permanent employees, a decrease from approximately 20,000 as at 31 December 2015, due to the increase in the outsourcing procedures and more dispatched workers. Employees of the Group are remunerated based on their individual performance, professional qualifications, experience in the industry and relevant market trends. Management regularly reviews the Group's remuneration policy and appraises the work performance of its staff. Employee remuneration includes salaries, allowances, bonuses, social insurance and mandatory pension fund contribution. As required by the relevant regulations in the PRC, the Group participates in the social insurance schemes operated by the relevant local government authorities. The Group also participates in the mandatory pension fund, labour pension and mandatory provident fund schemes for our employees in Hong Kong, Taiwan and Singapore respectively.

Past Performance and Forward Looking Statements

The performance and the results of operation of the Group as set out in this final results announcement are historical in nature and past performance is not a guarantee of future performance. This final results announcement 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 final results announcement of the Company; and (b) no liability in the event that any of the forward-looking statements or opinions do not materialise or turn out to be incorrect.

DIVIDENDS

The Company will consider the declaration of dividends based on its earnings, financial position, debt repayment requirements, capital expenditure plans, medium to long-term business strategies and other factors as the Board may deem appropriate. The Board may also from time to time pay to shareholders of the Company (the "Shareholder(s)") such interim dividends to be justified by the profit of the Company and may recommend final dividends for approval by the Shareholders in its annual general meetings. For the year ended 31 December 2016, an interim dividend of HK2.0 cents per ordinary share for the six months ended 30 June 2016 (2015: HK1.6 cents per ordinary share) was paid to the Shareholders. The Board has declared a final dividend of HK3.2 cents (2015: HK2.1 cents) per ordinary share in respect of the year ended 31 December 2016. This proposed final dividend together with the interim dividend already paid amount to total dividends of HK5.2 cents (2015: HK3.7 cents), an unchanged payout ratio of about 30% of the profit attributable to owners of the Company for the year ended 31 December 2016. Subject to the Shareholders' approval at the forthcoming annual general meeting to be held on 26 May 2017, the said final dividend will be payable to the Shareholders, whose names appear on the register of members of the Company on 2 June 2017. Payment will be made on or about 14 June 2017.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wang Ya Nan, aged 59, is the Chairman and CEO of the Group. He is responsible for the overall strategic planning and business development of the Group. He is also responsible for the development of overseas markets. He joined the Group in December 1988 and has over 20 years of experience in the electronics and electrical industry. He graduated with a Executive Master of Business Administration degree in Xiamen University and serves as a member of the Standing Committee of the Chinese People's Political Consultative Conference. He is a brother of Messrs. Wong Ah Yeung, Wong Ah Yu and Wang Ya Hua. He is an uncle of Messrs. Wang Ming Che, Wong Ming Sik, Wong Ming Yuet, Wong Ming Li and Wang Hung Man.

Mr. Wang Ya Hua, aged 61, is the Vice Chairman and the general manager of the Group. He is responsible for the overall management of the Group with special focus on product development, preparation and monitoring of annual production plans and operating budget. He is also required to give direction of the day-to-day operations to the operation unit located at Xiamen, Fujian Province. He joined the Group in December 1988 and has over 20 years of experience in the electronics and electrical industry. He is a brother of Messrs. Wong Ah Yeung, Wong Ah Yu and Wang Ya Nan. He is the father of Wang Hung Man and an uncle of Messrs. Wang Ming Che, Wong Ming Sik, Wong Ming Yuet and Wong Ming Li.

Mr. Wong Ah Yu, aged 64, is the deputy general manager of the Group and the general manager of Tongda Electrics Company Limited, Shishi City, Fujian Province. He is responsible for overseeing the operation unit of the Group in Shishi city, Fujian Province ("Shishi") and requires to give direction of the day-to-day operation. He joined the Group in December 1988 and has over 20 years experience in the electronics and electrical industry. He is a brother of Messrs. Wong Ah Yeung, Wang Ya Hua and Wang Ya Nan. He is the father of Wong Ming Yuet and Wong Ming Li and an uncle of Messrs. Wang Ming Che, Wong Ming Sik and Wang Hung Man.

Mr. Wong Ah Yeung, aged 67, is the deputy general manager of the Group and the general manager of Tongda Ironware (Shenzhen) Company Limited ("Tongda Ironware"). He is responsible for overseeing the operation unit of the Group in Shenzhen, Guangdong Province and requires to give direction of the day-to-day operation. He joined the Group in December 1988 and has over 20 years experience in the ironware and electrical industry. He is a brother of Messrs. Wong Ah Yu, Wang Ya Hua and Wang Ya Nan and the father of Mr. Wang Ming Che and Wong Ming Sik. He is an uncle of Messrs. Wong Ming Yuet, Wong Ming Li and Wang Hung Man.

Mr. Choi Wai Sang, aged 61, is an executive director and is responsible for the development of overseas market and the technical support of the Group's product development. He joined the Group in December 1988. He graduated with a Bachelor and Master of Science degrees in electrical engineering from the University of Illinois, USA.

Mr. Wang Ming Che, aged 41, is an executive director and the Deputy General Manager of Tongda Ironware. He is responsible for overseeing the operation unit and the sales of the Group in Shenzhen. He joined the Group since 2002. Mr. Wang is the son of Mr. Wong Ah Yeung and the brother of Wang Ming Sik. He is a nephew of Messrs. Wang Ya Nan, Wang Ya Hua and Wong Ah Yu and is a cousin of Messrs. Wong Ming Yuet, Wong Ming Li and Wang Hung Man.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Yu Sun Say, *G.B.M., G.B.S., S.B.S, J.P.*, aged 78, joined the Company as an independent non-executive director in October 2007. Dr. Yu is the Chairman of the H.K.I. Group of Companies and a director of a number of manufacturing and investment companies. He is an independent non-executive director of Wong's International Holdings Limited and Beijing Enterprises Holdings Limited. He had served as member of Standing Committee of the Chinese People's Political Consultative Conference, member of the Preparatory Committee for the Hong Kong Special Administrative Region and Hong Kong Affairs Adviser. He is currently the Permanent Honorary President of the Chinese General Chamber of Commerce and Permanent Honorary President of the Chinese Manufacturers' Association of Hong Kong.

Mr. Ting Leung Huel Stephen, *MH, FCCA, FCPA (PRACTISING), ACA, CTA (HK), FHKIoD*, aged 63, is an independent non-executive director of the Company and joined the Company in December 2000. Mr. Ting is the managing partner of Ting Ho Kwan & Chan, Certified Public Accountants since 1987. Mr. Ting is a member of the 9th, 10th and 11th Chinese People's Political Consultative Conference, Fujian. He is now a non-executive director of Chow Sang Sang (Holdings) International Limited and an independent non-executive director of six listed companies, namely, China SCE Property Holdings Limited, Computer and Technologies Holdings Limited, Dongyue Group Limited, New Silkroad Culturaltainment Limited, Texhong Textile Group Limited and Tong Ren Tang Technologies Company Limited.

Mr. Cheung Wah Fung, Christopher, *S.B.S, JP*, aged 65, is an independent non-executive director of the Company and joined the Company in September 2004. Mr. Cheung is currently the member of Legislative Council (Functional Constituency-Financial Services) of the Hong Kong Special Administrative Region and the chairman of Christfund Securities group of companies. He serves as a member of the National Committee of the Chinese People's Political Consultative Conference, honorary president of the Hong Kong Securities Professionals Association, elected director of the Hong Kong Chinese General Chamber of Commerce, council member of the Chinese Overseas Friendship Association, deputy secretary of the Friends of Hong Kong Association, member of the Standing Committee of the Federation of Commerce and Industry of Guangdong Province, Honorary president of Hong Kong Federation of Fujian Association.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Ms. Chan Sze Man, aged 36, is the chief financial officer and company secretary since 2011 and is responsible for the corporate finance, accounts and company secretarial functions of the Group. Ms. Chan graduated from the Hong Kong University of Science and Technology with a Bachelor's Degree in Accounting. She is a member of the Hong Kong Institute of Certified Public Accountants. She joined the Group in June 2010 and has over 16 years of working experience in the field of accounting, auditing and financial management.

Mr. Hui Wai Man, Anthony, BSc, aged 49, is the deputy general manager of a subsidiary of the Group. He is mainly responsible for the sales and marketing activities of the Group in Hong Kong and overseas. He is also responsible for the overall purchasing management of the Group. He has over 25 years experience in the field of electronic market. He joined the Group in April 2003.

Mr. Wong Ming Sik, aged 37, is the deputy general manager of a subsidiary of the Group. He joined the Group in 2005 and in charge of finance, operations, sales and production of the operation unit in Shenzhen. Mr. Wong graduated from University of Central Lancashire in the UK with MSc, Business Management and BA(Hons), Accounting and Financial Studies. He is the son of Mr. Wong Ah Yeung and the brother of Wang Ming Che. He is a nephew of Messrs. Wang Ya Nan, Wang Ya Hua and Wong Ah Yu and is a cousin of Messrs. Wong Ming Yuet, Wong Ming Li and Wang Hung Man..

Mr. Wong Ming Yuet, aged 35, is the deputy general manager of a subsidiary of the Group and responsible for the sales and promotion of the electrical appliance business. He graduated from Macquarie University in Australia and majored in commerce and accounting management. He has gained work experience in banking before joining the Group. Mr. Wang joined the Group in January 2007. He is the son of Mr. Wong Ah Yu and brother of Wang Ming Li. He is a nephew of Messrs. Wang Ya Nan, Wang Ya Hua and Wong Ah Yeung and a cousin of Messrs. Wang Ming Che, Wong Ming Sik, and Wang Hung Man.

Mr. Wong Ming Li, aged 35, is the general manager of a subsidiary of the Group and he is responsible for the sales and promotion of the notebook computer business. He graduated from Macquarie University in Australia and majored in accounting. He has gained accounting and audit experiences before joining the Group. Mr. Wang joined the Group in October 2008. He is the son of Mr. Wong Ah Yu and brother of Wong Ming Yuet. He is a nephew of Messrs. Wang Ya Nan, Wang Ya Hua and Wong Ah Yeung and a cousin of Messrs. Wang Ming Che, Wong Ming Sik, and Wang Hung Man.

Mr. Wang Hung Man, aged 28, is the deputy general manager of a subsidiary of the Group and responsible for the sales and promotion of the handsets and other businesses. He graduated from the University of California, Davis and majored in economics. Mr. Wang joined the Group in January 2012 and he is the son of Mr. Wong Ya Hua and a nephew of Messrs. Wang Ya Nan, Wong Ah Yeung and Wong Ah Yu. He is a cousin of Messrs. Wang Ming Che, Wong Ming Sik, Wong Ming Yuet and Wong Ming Li..

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with the code provisions of the Code of Best Practice (the “CG Code”) as set out in Appendix 14 to the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) throughout 2016 with certain deviations in respect of the distinctive roles of chairman and chief executive officer and the appointment of non-executive Directors with specific terms. The following summarizes the Company’s corporate governance practices and explains deviations, if any, from the CG Code.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the Model Code for Securities Transaction by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “Model Code”). Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code and the code of conduct regarding Directors’ securities transactions adopted by the Company throughout the year ended 31 December 2016.

BOARD OF DIRECTORS

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

As at 31 December 2016 and at the date of this report, the Board comprises six executive Directors (including the chairman of the Board) and three independent non-executive Directors and the Board is accountable to shareholders. The management and control of the business of the Company is vested in its Board. It is the duty of the Board to create value to the shareholders of the Company.

Executive directors:

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

Independent non-executive directors:

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

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

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

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

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

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

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

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

Attendance at Board meeting	Number of meetings attended (4 meetings in total)
Executive Directors:	
Mr. Wang Ya Nan	4/4
Mr. Wang Ya Hua	4/4
Mr. Wong Ah Yeung	4/4
Mr. Wong Ah Yu	4/4
Mr. Choi Wai Sang	4/4
Mr. Wang Ming Che	4/4
Independent Non-Executive Directors:	
Dr. Yu Sun Say, <i>GBM, GBS, SBS, JP</i>	4/4
Mr. Cheung Wah Fung, Christopher, <i>SBS, JP</i>	4/4
Mr. Ting Leung Huel Stephen	4/4

Corporate Governance Report

The Board held 4 meetings during the year ended 31 December 2016. The Chief Financial Officer and company secretary attended all the scheduled Board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and finance.

During the year ended 31 December 2016, Directors had participated in different continuous professional development (the "CPD") to develop and refresh their knowledge and skills and each Directors provided their records of training to the Company respectively. The Company is of the view that all Directors meet the A.6.5 of the CG Code and details as follow:

	Notes
Mr. Wang Ya Nan	2, 3 and 4
Mr. Wang Ya Hua	1, 3 and 4
Mr. Wong Ah Yeung	1, 3 and 4
Mr. Wong Ah Yu	1, 3 and 4
Mr. Choi Wai Sang	3 and 4
Mr. Wang Ming Che	1, 3 and 4
Dr. Yu Sun Say	1, 3 and 4
Mr. Cheung Wah Fung, Christopher	1, 3 and 4
Mr. Ting Leung Huel Stephen	1, 3 and 4

Notes:

1. Annual updated conferences for different regulations (including but not limited to accounting, tax and Listing Rules).
2. Attending overseas tertiary institution by physical attendances.
3. Attending CPD Seminars.
4. Reading related journals and/or learning materials.

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

- Audit Committee (the "AC") is comprised exclusively of all independent non-executive Directors; and
- The independent non-executive Directors have free and direct access to the Company's external auditors and independent professional advisers when considered necessary.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

Corporate Governance Report

REMUNERATION COMMITTEE

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

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

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

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

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

AUDIT COMMITTEE

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

The Group’s unaudited interim results for the six months ended 30 June 2016 and audited annual results for the year ended 31 December 2016 have been reviewed by the AC which was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made. The AC has also reviewed the effectiveness of the risk management and the internal control systems of the Company and considers the risk management and internal control systems to be effective and adequate.

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

Attendance at AC meeting	Number of meetings attended (2 meetings in total)
AC members and attendants:	
Mr. Ting Leung Huel Stephen	2/2
Dr. Yu Sun Say, <i>GBM, GBS, SBS, JP</i>	2/2
Mr. Cheung Wah Fung, Christopher, <i>SBS, JP</i>	2/2

NOMINATION COMMITTEE

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

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

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

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

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

AUDITOR'S REMUNERATION

Details of fees paid or payable to the Group's external auditors for the year ended 31 December 2016 are as follows:

Services	Fees HK\$'000
Annual audit	3,288
Non-audit services	419
	3,707

Corporate Governance Report

ACCOUNTABILITY AND AUDIT

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

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

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

The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 39 to 44 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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



The risk management framework in Tongda Group

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

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

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

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

Corporate Governance Report

In addition to the risk management and internal control function carried out internally by the Group, an external independent audit firm, Baker Tilly Hong Kong Business Services Ltd. has been appointed to review and appraise the internal control system of the Group. The annual internal control review plan of the Group covers major activities and material controls (including operational, financial and compliance) of the Group's business and service units. A report on the result of assessment and recommendations from Baker Tilly Hong Kong Business Services Ltd. was provided to the Audit Committee in March 2017.

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

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

COMPANY SECRETARY

As at 31 December 2016, the company secretary of the Company is Ms. Chan Sze Man and a written confirmation had been received by the Company from Ms. Chan to confirm she took no less than 15 hours of relevant professional training during the year ended 2016. The Company is on the view that Ms. Chan complied with the Rule 3.29 of the Listing Rules.

EXTERNAL AUDITORS

Currently, the Group's external auditors are Ernst & Young. Ernst & Young has been appointed as the external auditors of the Company by the shareholders of the Company at the Annual General Meeting 2016. The AC is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the authorised external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors. The AC has given their opinion on the fee charged by the external auditors to the Company and has approved the appointment of Ernst & Young as auditors, which the Board fully concurred with such approval of the AC. The responsibilities of the external auditors on the financial statements are set out in the "Independent Auditor's Report" on pages 39 to 44 of this annual report.

SHAREHOLDERS' RIGHTS

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

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

PROCEDURES BY WHICH ENQUIRES MAY BE PUT TO THE BOARD

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

COMMUNICATION WITH SHAREHOLDERS

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

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

The Board will review regularly the Group's operation and corporate governance of the Company in order to ensure compliance of the articles of association of the Company, the laws of the Cayman Islands and regulations and to protect the interest of its shareholders. There is no change in the Company's memorandum and articles of association during the year ended 31 December 2016.

Report of the Directors

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's principal subsidiaries are set out in note 38 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2016 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 45 to 131.

An interim dividend of HK2.0 cents (2015: HK1.6 cents) per ordinary share was paid on 22 September 2016.

The directors recommend the payment of a final dividend of HK3.2 cents (2015: HK2.1 cents) per ordinary share in respect of the year to shareholders whose names appear on the register of members on or about 2 June 2017. This together with the interim dividend of HK2.0 cents per ordinary share gives a total of HK5.2 cents per ordinary share for the year (2015: HK3.7 cents per ordinary share). The proposed final dividend will be paid on or about 14 June 2017 following approval at the 2016 Annual General Meeting. Details are set out in note 10 to the financial statements.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2016 is set out in the "Management Discussion and Analysis" on pages 5 to 10 of this annual report and the cross-referenced part of the annual report forms part of the directors' report. The Group committed to enhancing governance, promoting employee benefits and development, protecting the environment and giving back to society in order to fulfill social responsibility and achieve sustainable growth.

POSSIBLE RISKS AND UNCERTAINTIES FACING THE COMPANY

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

Business Risk

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

Financial Risk

The financial risk management of the Group are set out in note 36 to the financial statements and the cross-referenced part of the annual report forms part of the directors' report.

ENVIRONMENTAL POLICY

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

RELATIONS WITH KEY STAKEHOLDERS

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

Report of the Directors

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out on page 132. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

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

SHARE CAPITAL AND SHARE OPTIONS

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, its holding company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 37 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2004 Revision) of the Cayman Islands, amounted to HK\$1,235,464,000, of which approximately HK\$184,976,000 has been proposed after the reporting period as a final dividend. This includes the Company's share premium account in the amount of HK\$1,228,053,000 as at 31 December 2016, which may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$74,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 64.7% of the total sales for the year and sales to the largest customer included therein amounted to 21.6%. Purchases from the Group's five largest suppliers accounted for 13.5% of the total purchases for the year and purchases from the largest supplier included therein amounted to 4.5%.

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

DIRECTORS

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

Executive directors:

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

Independent non-executive directors:

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

In accordance with article 108(A) of the Company's articles of association, Mr. Wang Ya Nan, Mr. Wang Ming Che, and Mr. Ting Leung Huel Stephen will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2016, the interests and long positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in ordinary shares of the Company:

Name of directors	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	Note		
Mr. Wang Ya Nan	344,120,000 (L)	2,026,490,000 (L) 270,000,000 (S)	1, 2, 4	2,370,610,000 (L) 270,000,000 (S)	41.01 4.67
Mr. Wang Ya Hua	79,220,000 (L)	1,730,490,000 (L) 270,000,000 (S)	1, 4	1,809,710,000 (L) 270,000,000 (S)	31.31 4.67
Mr. Wong Ah Yeung	107,300,000 (L)	1,730,490,000 (L) 270,000,000 (S)	1, 4	1,837,790,000 (L) 270,000,000 (S)	31.79 4.67
Mr. Wong Ah Yu	84,460,000 (L)	1,730,490,000 (L) 270,000,000 (S)	1, 4	1,814,950,000 (L) 270,000,000 (S)	31.40 4.67
Mr. Choi Wai Sang	29,750,000 (L)	78,750,000 (L)	3	108,500,000 (L)	1.88
Dr. Yu Sun Say	18,110,000 (L)	–		18,110,000 (L)	0.31
Mr. Cheung Wah Fung, Christopher	8,950,000 (L)	–		8,950,000 (L)	0.15
Mr. Ting Leung Huel Stephen	10,450,000 (L)	–		10,450,000 (L)	0.18

L: Long position

S: Short position

Long positions in share options of the Company:

Name of director	Name of share options directly beneficially owned
Mr. Wang Ya Nan	17,000,000
Mr. Wang Ya Hua	17,000,000
Mr. Wong Ah Yeung	17,000,000
Mr. Wong Ah Yu	17,000,000
Mr. Wang Ming Che	5,000,000
Mr. Choi Wai Sang	5,000,000
Dr. Yu Sun Say, GBM, GBS, SBS, JP	2,000,000
Mr. Cheung Wah Fung, Christopher, SBS, JP	2,000,000
Mr. Ting Leung Huel Stephen	2,000,000
	84,000,000

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

(continued)

Notes:

1. 2,000,490,000 shares are held by Landmark Worldwide Holdings Limited, the issued share capital of which is beneficially owned as to 25% by each Messrs. Wang Ya Nan, Wang Ya Hua, Wong Ah Yeung and Wong Ah Yu (collectively referred to as the "Wong Brothers").
2. 296,000,000 shares are held by E-Growth Resources Limited, the entire issued share capital of which is beneficially owned by Mr. Wang Ya Nan.
3. These shares are held by Faye Limited, the entire issued share capital of which is held and beneficially owned by Mr. Choi Wai Sang.
4. 270,000,000 shares were lent by Landmark Worldwide Holdings Limited to PAG-P Asia Fund L.P, pursuant to the stock lending agreement entered into between PAG-P Asia Fund L.P. and Landmark Worldwide Holdings Limited on 26 June 2015.

Save as disclosed above, as at 31 December 2016, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

Report of the Directors

SHARE OPTION SCHEMES

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

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

Name or category of participants	Date of grant	Vesting period	Exercise period	Exercise price of share options** HK\$ per share	Number of share options											
					At 1 January 2016	Granted during the period	Exercised during the period	At 31 December 2016								
Directors																
Mr. Wang Ya Nan	3 July 2007	–*	4 July 2007 to 3 July 2017	0.586	8,500,000	–	(8,500,000)	–								
									12 May 2014	–*	12 May 2014 to 11 May 2019	0.87	1,200,000	–	–	1,200,000
	12 May 2014 to 11 May 2015	12 May 2015 to 11 May 2019	0.87	1,200,000	–	–	1,200,000									
	12 May 2014 to 11 May 2016	12 May 2016 to 11 May 2019	0.87	9,600,000	–	–	9,600,000									
	9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	–	1,000,000	–	–	1,000,000							
										9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	–	4,000,000	–	4,000,000
	Mr. Wang Ya Hua	3 July 2007	–*	4 July 2007 to 3 July 2017	0.586	8,500,000	–	(8,500,000)	–							
										12 May 2014	–*	12 May 2014 to 11 May 2019	0.87	1,200,000	–	–
		12 May 2014 to 11 May 2015	12 May 2015 to 11 May 2019	0.87	1,200,000	–	–	1,200,000								
		12 May 2014 to 11 May 2016	12 May 2016 to 11 May 2019	0.87	9,600,000	–	–	9,600,000								
9 September 2016		9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	–	1,000,000	–	–	1,000,000							
										9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	–	4,000,000	–	4,000,000

SHARE OPTION SCHEMES (continued)

Name or category of participants	Date of grant	Vesting period	Exercise period	Exercise price of share options** HK\$ per share	Number of share options			
					At 1 January 2016	Granted during the period	Exercised during the period	At 31 December 2016
Mr. Wong Ah Yu	3 July 2007	—*	4 July 2007 to 3 July 2017	0.586	8,500,000	—	(8,500,000)	—
	12 May 2014	—*	12 May 2014 to 11 May 2019	0.87	1,200,000	—	—	1,200,000
		12 May 2014 to 11 May 2015	12 May 2015 to 11 May 2019	0.87	1,200,000	—	—	1,200,000
		12 May 2014 to 11 May 2016	12 May 2016 to 11 May 2019	0.87	9,600,000	—	—	9,600,000
	9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	—	1,000,000	—	1,000,000
		9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	—	4,000,000	—	4,000,000
Mr. Wong Ah Yeung	3 July 2007	—*	4 July 2007 to 3 July 2017	0.586	8,500,000	—	(8,500,000)	—
	12 May 2014	—*	12 May 2014 to 11 May 2019	0.87	1,200,000	—	—	1,200,000
		12 May 2014 to 11 May 2015	12 May 2015 to 11 May 2019	0.87	1,200,000	—	—	1,200,000
		12 May 2014 to 11 May 2016	12 May 2016 to 11 May 2019	0.87	9,600,000	—	—	9,600,000
	9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	—	1,000,000	—	1,000,000
		9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	—	4,000,000	—	4,000,000
Mr. Choi Wai Sang	12 May 2014	—*	12 May 2014 to 11 May 2019	0.87	300,000	—	—	300,000
		12 May 2014 to 11 May 2015	12 May 2015 to 11 May 2019	0.87	300,000	—	—	300,000
		12 May 2014 to 11 May 2016	12 May 2016 to 11 May 2019	0.87	2,400,000	—	—	2,400,000
	9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	—	500,000	—	500,000
		9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	—	1,500,000	—	1,500,000

Report of the Directors

SHARE OPTION SCHEMES (continued)

Name or category of participants	Date of grant	Vesting period	Exercise period	Exercise price of share options** HK\$ per share	Number of share options				
					At 1 January 2016	Granted during the period	Exercised during the period	At 31 December 2016	
Mr. Wang Ming Che	12 May 2014	-*	12 May 2014 to 11 May 2019	0.87	300,000	-	-	300,000	
		12 May 2014 to 11 May 2015	12 May 2015 to 11 May 2019	0.87	300,000	-	-	300,000	
		12 May 2014 to 11 May 2016	12 May 2016 to 11 May 2019	0.87	2,400,000	-	-	2,400,000	
	9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	-	500,000	-	500,000	
		9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	-	1,500,000	-	1,500,000	
Mr. Ting Leung Huel Stephen	12 May 2014	12 May 2014 to 11 May 2016	12 May 2016 to 11 May 2019	0.87	2,400,000	-	(2,400,000)	-	
		9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	-	500,000	-	500,000
		9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	-	1,500,000	-	1,500,000	
Mr. Cheung Wah Fung, Christopher, SBS, JP	12 May 2014	-*	12 May 2014 to 11 May 2019	0.87	300,000	-	(300,000)	-	
		12 May 2014 to 11 May 2015	12 May 2015 to 11 May 2019	0.87	300,000	-	(300,000)	-	
		12 May 2014 to 11 May 2016	12 May 2016 to 11 May 2019	0.87	2,400,000	-	(2,400,000)	-	
	9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	-	500,000	-	500,000	
		9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	-	1,500,000	-	1,500,000	
Dr. Yu Sun Say, GBM, GBS, SBS, JP	12 May 2014	12 May 2014 to 11 May 2016	12 May 2016 to 11 May 2019	0.87	2,400,000	-	(2,400,000)	-	
		9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	-	500,000	-	500,000
			9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	-	1,500,000	-	1,500,000

SHARE OPTION SCHEMES (continued)

Name or category of participants	Date of grant	Vesting period	Exercise period	Exercise price of share options** HK\$ per share	Number of share options			
					At 1 January 2016	Granted during the period	Exercised during the period	At 31 December 2016
Other employees								
In aggregate	9 March 2007	–*	10 March 2007 to 9 March 2017	0.485	10,000,000	–	–	10,000,000
	16 February 2008	–*	16 February 2008 to 15 February 2018	0.315	10,000,000	–	(10,000,000)	–
	12 May 2014	–*	12 May 2014 to 11 May 2019	0.87	2,700,000	–	(300,000)	2,400,000
		12 May 2014 to 11 May 2015	12 May 2015 to 11 May 2019	0.87	2,700,000	–	(300,000)	2,400,000
		12 May 2014 to 11 May 2016	12 May 2016 to 11 May 2019	0.87	24,000,000	–	(2,400,000)	21,600,000
	9 September 2016	9 September 2016 to 8 September 2017	9 September 2017 to 8 September 2020	1.80	–	7,700,000	–	7,700,000
		9 September 2016 to 8 September 2018	9 September 2018 to 8 September 2020	1.80	–	20,300,000	–	20,300,000
					145,200,000	58,000,000	(54,800,000)	148,400,000***

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

- * The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- ** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- *** The weighted average exercise price of the share options outstanding as at the end of the reporting period was HK\$1.2075 per share.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

At 31 December 2016, the following parties were interested in 5% or more of the Company's issued share capital as recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Landmark Worldwide Holdings Limited	1	Directly beneficially owned	1,730,490,000 (L)	29.94
			270,000,000 (S)	4.67
E-Growth Resources Limited	2	Directly beneficially owned	296,000,000 (L)	5.12
PAG Holdings Limited	3	Controller with interests held by a controlled corporation (from derivative interests/ interests arising from stock borrowing arrangements)	758,888,888 (L)	13.13
			465,555,555 (S)	8.05
Pacific Alliance Group Limited	3	Controller with interests held by a controlled corporation (from derivative interests/ interests arising from stock borrowing arrangements)	758,888,888 (L)	13.13
			465,555,555 (S)	8.05
Pacific Alliance Investment Management Limited	3	Controller with interests held by a controlled corporation (from derivative interests/ interests arising from stock borrowing arrangements)	689,837,777 (L)	11.93
			432,615,555 (S)	7.48

SUBSTANTIAL SHAREHOLDERS (continued)

Name of shareholder	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Pacific Alliance Group Asset Management Limited	3	Controller with interests held by a controlled corporation (from derivative interests/ interests arising from stock borrowing arrangements)	689,837,777 (L)	11.93
			432,615,555 (S)	7.48
Pacific Alliance Asia Opportunity Fund L.P.	3	Controller and beneficial owner with interests held by a controlled corporation and own interests (from derivative interests/ interests arising from stock borrowing arrangements)	689,837,777 (L)	11.93
			432,615,555 (S)	7.48
PA Marco Opportunity VIII Limited 201	3	Beneficial owner with own interests from derivative interests	452,777,777 (L)	7.83
			195,555,555 (S)	3.38

Note:

1. The issued share capital of Landmark Worldwide Holdings Limited is held and beneficially owned as to 25% by each of the Wong Brothers.
2. The issued share capital of E-Growth Resources Limited is held and beneficially owned as to 100% by Mr. Wang Ya Nan.
3. Interest would include derivative interests.

Save as disclosed above, as at 31 December 2016, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

CONTINUING CONNECTED TRANSACTION

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

Lease of a property in Fujian Province

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

Termination of the continuing connected transaction

通達(上海)電器裝飾件有限公司 ("Tongda Shanghai"), a wholly-owned subsidiary of the Company, has entered into the Termination Agreement with 上海百時電器有限公司 ("Shanghai Baishi") to terminate the Lease Agreement for the leasing of the Building with effect from 31 January 2016. Pursuant to the Termination Agreement, (i) Shanghai Baishi will be discharged from its payment and obligations under the Lease Agreement; and (ii) neither Tongda Shanghai nor Shanghai Baishi would have any claims against each other as a result of the termination of the Lease Agreement. Details of which are disclosed in the Company's announcement dated 29 January 2016.

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

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

DIRECTORS' SERVICE CONTRACTS

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

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

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

CONTRACT OF SIGNIFICANCE

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

COMPETITION AND CONFLICT OF INTERESTS

As at 31 December 2016, none of the Directors of the Company or any of their respective associates have engaged in any business that competes or may compete with the business of the Group, or have any other conflict of interests with the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

CONVERTIBLE BONDS

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

Report of the Directors

EMOLUMENT POLICY

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

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

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report and maintained a sufficient public float throughout the year ended 31 December 2016.

AUDITORS

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

PERMITTED INDEMNITY PROVISION

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

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

ON BEHALF OF THE BOARD

Wang Ya Nan

TONGDA GROUP HOLDINGS LIMITED

Chairman

Hong Kong

20 March 2017



To the shareholders of Tongda Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Tongda Group Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 45 to 131, which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, 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.



To the shareholders of Tongda Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS (continued)

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

Key audit matter

How our audit addressed the key audit matter

Impairment of trade and bills receivables

As at 31 December 2016, the Group had a gross trade and bills receivables balance of HK\$3,397,634,000 and impairment allowances of HK\$35,725,000. Management evaluates the estimated trade and bills receivables provisions based on specific review of customers' accounts as well as experience with collection trends and current business conditions.

Our audit procedures included, among others, selecting samples for the circularisation of debtor confirmations, checking subsequent settlements of trade and bills receivables, and reviewing trade and bills receivables aging report to identify any long overdue debts and their historical pattern of settlements.

The accounting policies and disclosures for trade and bills receivables allowances are included in notes 2.4, 3 and 20 to the consolidated financial statements.

Provision against inventories

As at 31 December 2016, the Group had a gross inventory balance of HK\$1,772,273,000 and inventory obsolescence of HK\$32,533,000. As the technology for the production of electrical fittings is constantly changing, the Group's inventories are subject to significant risk of obsolescence because market prices may drop as a result of the change in industry trend. Furthermore, managements' estimations of and assumptions on future sales are required when determining inventory provision for surplus inventories or obsolete stocks.

Our audit procedures included, among others, performing lower of cost and net realisable value tests by reviewing gross profit margin analysis of products and discussing with management regarding their pricing policy and provision basis, performing obsolescence review by reviewing the subsequent usage of raw materials, work in progress and delivery of finished goods to customers and attending physical inventory count and performing compilation test.

The accounting policies and disclosures for provision against inventories are included in notes 2.4, 3 and 19 to the consolidated financial statements.



To the shareholders of Tongda Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS *(continued)*

Key audit matter

How our audit addressed the key audit matter

Recognition of deferred tax liabilities for withholding tax on unremitted earnings of subsidiaries established in Mainland China

As at 31 December 2016, the Group recognised deferred tax liabilities of HK\$56,340,000 for withholding taxes that would be payable on the unremitted earnings of the Group's subsidiaries established in Mainland China, when such earnings are remitted as dividends. Significant management judgement is required to determine the amount and timing of the payment of dividends that will be distributed in the foreseeable future. The estimation process is highly based on assumptions, which are influenced by projected future market and economic conditions and the future financing requirements of the Group.

Our audit procedures included evaluating management's assumptions and estimates in relation to the likelihood of the Group's operations in Mainland China distributing a dividend in the foreseeable future. We have also reviewed the history of dividends paid by the subsidiaries in the past.

The accounting policies and disclosures for deferred tax liabilities are included in notes 2.4 and 26 to the consolidated financial statements.

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.



To the shareholders of Tongda Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

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 HKSAAs 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.



To the shareholders of Tongda Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

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

As part of an audit in accordance with HKSA's, 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.



To the shareholders of Tongda Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

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

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

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

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

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

Ernst & Young

Certified Public Accountants

22/F, CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

20 March 2017

Consolidated Income Statement

Year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
REVENUE	5	7,825,077	6,074,061
Cost of sales		(5,939,722)	(4,562,032)
Gross profit		1,885,355	1,512,029
Other income and gains, net	5	96,962	48,743
Selling and distribution expenses		(120,832)	(148,535)
General and administrative expenses		(557,807)	(445,207)
Other operating expenses, net		(34,996)	(38,824)
Finance costs	6	(78,264)	(55,660)
Share of profits/(losses) of associates		110	(286)
Share of profit of a jointly-controlled entity		6,023	–
PROFIT BEFORE TAX	7	1,196,551	872,260
Income tax expense	9	(176,077)	(134,285)
PROFIT FOR THE YEAR		1,020,474	737,975
Attributable to:			
Owners of the Company		1,003,996	702,839
Non-controlling interests		16,478	35,136
		1,020,474	737,975
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	11		
– Basic		HK17.50 cents	HK12.60 cents
– Diluted		HK16.14 cents	HK11.97 cents

Details of the dividends are disclosed in note 10.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	Note	2016 HK\$'000	2015 HK\$'000
PROFIT FOR THE YEAR		1,020,474	737,975
OTHER COMPREHENSIVE INCOME			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Gain on property revaluation		4,900	1,393
Income tax effect	26	(810)	(230)
		4,090	1,163
Other comprehensive expense to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations			
– subsidiaries		(202,158)	(129,651)
– associates		(124)	(107)
– jointly-controlled entity		(2,836)	–
Release of exchange reserve upon disposal of an associate		(139)	–
		(205,257)	(129,758)
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR, NET OF TAX		(201,167)	(128,595)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		819,307	609,380
Attributable to:			
Owners of the Company		803,032	575,682
Non-controlling interests		16,275	33,698
		819,307	609,380

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	3,287,981	2,627,744
Investment property	13	57,791	53,902
Prepaid land lease payments	14	208,795	58,198
Investments in associates	15	134	2,666
Investment in a jointly-controlled entity	16	64,162	–
Prepayments	17	53,635	57,842
Long term deposits	18	198,364	248,299
Loan to a non-controlling shareholder of a subsidiary	23	1,500	1,500
Deferred tax assets	26	3,703	3,703
Total non-current assets		3,876,065	3,053,854
CURRENT ASSETS			
Inventories	19	1,739,740	1,605,937
Trade and bills receivables	20	3,361,909	2,682,939
Prepayments, deposits and other receivables		410,533	309,872
Due from a jointly-controlled entity	16	1,694	–
Loan to a jointly-controlled entity	16	67,288	–
Tax recoverable		1,532	287
Pledged deposits	21	262,150	173,581
Cash and cash equivalents	21	869,082	762,392
Total current assets		6,713,928	5,535,008
CURRENT LIABILITIES			
Trade and bills payables	22	2,156,286	1,572,221
Accrued liabilities and other payables		414,646	324,473
Interest-bearing bank and other borrowings	24	1,489,958	976,356
Due to a jointly-controlled entity	16	51,197	–
Tax payable		220,673	192,029
Total current liabilities		4,332,760	3,065,079
NET CURRENT ASSETS		2,381,168	2,469,929
TOTAL ASSETS LESS CURRENT LIABILITIES		6,257,233	5,523,783

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	24	609,869	519,321
Convertible bonds	25	876,514	873,028
Due to a former non-controlling shareholder of a subsidiary	38	30,034	30,034
Deferred tax liabilities	26	74,511	62,082
Total non-current liabilities		1,590,928	1,484,465
Net assets		4,666,305	4,039,318
EQUITY			
Equity attributable to owners of the Company			
Share capital	27	57,805	57,257
Reserves	29	4,610,093	3,999,929
		4,667,898	4,057,186
Non-controlling interests		(1,593)	(17,868)
Total equity		4,666,305	4,039,318

Wang Ya Nan
Director

Wang Ya Hua
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

		Attributable to owners of the Company												
		Equity component					Asset	Capital	Exchange	Retained	Total	Non-	Total	
Notes		Share capital	Share premium account	convertible bonds	Share option reserve	Capital reserve	revaluation reserve	Statutory reserve	redemption reserve	fluctuation reserve	profits	controlling interests	equity	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2016		57,257	1,425,527	6,972	27,806	(125,657)	28,150	229,894	287	88,436	2,318,514	4,057,186	(17,868)	4,039,318
Profit for the year		-	-	-	-	-	-	-	-	-	1,003,996	1,003,996	16,478	1,020,474
Other comprehensive income for the year:														
Gain on property revaluation, net of tax		-	-	-	-	-	4,090	-	-	-	-	4,090	-	4,090
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	(204,915)	-	(204,915)	(203)	(205,118)
Release of exchange reserve upon disposal of an associate		-	-	-	-	-	-	-	-	(139)	-	(139)	-	(139)
Total comprehensive income for the year		-	-	-	-	-	4,090	-	-	(205,054)	1,003,996	803,032	16,275	819,307
Transfer to statutory reserve		-	-	-	-	-	-	56,193	-	-	(56,193)	-	-	-
Shares issued upon exercise of share options		27(ii)	548	37,688	-	(5,766)	-	-	-	-	-	32,470	-	32,470
Equity-settled share option arrangements		28	-	-	-	10,372	-	-	-	-	-	10,372	-	10,372
Final 2015 dividend declared and paid		10	-	(120,449)	-	-	-	-	-	-	-	(120,449)	-	(120,449)
Interim 2016 dividend declared and paid		10	-	(114,713)	-	-	-	-	-	-	-	(114,713)	-	(114,713)
At 31 December 2016		57,805	1,228,053*	6,972*	32,412*	(125,657)*	32,240*	286,087*	287*	(116,618)*	3,266,317*	4,667,898	(1,593)	4,666,305

		Attributable to owners of the Company												
		Equity component					Asset	Capital	Exchange	Retained	Total	Non-	Total	
Notes		Share capital	Share premium account	convertible bonds	Share option reserve	Capital reserve	revaluation reserve	Statutory reserve	redemption reserve	fluctuation reserve	profits	controlling interests	equity	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2015		54,692	1,295,199	-	20,696	17,008	26,987	154,979	287	216,756	1,690,590	3,477,194	159,275	3,636,469
Profit for the year		-	-	-	-	-	-	-	-	-	702,839	702,839	35,136	737,975
Other comprehensive income for the year:														
Gain on property revaluation, net of tax		-	-	-	-	-	1,163	-	-	-	-	1,163	-	1,163
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	(128,320)	-	(128,320)	(1,438)	(129,758)
Total comprehensive income for the year		-	-	-	-	-	1,163	-	-	(128,320)	702,839	575,682	33,698	609,380
Capital contribution from a non-controlling shareholder		-	-	-	-	-	-	-	-	-	-	-	1,500	1,500
Transfer to statutory reserve		-	-	-	-	-	-	74,915	-	-	(74,915)	-	-	-
Acquisition of a non-controlling interest		27(i)	1,900	304,000	-	(142,665)	-	-	-	-	-	163,235	(212,341)	(49,106)
Issue of convertible bonds		25	-	-	6,972	-	-	-	-	-	-	6,972	-	6,972
Shares issued upon exercise of share options		27(ii)	665	27,321	-	(6,205)	-	-	-	-	-	21,781	-	21,781
Equity-settled share option arrangements		28	-	-	-	13,315	-	-	-	-	-	13,315	-	13,315
Final 2014 dividend declared and paid		10	-	(109,383)	-	-	-	-	-	-	-	(109,383)	-	(109,383)
Interim 2015 dividend declared and paid		10	-	(91,610)	-	-	-	-	-	-	-	(91,610)	-	(91,610)
At 31 December 2015		57,257	1,425,527*	6,972*	27,806*	(125,657)*	28,150*	229,894*	287*	88,436*	2,318,514*	4,057,186	(17,868)	4,039,318

* These reserve accounts comprise the consolidated reserves of HK\$4,610,093,000 (2015: HK\$3,999,929,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,196,551	872,260
Adjustments for:			
Finance costs		78,264	55,660
Share of losses/(profits) of associates		(110)	286
Share of profit of a jointly-controlled entity		(6,023)	–
Depreciation	7	270,679	202,941
Amortisation of prepaid land lease payments	7	2,699	1,364
Amortisation of prepayments	7	1,517	1,591
Bank interest income	5	(3,842)	(7,564)
Equity-settled share option expenses	28	10,372	13,315
Loss/(gain) on disposal of items of property, plant and equipment	7	(312)	1,170
Changes in fair value of an investment property	7	(6,395)	(1,220)
Impairment of trade receivables	7	975	9,347
Write-back of impairment of trade receivables	7	(11,609)	(199)
Write-off of trade receivables	7	389	405
Provision against inventories	7	–	10,337
Write-back of provision against of inventories	7	(9,719)	–
Impairment of an other receivable	7	–	5,212
Gain on disposal of an associate	5	(3,435)	–
		1,520,001	1,164,905
Increase in inventories		(124,084)	(215,373)
Increase in trade and bills receivables		(668,725)	(526,306)
Increase in prepayments, deposits and other receivables		(92,912)	(100,843)
Increase in an amount due from a jointly-controlled entity		(1,694)	–
Increase in trade and bills payables		584,065	242,799
Increase in accrued liabilities and other payables		53,080	127,986
Increase in an amount due to a jointly-controlled entity		51,197	–
Cash generated from operations		1,320,928	693,168
Interest paid		(74,778)	(55,660)
Hong Kong profits tax paid		(3,380)	–
Overseas taxes paid		(133,186)	(105,562)
Net cash flows from operating activities		1,109,584	531,946

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
CASH FLOWS USED IN INVESTING ACTIVITIES			
Interest received		3,842	7,564
Acquisition of a non-controlling interest	38	-	667
Purchases of items of property, plant and equipment		(806,639)	(986,081)
Increase in prepaid land lease prepayments		(122,772)	-
Proceeds from disposal of an associate		1,879	-
Proceeds from disposal of items of property, plant and equipment		9,017	766
Loan to a jointly-controlled entity		(67,288)	-
Capital contribution to a jointly-controlled entity		(60,975)	-
Increase in long term deposits		(198,364)	(248,299)
Increase in pledged bank deposits		(88,569)	(56,118)
Net cash flows used in investing activities		(1,329,869)	(1,281,501)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		2,493,739	1,730,870
Repayment of bank loans		(1,889,589)	(1,215,171)
Proceeds from exercise of share options		32,470	21,781
Issuance of convertible bonds		-	880,000
Dividends paid		(235,162)	(200,993)
Net cash flows from financing activities		401,458	1,216,487
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		762,392	360,161
Effect of foreign exchange rate changes, net		(74,483)	(64,701)
CASH AND CASH EQUIVALENTS AT END OF YEAR		869,082	762,392
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	869,082	561,912
Non-pledged time deposits with original maturity of less than three months when required		-	200,480
Cash and cash equivalents as stated in the consolidated statement of financial position	21	869,082	762,392

Notes to Financial Statements

31 December 2016

1. CORPORATE AND GROUP INFORMATION

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

The principal activity of the Company is investment holding. The principal activities of the Company’s subsidiaries are set out in note 38. There were no significant changes in the nature of the subsidiaries’ principal activities during the year.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

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

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidated Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
HKFRS 14	<i>Regulatory Deferral Accounts</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012 – 2014 Cycle</i>	Amendments to a number of HKFRSs

As explained below, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

Notes to Financial Statements

31 December 2016

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

- (a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:
- (i) the materiality requirements in HKAS 1;
 - (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
 - (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
 - (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

- (b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.
- (c) *Annual Improvements to HKFRSs 2012–2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:
- *HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale of or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any plan of sale during the year.

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	<i>Classification and Measurement of Share-based Payment Transactions²</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts²</i>
HKFRS 9	<i>Financial Instruments²</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
HKFRS 15	<i>Revenue from Contracts with Customers²</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers²</i>
HKFRS 16	<i>Leases³</i>
Amendments to HKAS 7	<i>Disclosure Initiative¹</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses¹</i>

- ¹ Effective for annual periods beginning on or after 1 January 2017
² Effective for annual periods beginning on or after 1 January 2018
³ Effective for annual periods beginning on or after 1 January 2019
⁴ No mandatory effective date yet determined but is available for adoption

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint ventures *(continued)*

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

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

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

Business combinations and goodwill

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Business combinations and goodwill** *(continued)*

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

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

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

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

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

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

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

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement

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

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

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

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

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

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

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

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

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

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

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

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

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

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

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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 sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and equipment 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.

Investment property

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Inventories**

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

Operating leases

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

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

Investments and other financial assets*Initial recognition and measurement*

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

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

The Group's financial assets include cash and cash equivalents, pledged deposits, a loan to a non-controlling shareholder of a subsidiary, trade and bills receivables, deposits and other receivables, a loan to a jointly-controlled entity and an amount due from a jointly-controlled entity.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***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).

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Assets carried at cost

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

Financial liabilities

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 and bills payables, other payables, amounts due to a former non-controlling shareholder of a subsidiary, associates and a jointly-controlled entity, interest-bearing bank and other borrowings, and convertible bonds.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Financial liabilities** *(continued)**Subsequent measurement*

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

Loans and borrowings

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

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

Convertible bonds

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

Derecognition of financial liabilities

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.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and a jointly-controlled entity, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and a jointly-controlled entity, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Income tax** *(continued)*

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

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

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

Government grants

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

Research and development costs

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

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

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

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

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

Cash and cash equivalents

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

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

Foreign currencies

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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

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

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (c) rental income, on a time proportion basis over the lease terms.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial option pricing model, further details of which are given in note 28 to the financial statements.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Share-based payments (continued)

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

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

Retirement benefit schemes

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

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

Borrowing costs

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

Notes to Financial Statements

31 December 2016

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:

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

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 against inventories

The management of the Group reviews the ageing analysis of inventories at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. Management estimates the net realisable value for such finished goods and work in progress based primarily on the latest invoice prices and current market conditions. The carrying amount of inventories at 31 December 2016 was HK\$1,739,740,000 (2015: HK\$1,605,937,000). Further details are given in note 19.

Impairment of trade and bills receivables and other receivables

Impairment of trade and bills receivables and other receivables is made by assessing the recoverability of trade and bills receivables and other receivables based on credit history, historical payment pattern, ageing of receivable balances and prevailing market conditions. The identification of doubtful debts requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables as well as doubtful debt expenses or write-back of doubtful debt in the period in which such estimate has been changed. The carrying amounts of trade and bills receivables and other receivables at 31 December 2016 were HK\$3,361,909,000 (2015: HK\$2,682,939,000) and HK\$55,836,000 (2015: HK\$35,327,000) included in prepayments, deposits and other receivables of HK\$410,533,000 (2015: HK\$309,872,000), respectively. Further details of the trade and bills receivables are given in note 20.

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

As described in notes 12 and 13 to the financial statements, the leasehold building located in Hong Kong and the investment property located in Mainland China were revalued at the end of the reporting period by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period. The carrying amounts of a leasehold building in Hong Kong and an investment property at 31 December 2016 were HK\$44,500,000 (2015: HK\$40,500,000) and HK\$57,791,000 (2015: HK\$53,902,000), respectively. Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 13 to the financial statements.

Notes to Financial Statements

31 December 2016

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

Estimation uncertainty *(continued)*

Impairment of property, plant and equipment (other than goodwill)

The Group assesses whether there are any indicators of impairment for all property, plant and equipment at the end of each reporting period. Property, plant and equipment are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. OPERATING SEGMENT INFORMATION

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

- (a) the electrical fittings segment produces components for electrical appliance products including handsets, notebook computers and other electrical appliance products;
- (b) the ironware parts segment is a supplier of metallic casings and other ironware parts for electrical and electronic appliances; and
- (c) the communication facilities and others segment mainly comprises the supply of plastic set top boxes and the manufacture of sports products, the Group's management services business and corporate income and expense items.

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

4. OPERATING SEGMENT INFORMATION (continued)

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

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

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

	Electrical fittings		Ironware parts		Communication facilities and others		Eliminations		Consolidated	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Segment revenue:										
Sales to external customers	6,439,335	4,780,254	524,331	471,902	861,411	821,905	-	-	7,852,077	6,074,061
Intersegment sales	51,504	6,592	162,115	6,094	85,369	3,049	(298,988)	(15,735)	-	-
Total	6,490,839	4,786,846	686,446	477,996	946,780	824,954	(298,988)	(15,735)	7,852,077	6,074,061
Segment results before depreciation and amortisation	1,312,540	971,004	11,304	33,908	151,210	133,141	-	-	1,475,054	1,138,053
Depreciation	(230,482)	(174,440)	(28,977)	(19,416)	(11,220)	(9,085)	-	-	(270,679)	(202,941)
Amortisation	(1,686)	(1,285)	(2,514)	(1,590)	(16)	(80)	-	-	(4,216)	(2,955)
Segment results	1,080,372	795,279	(20,187)	12,902	139,974	123,976	-	-	1,200,159	932,157
Unallocated income									96,962	25,930
Corporate and other unallocated expenses									(28,439)	(29,881)
Finance costs									(78,264)	(55,660)
Share of profits/(losses) of associates									110	(286)
Share of profit of a jointly-controlled entity									6,023	-
Profit before tax									1,196,551	872,260
Income tax expense									(176,077)	(134,285)
Profit for the year									1,020,474	737,975
Other segment information:										
Impairment losses/write-down recognised in the income statement *	(1,364)	(19,474)	-	(5,693)	-	(134)	-	-	(1,364)	(25,301)
Impairment losses reversed in the income statement **	15,405	31	4,103	-	1,820	168	-	-	21,328	199
Capital expenditure***	965,397	1,085,601	214,023	42,234	35,383	5,365	-	-	1,214,803	1,133,200

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

** Included write-back of impairment of trade receivables and provision against inventories.

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

Notes to Financial Statements

31 December 2016

4. OPERATING SEGMENT INFORMATION (continued)

	Electrical fittings		Ironware parts		Communication facilities and others		Eliminations		Consolidated	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Segment assets	7,806,550	6,336,103	839,607	675,920	672,591	632,710	-	-	9,318,748	7,644,733
Unallocated assets									1,271,245	944,129
Total assets									10,589,993	8,588,862
Segment liabilities	2,111,419	1,499,662	204,699	215,514	254,814	181,518	-	-	2,570,932	1,896,694
Unallocated liabilities									3,352,756	2,652,850
Total liabilities									5,923,688	4,549,544

Geographical information

	Mainland China		Southeast Asia		Middle East		Others		Consolidated	
	2016 HK\$'000	2015 HK\$'000								
(a) Revenue from customers										
Segment revenue:										
Sales to external customers	7,265,559	5,501,365	270,184	414,978	166	2,560	289,168	155,158	7,825,077	6,074,061
(b) Non-current assets	3,761,720	3,004,911	-	-	-	-	44,846	41,074	3,806,566	3,045,985

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

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

Information about major customers

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

	2016 HK\$'000	2015 HK\$'000
Customer A	1,693,508	1,545,105
Customer B	1,515,929	1,035,276
Customer C	1,117,697	N/A
	4,327,134	2,580,381

Revenue from Customer A, Customer B and Customer C were derived sales by electrical fittings segment, including sales to a group of entities which are known to be under common control of the respective customers. Revenue from Customer C contributed less than 10% of the total sales of the Group for the year ended 31 December 2015.

5. REVENUE, OTHER INCOME AND GAINS, NET

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

	2016 HK\$'000	2015 HK\$'000
Revenue		
Sale of:		
Electrical fittings	6,439,335	4,780,254
Ironware parts	524,331	471,902
Communication facilities and others	861,411	821,905
	7,825,077	6,074,061
Other income and gains, net		
Bank interest income	3,842	7,564
Interest income from a jointly-controlled entity	1,694	–
Gross rental income	9,817	3,366
Sale of scrap materials	14,295	7,912
Government grants*	51,802	17,283
Fair value gain on an investment property (note 13)	6,395	1,220
Gain on disposal of an associate	3,435	–
Others	5,682	11,398
	96,962	48,743

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

6. FINANCE COSTS

	2016 HK\$'000	2015 HK\$'000
Interest expenses on bank and other borrowings (including convertible bonds)	74,121	44,924
Less: Interest capitalised [#]	–	(988)
	74,121	43,936
Interest expenses on discounted bills	4,143	11,724
	78,264	55,660

[#] During the year ended 31 December 2015, interest of HK\$988,000 arising from certain funds borrowed generally used for the purpose of constructing certain leasehold buildings situated in Mainland China (note 12) was capitalised and included in the cost of leasehold buildings in Mainland China.

Notes to Financial Statements

31 December 2016

7. PROFIT BEFORE TAX

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

	2016	2015
	HK\$'000	HK\$'000
Cost of inventories sold	5,939,722	4,562,032
Depreciation	270,679	202,941
Amortisation of prepaid land lease payments	2,699	1,364
Amortisation of prepayments	1,517	1,591
Research and development costs	162,687	128,927
Minimum lease payments under operating leases	61,117	44,785
Employee benefit expense (excluding directors' remuneration - note 8):		
Salaries and wages	1,555,714	1,133,006
Equity-settled share option expense	4,360	4,293
Pension scheme contributions	61,924	51,372
Less: amounts included in research and development costs	(53,740)	(31,601)
	1,568,258	1,157,070
Auditor's remuneration	3,288	3,069
Loss/(gain) on disposal of items of property, plant and equipment*	(312)	1,170
Gain on disposal of an associate	(3,435)	-
Foreign exchange differences, net*	43,231	22,813
Changes in fair value of an investment property	(6,395)	(1,220)
Impairment of trade receivables*	975	9,347
Impairment of an other receivable*	-	5,212
Write-off of trade receivables*	389	405
Write-back of impairment of trade receivables*	(11,609)	(199)
Write-back of provision against of inventories	(9,719)	-
Provision against inventories	-	10,337

* These balances are included in "Other operating expenses, net" on the face of the consolidated income statement.

Cost of inventories sold includes HK\$1,636,781,000 (2015: HK\$1,243,471,000) relating to staff costs, operating lease rentals of leasehold land and buildings, provision/(write-back of provision) against inventories, amortisation of prepayments and depreciation, which are also included in the respective total amounts disclosed above for each of these types of expenses.

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group	
	2016	2015
	HK\$'000	HK\$'000
Fees	4,130	4,130
Other emoluments:		
Salaries, allowances and benefits in kind	1,940	1,940
Equity-settled share option expense	6,012	9,022
Pension scheme contributions	175	192
	8,127	11,154
	12,257	15,284

During the year ended 31 December 2014 and 31 December 2016, directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 28 to the financial statements. The fair value of these options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

Notes to Financial Statements

31 December 2016

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

Directors' remuneration (continued)

(a) Independent non-executive directors

	Fees HK\$'000	Equity-settled share option expense HK\$'000	Total remuneration HK\$'000
2016			
Mr. Ting Leung Huel, Stephen	250	348	598
Mr. Cheung Wah Fung, Christopher, JP	200	348	548
Dr. Yu Sun Say, GBS, SBS, JP	200	348	548
	650	1,044	1,694

	Fees HK\$'000	Equity-settled share option expense HK\$'000	Total remuneration HK\$'000
2015			
Mr. Ting Leung Huel, Stephen	250	430	680
Mr. Cheung Wah Fung, Christopher, JP	200	430	630
Dr. Yu Sun Say, GBS, SBS, JP	200	430	630
	650	1,290	1,940

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

Directors' remuneration (continued)

(b) Executive directors

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Equity-settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2016					
Mr. Wang Ya Nan	870	360	1,068	56	2,354
Mr. Wang Ya Hua	630	360	1,068	35	2,093
Mr. Wong Ah Yeung	630	360	1,068	16	2,074
Mr. Wong Ah Yu	630	360	1,068	35	2,093
Mr. Choi Wai Sang	360	260	348	33	1,001
Mr. Wang Ming Che	360	240	348	–	948
	3,480	1,940	4,968	175	10,563

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Equity-settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2015					
Mr. Wang Ya Nan	870	360	1,718	60	3,008
Mr. Wang Ya Hua	630	360	1,718	36	2,744
Mr. Wong Ah Yeung	630	360	1,718	24	2,732
Mr. Wong Ah Yu	630	360	1,718	36	2,744
Mr. Choi Wai Sang	360	260	430	36	1,086
Mr. Wang Ming Che	360	240	430	–	1,030
	3,480	1,940	7,732	192	13,344

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

Notes to Financial Statements

31 December 2016

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

Five highest paid employees

The five highest paid employees during the year included four (2015: four) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining one (2015: one) non-director highest paid employee are as follows:

	Group	
	2016	2015
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	1,885	1,833
Equity-settled share option expense	385	430
Pension scheme contributions	18	18
	2,288	2,281

During the year ended 31 December 2014 and 31 December 2016, share options were granted to a non-director and non-chief executive highest paid employee in respect of her services to the Group, further details of which are included in the disclosures in note 28 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

The above remuneration of the non-director highest paid employee fell within the band of HK\$2,000,001 to HK\$2,500,000 (2015: HK\$2,000,001 to HK\$2,500,000).

9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2016 HK\$'000	2015 HK\$'000
Current – Hong Kong		
Charge for the year	20,144	3,510
Underprovision/(overprovision) in prior years	(218)	447
	19,926	3,957
Current – Elsewhere		
Charge for the year	172,919	132,334
Overprovision in prior years	(28,880)	(16,049)
	144,039	116,285
Deferred (note 26)	12,112	14,043
Total tax charge for the year	176,077	134,285

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

	Group 2016 HK\$'000	2015 HK\$'000
Profit before tax	1,196,551	872,260
Tax at the applicable tax rates	289,973	213,969
Lower applicable tax rates enjoyed by the Group	(112,896)	(86,199)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	10,469	13,737
Adjustments in respect of current tax of prior years	(29,098)	(15,602)
Loss/(profit) attributable to associates	(18)	47
Profit attributable to a jointly-controlled entity	(994)	–
Income not subject to tax	(6,360)	(9,310)
Expenses not deductible for tax	15,367	10,333
Tax losses utilised from previous years	(304)	–
Tax losses not recognised	9,938	7,310
Tax charge at the Group's effective rate	176,077	134,285

Notes to Financial Statements

31 December 2016

9. INCOME TAX (continued)

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

During the year ended 31 December 2016, 福建省石獅市通達電器有限公司 (Tongda Electrics Company Limited, Shishi City, Fujian) ("TD Electrics"), 通達(廈門)科技有限公司 (Tongda (Xiamen) Technology Limited) ("Xiamen Technology"), 深圳通達電子有限公司 (Shenzhen Tongda Electronic Company Limited) ("Shenzhen Electronic"), 通達宏泰科技(蘇州)有限公司 (Tongda HT Technology (Suzhou) Company Limited) and 通達五金(深圳)有限公司 (Tongda Ironware (Shenzhen) Company Limited) are subject to a preferential tax rate of 15% under High New Technology Enterprises.

During the year ended 31 December 2015, TD Electrics, Xiamen Technology and Shenzhen Electronic are subject to a preferential tax rate of 15% under High New Technology Enterprises.

The share of tax attributable to associates amounting to HK\$35,000 (2015: HK\$38,000) is included in "Share of profits/(losses) of associates" on the face of the consolidated income statement.

The share of tax attributable to a jointly-controlled entity amounting to HK\$2,008,000 (2015: Nil) is included in "Share of profit of a jointly-controlled entity" on the face of the consolidated income statement.

10. DIVIDENDS

	2016 HK\$'000	2015 HK\$'000
Dividends paid during the year:		
Final in respect of the financial year ended		
31 December 2015 – HK2.1 cents per ordinary share (2015: final dividend of HK2.0 cents per ordinary share, in respect of the financial year ended 31 December 2014)	120,449	109,383
Interim – HK2.0 cents (2015: HK1.6 cents) per ordinary share	114,713	91,610
	235,162	200,993
Proposed final dividend:		
Final – HK3.2 cents (2015: HK2.1 cents) per ordinary share	184,976	120,240

The proposed final dividend of HK3.2 cents per ordinary share (2015: HK2.1 cents per ordinary share) for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect the final dividend payable.

11. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares of 5,736,711,000 (2015: 5,578,538,000) in issue during the year, as adjusted to reflect the new shares issued during the year.

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

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

	2016	2015
	HK\$'000	HK\$'000
Earnings:		
Profit for the year attributable to owners of the Company used in the basic earnings per share calculation	1,003,996	702,839
Interest on convertible bonds	12,286	4,340
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Profit for the year attributable to owners of the Company before interest on convertible bonds	1,016,282	707,179
<hr/>		
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,736,711	5,578,538
Effect of dilutive potential ordinary shares arising from		
– share options	71,981	93,127
– convertible bonds	488,889	238,489
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Weighted average number of ordinary shares for the purpose of diluted earnings per share	6,297,581	5,910,154
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Notes to Financial Statements

31 December 2016

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold building in Hong Kong HK\$'000	Leasehold buildings in Mainland China HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2016								
Cost or valuation:								
At 1 January 2016	40,500	597,981	94,974	2,813,263	78,094	45,310	59,975	3,730,097
Additions	-	64,489	32,357	720,394	11,109	7,176	219,413	1,054,938
Surplus on revaluation	4,000	-	-	-	-	-	-	4,000
Disposals	-	-	(4,389)	(35,425)	(1,465)	(2,090)	-	(43,369)
Transfer	-	24,270	1,572	128,385	1,244	118	(155,589)	-
Exchange realignment	-	(27,804)	(4,630)	(131,825)	(3,540)	(2,011)	(2,153)	(171,963)
At 31 December 2016	44,500	658,936	119,884	3,494,792	85,442	48,503	121,646	4,573,703
Accumulated depreciation:								
At 1 January 2016	-	131,045	23,685	874,422	42,013	31,188	-	1,102,353
Provided for the year	900	19,355	11,173	225,173	10,768	3,310	-	270,679
Disposals	-	-	(4,381)	(27,037)	(1,374)	(1,872)	-	(34,664)
Reversal upon revaluation	(900)	-	-	-	-	-	-	(900)
Exchange realignment	-	(6,095)	(1,139)	(41,296)	(1,842)	(1,374)	-	(51,746)
At 31 December 2016	-	144,305	29,338	1,031,262	49,565	31,252	-	1,285,722
Net book value:								
At 31 December 2016	44,500	514,631	90,546	2,463,530	35,877	17,251	121,646	3,287,981

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold building in Hong Kong HK\$'000	Leasehold buildings in Mainland China HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2015								
Cost or valuation:								
At 1 January 2015	40,000	497,824	93,286	1,835,636	70,451	42,739	125,817	2,705,753
Additions	-	4,779	5,691	966,848	10,241	4,215	141,426	1,133,200
Surplus on revaluation	500	-	-	-	-	-	-	500
Disposals	-	-	(9,246)	(6,911)	(1,092)	(256)	-	(17,505)
Transfer	-	112,370	8,451	81,084	846	-	(202,751)	-
Exchange realignment	-	(16,992)	(3,208)	(63,394)	(2,352)	(1,388)	(4,517)	(91,851)
At 31 December 2015	40,500	597,981	94,974	2,813,263	78,094	45,310	59,975	3,730,097
Accumulated depreciation:								
At 1 January 2015	-	119,319	28,083	738,970	33,311	28,836	-	948,519
Provided for the year	893	15,800	5,170	166,958	10,659	3,461	-	202,941
Disposals	-	-	(8,784)	(5,717)	(893)	(175)	-	(15,569)
Reversal upon revaluation	(893)	-	-	-	-	-	-	(893)
Exchange realignment	-	(4,074)	(784)	(25,789)	(1,064)	(934)	-	(32,645)
At 31 December 2015	-	131,045	23,685	874,422	42,013	31,188	-	1,102,353
Net book value:								
At 31 December 2015	40,500	466,936	71,289	1,938,841	36,081	14,122	59,975	2,627,744

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

Notes to Financial Statements

31 December 2016

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

The Group's leasehold building situated in Hong Kong was revalued at the end of the reporting period based on valuations performed by Asset Appraisal Ltd., an independent firm of professionally qualified valuers, at HK\$44,500,000 (2015: HK\$40,500,000). In the opinion of the directors, the current use of the leasehold building in Hong Kong equates to its highest and best use.

A revaluation surplus of HK\$4,900,000 (2015: HK\$1,393,000), resulting from the above valuation, has been credited to other comprehensive income. Further details of the fair value measurement of the Group's building situated in Hong Kong are disclosed in note 13 below.

Had the Group's leasehold building situated in Hong Kong been carried at historical cost less accumulated depreciation, the carrying amount would have been approximately HK\$10,360,000 (2015: HK\$10,619,000).

As at 31 December 2016, the Group's leasehold building in Hong Kong with a net carrying amount of HK\$44,500,000 (2015: HK\$40,500,000) was pledged to secure bank loans granted to the Group (note 24).

As at 31 December 2016, the Group had not yet obtained the title ownership certificates of certain of its buildings situated in Xiamen city and Shishi city, Fujian, the PRC with net book values of HK\$20,013,000 (2015: HK\$202,994,000) and HK\$95,709,000 (2015: HK\$102,997,000), respectively. The Company's directors confirmed that there is no legal barrier or otherwise for the Group to obtain the relevant title ownership certificates for these buildings from the relevant PRC authority.

13. INVESTMENT PROPERTY

	2016	2015
	HK\$'000	HK\$'000
Carrying amount at 1 January	53,902	54,545
Changes in fair value	6,395	1,220
Exchange realignment	(2,506)	(1,863)
	<hr/>	<hr/>
Carrying amount at 31 December	57,791	53,902

The Group's investment property in Shanghai was revalued on 31 December 2016 based on valuations performed by Asset Appraisal Ltd., an independent firm of professionally qualified valuers at RMB49,700,000, equivalent to HK\$57,791,000 (2015: RMB44,200,000, equivalent to HK\$53,902,000). In the opinion of the directors, the current use of the investment property in Shanghai equates to its highest and best use.

13. INVESTMENT PROPERTY (continued)

The investment property in Shanghai is leased to a related company controlled by a director of the Company under an operating lease, further details of which are included in notes 31(a) and 33(a)(ii) to the financial statements.

As at 31 December 2016, the Group has not yet obtained the title ownership certificates for certain of its buildings situated in Shanghai, the PRC with aggregate fair value of RMB4,586,000, equivalent to HK\$5,333,000 (2015: RMB4,586,000, equivalent to HK\$5,593,000). The Company's directors confirmed that there is no legal barrier or otherwise for the Group to obtain the relevant title ownership certificates for these buildings from the relevant PRC authority.

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

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

Fair value hierarchy

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

	Fair value measurement as at 31 December 2016 using			
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	Total HK\$'000
Recurring fair value measurement for:				
Leasehold building in Hong Kong				
for own use (note (a))	–	–	44,500	44,500
Investment property in Shanghai				
(note (b))	–	–	57,791	57,791
	–	–	102,291	102,291

Notes to Financial Statements

31 December 2016

13. INVESTMENT PROPERTY (continued)

Fair value hierarchy (continued)

	Fair value measurement as at 31 December 2015 using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Recurring fair value measurement for:				
Leasehold building in Hong Kong for own use (note (a))	–	–	40,500	40,500
Investment property in Shanghai (note (b))	–	–	53,902	53,902
	–	–	94,402	94,402

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil).

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

	Leasehold building HK\$'000	Investment property HK\$'000
Net carrying amount at 1 January 2015	40,000	54,545
Depreciation	(893)	–
Gain from a fair value adjustment recognised in:		
other income and gains, net, in the income statement (note 5)	–	1,220
other comprehensive income in the statement of comprehensive income	1,393	–
Exchange realignment	–	(1,863)
Net carrying amount at 31 December 2015 and 1 January 2016	40,500	53,902
Depreciation	(900)	–
Gain from a fair value adjustment recognised in:		
other income and gains, net, in the income statement (note 5)	–	6,395
other comprehensive income in the statement of comprehensive income	4,900	–
Exchange realignment	–	(2,506)
Net carrying amount at 31 December 2016	44,500	57,791

13. INVESTMENT PROPERTY (continued)**Fair value hierarchy** (continued)

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

	Valuation technique	Significant unobservable inputs	Range	
			2016	2015
Leasehold building in Hong Kong for own use	Direct comparison approach	Market transaction price (per square feet)	HK\$15,738 to HK\$27,094	HK\$16,158 to HK\$23,256
		Adjustment on quality of the building	0.5% to 20%	0.5% to 7%
Investment property	Direct comparison approach	Asking price per square metre	HK\$4,138 to HK\$6,279	HK\$4,390 to HK\$5,945
		Discount factor	10%	10%

Notes:

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

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

- (b) The valuation of the investment property in Shanghai was determined using the direct comparison approach. Since no recent transaction history of the comparable properties nearby was publicly available, the asking price per square metre of comparable properties nearby and currently on sale with a discount factor of 10% (2015: 10%) was used in the determination of the fair value of the investment property. The most significant inputs to this valuation approach are the asking price per square metre and the discount factor.

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

Notes to Financial Statements

31 December 2016

14. PREPAID LAND LEASE PAYMENTS

	2016 HK\$'000	2015 HK\$'000
Carrying amount at 1 January	59,562	63,069
Additions	159,865	–
Amortisation recognised during the year	(2,699)	(1,364)
Exchange realignment	(2,755)	(2,143)
Carrying amount at 31 December	213,973	59,562
Current portion included in prepayments, deposits and other receivables	(5,178)	(1,364)
Non-current portion	208,795	58,198

Additions represent the land use right acquired in Xiamen, Shishi and Dongguan during the year ended 31 December 2016.

Pursuant to the land use right transfer agreement dated 24 February 2016 entered into between the Group and the land resources and real estate management bureau in Xiamen, the PRC, the Group acquired the land use right of a parcel of land in Xiamen, the PRC with a total land area of 18,100 square metres at a consideration of RMB5,150,000 (equivalent to approximately HK\$5,988,000) together with deed tax of RMB154,000 (equivalent to approximately HK\$179,000) for a term of 47 years. The land was used for the construction of the new manufacturing base of the Group in Xiamen.

Pursuant to the land use right transfer agreement dated 19 September 2016 entered into between the Group and the land resources and real estate management bureau in Shishi, the PRC, the Group acquired the land use right of a land in Shishi, the PRC with a total land area of 132,306 square metres at a consideration of RMB63,800,000 (equivalent to approximately HK\$74,186,000) together with acquisition expenses of RMB11,528,000 (equivalent to approximately HK\$13,405,000) for a term of 50 years. The land was used for the construction of the new manufacturing base of the Group in Shishi.

Pursuant to the land use right and leasehold buildings transfer agreement dated 10 March 2016 entered into between the Group and 東莞市廣惠化工有限公司, the Group acquired the land use right of 3 plots of land in Dongguan, the PRC with a total land area of 108,723 square metres at a consideration of RMB55,168,000 (equivalent to approximately HK\$64,149,000) together with acquisition expenses of RMB1,684,000 (equivalent to approximately HK\$1,958,000) for terms from 32 to 36 years. The lands were use for the construction of the new manufacturing base of the Group in Dongguan.

As at 31 December 2016, the Group had not yet obtained the land use right certificates of certain land use right acquired situated in Xiamen city and Shishi city, Fujian, the PRC with net book values of HK\$6,059,000 and HK\$87,298,000, respectively. The Company's directors confirmed that there is no legal barrier or otherwise for the Group to obtain the relevant land use right certificates from relevant PRC authority.

15. INVESTMENTS IN ASSOCIATES

	2016	2015
	HK\$'000	HK\$'000
Share of net assets	1,604	4,127
Goodwill on acquisition	13,247	14,308
	14,851	18,435
Due from associates	–	9
Due to associates	(3,766)	(3,766)
	11,085	14,678
Provision for impairment	(10,951)	(12,012)
	134	2,666

Particulars of the principal associates are as follows:

Name	Place of incorporation/ registration and business	Particulars of issued shares held	Percentage of ownership interest indirectly attributable to the Group		Principal activities
			2016	2015	
東莞市康祥電子有限公司 ("Kangxiang") ¹	PRC/Mainland China	Registered RMB13,500,000	–	34.9	Manufacture and sale of electronic components
Justone Holdings Limited ("Justone")	BVI	Ordinary US\$33,333	28	28	Investment holding
Justone Technologies Limited	Hong Kong	Ordinary HK\$10,000	28	28	Investment holding
Justone(北京)通訊技術有限公司	PRC/Mainland China	Registered RMB5,000,000	28	28	Provision of software platform to run integrated fixed line phone

Note:

- ¹ Pursuant to a sale and purchase agreement entered into between the Group and other shareholder of Kangxiang on 20 August 2016, a 34.9% equity interest was sold by the Group for a consideration of RMB5,000,000 (equivalent to approximately HK\$5,814,000). A gain on disposal of an associate of HK\$3,435,000 was recognised in "Other income and gains, net" on the face of the consolidated income statement.

Notes to Financial Statements

31 December 2016

15. INVESTMENTS IN ASSOCIATES (continued)

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

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

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

	2016 HK\$'000	2015 HK\$'000
Share of the associates' profits/(losses) for the year	110	(286)
Exchange difference on translation of an associate	(124)	(107)
Share of the associates' total comprehensive expense	(14)	(393)
Aggregate carrying amount of the Group's investments in the associates	134	2,666

16. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	2016 HK\$'000	2015 HK\$'000
Share of net assets	64,162	–
Loan to a jointly-controlled entity	67,288	–
Due from a jointly-controlled entity	1,694	–
Due to a jointly-controlled entity	51,197	–

The balance of a loan to a jointly-controlled entity of HK\$67,288,000 (2015: Nil) is unsecured, interest bearing at 2% per annum and repayable in one year.

The balances of amounts due from/to a jointly-controlled entity are unsecured, interest-free and have no fixed terms of repayment.

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

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

Name	Place of incorporation/ registration and business	Particulars of issued shares held	Percentage of ownership interest indirectly attributable to the Group		Principal activities
			2016	2015	
石獅市通達精雕制造有限公司 ("Jingdiao")	PRC/Mainland China	Registered RMB50,000,000	50	–	Manufacture and sale of electrical appliance products

As at 31 December 2016, the Group's shareholding in Jingdiao is held through a wholly-owned subsidiary of the Company.

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

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

	2016
	HK\$'000
Current assets	102,738
Non-current assets	270,595
Current liabilities	(163,613)
Non-current liabilities	(81,395)
Net assets	128,325
Reconciliation to the Group's interest in the jointly-controlled entity:	
Proportion of the Group's ownership	50%
Group's share of net assets of the jointly-controlled entity, excluding goodwill	64,162
Carrying amount of the investment	64,162
Revenue	100,201
Profit for the year	12,046
Other comprehensive expense	(5,672)
Total comprehensive income for the year	6,374

Notes to Financial Statements

31 December 2016

17. PREPAYMENTS

	Prepaid rental HK\$'000	Prepaid premises cost HK\$'000	Total HK\$'000
31 December 2016			
Cost:			
At 1 January 2016	2,305	71,948	74,253
Exchange realignment	(107)	(3,346)	(3,453)
At 31 December 2016	2,198	68,602	70,800
Amortisation:			
At 1 January 2016	644	15,767	16,411
Amortised during the year	48	1,469	1,517
Exchange realignment	(30)	(733)	(763)
At 31 December 2016	662	16,503	17,165
Net book value:			
At 31 December 2016	1,536	52,099	53,635
31 December 2015			
Cost:			
At 1 January 2015	2,386	74,492	76,878
Exchange realignment	(81)	(2,544)	(2,625)
At 31 December 2015	2,305	71,948	74,253
Amortisation:			
At 1 January 2015	614	14,730	15,344
Amortised during the year	51	1,540	1,591
Exchange realignment	(21)	(503)	(524)
At 31 December 2015	644	15,767	16,411
Net book value:			
At 31 December 2015	1,661	56,181	57,842

17. PREPAYMENTS *(continued)*

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

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

18. LONG TERM DEPOSITS

	2016	2015
	HK\$'000	HK\$'000
Deposits for acquisition of property, plant and equipment	198,364	248,299

19. INVENTORIES

	2016	2015
	HK\$'000	HK\$'000
Raw materials	445,259	412,742
Work in progress	426,385	421,146
Finished goods	868,096	772,049
	1,739,740	1,605,937

As at 31 December 2016, moulds of HK\$259,333,000 (2015: HK\$223,785,000) are included in the finished goods.

Notes to Financial Statements

31 December 2016

20. TRADE AND BILLS RECEIVABLES

	2016	2015
	HK\$'000	HK\$'000
Trade receivables	3,155,291	2,440,733
Impairment allowances	(35,725)	(48,835)
	3,119,566	2,391,898
Bills receivable	242,343	291,041
	3,361,909	2,682,939

It is the general policy of the Group to allow a credit period of three to six months. In addition, for certain customers with long-established relationships and good repayment histories, a longer credit period may be granted in order to maintain a good relationship. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by management. Trade receivables are non-interest-bearing. At the end of the reporting period, 17.8% (2015: 20.4%) and 56.1% (2015: 52.9%) of the total trade and bills receivables were due from the Group's largest customer and the five largest customers, respectively.

An aged analysis of the Group's trade and bills receivables as at 31 December 2016, based on the invoice date, is as follows:

	2016	2015
	HK\$'000	HK\$'000
Within 3 months	3,144,711	2,363,751
4 to 6 months, inclusive	192,446	274,776
7 to 9 months, inclusive	21,696	25,976
10 to 12 months, inclusive	8,312	10,068
More than 1 year	30,469	57,203
	3,397,634	2,731,774
Impairment allowances	(35,725)	(48,835)
	3,361,909	2,682,939

20. TRADE AND BILLS RECEIVABLES (continued)

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

	2016	2015
	HK\$'000	HK\$'000
At 1 January	48,835	40,013
Impairment of trade receivables (note 7)	975	9,347
Write-back of impairment of trade receivables (note 7)	(11,609)	(199)
Write-off of impairment of trade receivables	(1,864)	–
Exchange realignment	(612)	(326)
	<hr/>	<hr/>
At 31 December	35,725	48,835

The above impairment allowances for trade receivables are allowances for impaired trade receivables with a gross carrying amount of HK\$57,600,000 (2015: HK\$90,778,000). The impaired trade receivables relate to customers that have been overdue for a long time and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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

	2016	2015
	HK\$'000	HK\$'000
Neither past due nor impaired	3,124,066	2,417,517
Past due:		
Within 3 months	175,823	197,977
4 to 6 months, inclusive	35,936	22,848
7 to 9 months, inclusive	4,209	2,654
	<hr/>	<hr/>
	3,340,034	2,640,996

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. The Group does not hold any collateral or other credit enhancements over these balances.

Notes to Financial Statements

31 December 2016

21. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	2016	2015
	HK\$'000	HK\$'000
Cash and bank balances	869,082	561,912
Time deposits	262,150	374,061
	1,131,232	935,973
Less: Pledged deposits*	(262,150)	(173,581)
	869,082	762,392

* Pledged deposits as at 31 December 2016 include HK\$262,150,000 (2015: HK\$173,581,000) for the bank facilities granted to the Group (note 24).

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to HK\$655,098,000 (2015: HK\$362,858,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

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

22. TRADE AND BILLS PAYABLES

	2016	2015
	HK\$'000	HK\$'000
Trade payables	1,388,933	1,049,275
Bills payable	767,353	522,946
	2,156,286	1,572,221

22. TRADE AND BILLS PAYABLES *(continued)*

The trade payables are non-interest-bearing and are normally settled on 60 to 90 days terms. An aged analysis of the Group's trade and bills payables as at 31 December 2016, based on the invoice date, is as follows:

	2016 HK\$'000	2015 HK\$'000
Within 3 months	1,655,346	1,198,928
4 to 6 months, inclusive	472,074	349,159
7 to 9 months, inclusive	7,444	7,375
10 to 12 months, inclusive	3,082	2,521
More than 1 year	18,340	14,238
	2,156,286	1,572,221

23. BALANCE WITH A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

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

Notes to Financial Statements

31 December 2016

24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2016			2015		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
Current						
Other loans, unsecured	3.02%	2017	3,607	4.5%	2016	5,674
Current portion of long term bank loans, secured	HIBOR+1.85%	2017	99,737	HIBOR+1.85%	2016	144,842
Current portion of long term bank loans, unsecured	HIBOR+1.32% to 1.9%/ 2.65%/ COF+1.6%*	2017	430,240	HIBOR+1.5% to 1.9%/ 2.65%	2016	211,430
Bank loans, unsecured	4.13%-4.79%/ LIBOR+3%/ PBOC**	2017	956,374	2.6%-7.28%/ 2016	2016	614,410
			1,489,958			976,356
Non-current						
Bank loans, secured	-	-	-	HIBOR+1.85%	2017	106,487
Bank loans, unsecured	HIBOR+1.32% to 1.9%/ COF+1.6%* 4.75%-4.99%	2018 to 2019	609,869	HIBOR+1.5% to 1.9%/ 2.65%	2017 to 2018	412,834
			609,869			519,321
Total			2,099,827			1,495,677

* "COF" means the cost of funding of one of the lenders.

** "PBOC" means the People's Bank of China rate.

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

	2016	2015
	HK\$'000	HK\$'000
Analysed into:		
Bank and other borrowings repayable:		
Within one year	1,489,958	976,356
In the second year	280,518	478,999
In the third year	329,351	40,322
	2,099,827	1,495,677
Analysed into:		
HK\$	960,820	776,087
RMB	929,501	541,653
US\$	209,506	177,937
	2,099,827	1,495,677

Notes:

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

- (a) the pledge of bank deposits of approximately HK\$262,150,000 (2015: HK\$173,581,000) (note 21);
- (b) corporate guarantees from the Company and certain of its subsidiaries; and
- (c) mortgages over the Group's leasehold building in Hong Kong with a carrying amount of approximately HK\$44,500,000 (2015: HK\$40,500,000).

25. CONVERTIBLE BONDS

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

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

During the year ended 31 December 2015, the conversion price of the convertible bonds has been adjusted from HK\$1.88 to HK\$1.85 in accordance with the terms and conditions of the convertible bonds with effect from 9 September 2015 as the Company declared the 2015 interim dividend of HK1.6 cents per ordinary share on 18 August 2015.

Notes to Financial Statements

31 December 2016

25. CONVERTIBLE BONDS (continued)

During the year ended 31 December 2016, the conversion price of the convertible bonds has been adjusted from HK\$1.85 to HK\$1.82 and from HK\$1.82 to HK\$1.80 with effect from 11 June 2016 and 10 September 2016, respectively as the Company declared the 2015 final dividend of HK2.1 cents per ordinary share on 16 March 2016 and the 2016 interim dividend of HK2.0 cents per ordinary share on 15 August 2016.

The bonds are convertible at the option of the bondholders into ordinary shares at any time during the conversion period from 5 August 2015 to 18 June 2018 on the basis of one ordinary share for each HK\$1.80 bonds held. The convertible bonds shall mature on 25 June 2018 (the "Maturity Date").

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

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

There was no movement in the number of these convertible bonds during the year.

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

	2016 HK\$'000	2015 HK\$'000
Principal amount of convertible bonds issued during the year	880,000	880,000
Equity component	(6,972)	(6,972)
Liability component at the issuance date	873,028	873,028
Interest expense	12,286	4,340
Interest paid	(8,800)	(4,340)
Liability component at 31 December (note 34)	876,514	873,028

25. CONVERTIBLE BONDS *(continued)*

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

- The trustee shall in its absolute discretion deem not materially less beneficial to the interests of the bondholders, or
- Shall be approved by an extraordinary resolution of the bondholders.

26. DEFERRED TAX

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

Deferred tax liabilities

	Withholding taxes HK\$'000	Revaluation of properties HK\$'000	Total HK\$'000
At 1 January 2015	32,134	16,038	48,172
Debited to the income statement during the year (note 9)	13,737	306	14,043
Deferred tax debited to equity during the year	-	230	230
Exchange realignment	-	(363)	(363)
At 31 December 2015 and 1 January 2016	45,871	16,211	62,082
Debited to the income statement during the year (note 9)	10,469	1,643	12,112
Deferred tax debited to equity during the year	-	810	810
Exchange realignment	-	(493)	(493)
At 31 December 2016	56,340	18,171	74,511

Notes to Financial Statements

31 December 2016

26. DEFERRED TAX *(continued)*

Deferred tax assets

Accelerated tax depreciation

HK\$'000

At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	3,703
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The Group and the Company have estimated tax losses arising in Hong Kong of approximately HK\$28,510,000 (2015: HK\$13,152,000) and HK\$18,906,000 (2015: HK\$8,323,000) respectively that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

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

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

However, deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of certain subsidiaries and associates of the Group established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries and associates will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$2,471,960,000 at 31 December 2016 (2015: HK\$1,785,829,000).

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

27. SHARE CAPITAL

	2016	2015
	HK\$'000	HK\$'000
Issued and fully paid:		
5,780,450,000 (2015: 5,725,650,000) ordinary shares	57,805	57,257

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

	Notes	Number of ordinary shares in issue	Issued capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
Issued:					
As at 1 January 2015		5,469,150,000	54,692	1,295,199	1,349,891
Issue of shares	(i)	190,000,000	1,900	304,000	305,900
Shares issued upon exercise of share options	(ii)	66,500,000	665	27,321	27,986
		256,500,000	2,565	331,321	333,886
Final 2014 dividend (note 10)		–	–	(109,383)	(109,383)
Interim 2015 dividend (note 10)		–	–	(91,610)	(91,610)
As at 31 December 2015 and 1 January 2016		5,725,650,000	57,257	1,425,527	1,482,784
Shares issued upon exercise of share options	(iii)	54,800,000	548	37,688	38,236
		5,780,450,000	57,805	1,463,215	1,521,020
Final 2015 dividend (note 10)		–	–	(120,449)	(120,449)
Interim 2016 dividend (note 10)		–	–	(114,713)	(114,713)
As at 31 December 2016		5,780,450,000	57,805	1,228,053	1,285,858

Notes to Financial Statements

31 December 2016

27. SHARE CAPITAL *(continued)*

Notes:

- (i) On 20 July 2015, the Group issued 190,000,000 ordinary shares as a settlement of the Consideration Shares for acquiring Grand Prosper and the details of the Acquisition were set out in note 38 to the financial statements.
- (ii) During the year ended 31 December 2015, an aggregate of 66,500,000 share options has been exercised at a weighted average subscription price of HK\$0.3275 per share resulting in the issue of 66,500,000 shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$21,781,000. An amount of HK\$6,205,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.
- (iii) During the year ended 31 December 2016, an aggregate of 54,800,000 share options has been exercised at a weighted average subscription price of HK\$0.5925 per share resulting in the issue of 54,800,000 shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$32,470,000. An amount of HK\$5,766,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

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

Share option schemes

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

28. SHARE OPTION SCHEMES

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

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

28. SHARE OPTION SCHEMES *(continued)*

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

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

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

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

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

Notes to Financial Statements

31 December 2016

28. SHARE OPTION SCHEMES (continued)

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

	2016		2015	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	0.7388	145,200	0.6096	211,700
Granted during the year	1.8	58,000	–	–
Exercised during the year	0.5925	(54,800)	0.3275	(66,500)
At 31 December	1.2075	148,400	0.7388	145,200

The weighted average share price at the date of exercise for share options exercised during the year was HK\$1.8641 (2015: HK\$1.1711) per share.

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

2016

Number of options '000	Exercise price* HK\$ per share	Exercise period
10,000	0.4850	10 March 2007 to 9 March 2017
7,800	0.8700	12 May 2014 to 11 May 2019
7,800	0.8700	12 May 2015 to 11 May 2019
64,800	0.8700	12 May 2016 to 11 May 2019
14,200	1.8000	9 September 2017 to 8 September 2020
43,800	1.8000	9 September 2018 to 8 September 2020
148,400		

2015

Number of options '000	Exercise price* HK\$ per share	Exercise period
10,000	0.4850	10 March 2007 to 9 March 2017
34,000	0.5860	4 July 2007 to 3 July 2017
10,000	0.3150	16 February 2008 to 15 February 2018
8,400	0.8700	12 May 2014 to 11 May 2019
8,400	0.8700	12 May 2015 to 11 May 2019
74,400	0.8700	12 May 2016 to 11 May 2019
145,200		

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

28. SHARE OPTION SCHEMES *(continued)*

The fair value of the share options under the New Scheme granted during the year ended 31 December 2014 was HK\$30,115,000 (approximately HK\$0.32 each), of which the Group recognised a share option expense of HK\$4,480,000 (2015: HK\$13,315,000) during the year ended 31 December 2016.

The fair value of the share options under the New Scheme granted during the year ended 31 December 2016 was HK\$30,781,000 (approximately HK\$0.53 each), of which the Group recognised a share option expense of HK\$5,892,000 (2015: Nil) during the year ended 31 December 2016.

The fair value of equity-settled share options under the New Scheme granted during the year ended 31 December 2016 was estimated as at the date of grant using a binomial option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2016
Dividend yield (%)	3.00
Expected volatility (%)	50.37
Risk-free interest rate (%)	1.06
Expected exercise multiple (Directors/Employees)	2.28/1.78
Expected life of options (year)	0-4

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

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

The 44,000,000 share options under the Old Scheme and 10,800,000 share options under the New Scheme exercised during the year resulted in the issue of 54,800,000 ordinary shares of the Company and new share capital of HK\$548,000 and share premium of HK\$37,688,000 (before share issue expenses), as further detailed in note 27 to the financial statements.

At the end of the reporting period, the Company had 10,000,000 (2015: 54,000,000) share options outstanding under the Old Scheme which represented approximately 0.17% of the Company's shares in issue as at this date. At the date of approval of these financial statements, all share options under the Old Scheme had been exercised.

At the end of the reporting period and date of approval of these financial statements, the Company had 138,400,000 (2015: 91,200,000) share options outstanding under the New Scheme which represented approximately 2.39% of the Company's shares in issue as at these dates. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 138,400,000 additional ordinary shares of the Company and additional share capital of HK\$1,384,000 and share premium of HK\$172,964,000 (before issue expenses).

Notes to Financial Statements

31 December 2016

29. RESERVES

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

(i) Capital reserve

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

(ii) Statutory reserve

In accordance with the Macau Commercial Codes, Tongda Overseas Macao Commercial Offshore Limited ("Tongda Macao"), a wholly-owned subsidiary of the Company, whose principal operation is conducted in Macau, is required to appropriate annually not less than 25% of its profit after tax to the statutory reserve, until the balance of the reserve reaches 50% of the entity's capital fund. The statutory reserve may be utilised by the entity for certain restricted purposes including the set-off against accumulated losses, if any, arising under certain specified circumstances. As the reserve has already reached 50% of Tongda Macao's capital fund, no transfer was made in the current year (2015: Nil).

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

30. CONTINGENT LIABILITIES

At 31 December 2016, the Company had provided corporate guarantees for banking facilities granted to certain subsidiaries, which were utilised to the extent of approximately HK\$1,657,967,000 (2015: HK\$530,978,000) at the end of the reporting period.

Save as disclosed above, neither the Group, nor the Company, had any significant contingent liabilities at the end of the reporting period.

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property (note 13) under operating lease arrangements, with leases negotiated for terms of one to three years (2015: one to three years). The terms of the leases also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

During the year ended 31 December 2016, the Group sub-leases two of its factories under operating lease arrangements with leases negotiated for terms of three years. The terms of the leases also require the tenants to pay security deposits and monthly utilities expenses.

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

	2016 HK\$'000	2015 HK\$'000
Within one year	2,327	280
In the second to fifth years, inclusive	3,539	–
	5,866	280

(b) As lessee

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

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

	2016 HK\$'000	2015 HK\$'000
Within one year	43,272	41,594
In the second to fifth years, inclusive	52,497	78,606
After five years	24,641	19,993
	120,410	140,193

Notes to Financial Statements

31 December 2016

32. COMMITMENTS

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

	2016 HK\$'000	2015 HK\$'000
Contracted for commitments in respect of		
– Purchases of property, plant and equipment	182,719	85,694
– Purchase of land use right	37,093	–
– Construction of plant and leasehold buildings in Mainland China	137,206	3,325
	357,018	89,019

The Company had no significant commitments at the end of the reporting period (2015: Nil).

33. RELATED PARTY TRANSACTIONS

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

	Notes	2016 HK\$'000	2015 HK\$'000
A related company controlled by a director of the Company:			
Subcontracting fee	(i)	4,404	3,866
Rental income	(ii)	267	3,366
Rental expense	(iii)	4,605	–
A jointly-controlled entity:			
Rental income and utility charges	(iv)	6,746	–
Subcontracting fee	(v)	100,201	–

Notes:

- (i) The subcontracting fee to a related company controlled by a director of the Company was made on a basis mutually agreed by both parties.
- (ii) The rental income from a related company controlled by a director of the Company was charged at a monthly rate of RMB230,000 for the year ended 31 December 2016 (2015: RMB230,000) which expired on 29 January 2016.

33. RELATED PARTY TRANSACTIONS (continued)**(a)** (continued)

Notes: (continued)

- (iii) The rental expense paid to a related company controlled by a director of the Company was charged at a monthly rate of RMB330,000 for the year ended 31 December 2016 (2015: Nil) by reference to a lease agreement entered into between the related company and the Group on 23 December 2015.
- (iv) The rental income and utility charges from a jointly-controlled entity represented rental charged for two factories premises at a monthly rate of RMB148,800 and RMB18,000, respectively, for the year ended 31 December 2016 (2015: Nil) by reference to a lease agreements entered into the jointly-controlled entity and the Group on 1 August 2016 and 1 January 2016, respectively, and the related utility charges.
- (v) The subcontracting fee to a jointly-controlled entity was made on a basis mutually agreed by both parties.

The related party transaction in respect of item (ii) and (iii) above also constitutes a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

(b) Outstanding balances with related parties

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

Included in prepayments, deposits and other receivables, is an amount due from a related company of HK\$5,479,000 (2015: HK\$8,922,000) controlled by a director, Mr. Wong Ah Yeung, which is unsecured, interest-free and has no fixed terms of repayment. The maximum amount outstanding during the year was HK\$10,315,000 (2015: HK\$9,848,000).

(c) Compensation of key management personnel of the Group

	2016	2015
	HK\$'000	HK\$'000
Short term employee benefits	4,715	7,532
Post-employment benefits	108	163
Equity-settled share option expense	873	859
Total compensation paid to key management personnel	5,606	8,554

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

Notes to Financial Statements

31 December 2016

33. RELATED PARTY TRANSACTIONS *(continued)*

(d) Major non-cash transactions

- (i) Same as disclosed elsewhere in the financial statements, during the year ended 31 December 2016, a deposit for the acquisition of property, plant and equipment of HK\$248,299,000 (2015: HK\$147,119,000) was utilised as additions to property, plant and equipment (note 18).
- (ii) As at 31 December 2016, RMB31,900,000 (equivalent to approximately HK\$37,093,000) (2015: Nil) out of the aggregate considerations for acquisition of prepaid land lease payment of RMB63,800,000 (equivalent to approximately HK\$74,186,000) (2015: Nil) remained unsettled and was recorded in "Accrued liabilities and other payables" in the consolidated statement of financial position.
- (iii) As at 31 December 2016, RMB3,384,000 (equivalent to approximately HK\$3,935,000) (2015: Nil) out of the aggregate considerations for disposal of an associate of RMB5,000,000 (equivalent to approximately HK\$5,814,000) (2015: Nil) remained unsettled and was recorded in "Prepayments, deposits and other receivables" in the consolidated statement of financial position.

34. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets – loans and receivables

	2016 HK\$'000	2015 HK\$'000
Due from associates (note 15)	–	9
Trade and bills receivables	3,361,909	2,682,939
Financial assets included in prepayments, deposits and other receivables	55,836	35,327
Loan to a non-controlling shareholder of a subsidiary	1,500	1,500
Due from a jointly-controlled entity	1,694	–
Loan to a jointly-controlled entity	67,288	–
Pledged deposits	262,150	173,581
Cash and cash equivalents	869,082	762,392
	4,619,459	3,655,748

34. FINANCIAL INSTRUMENTS BY CATEGORY (continued)**Financial liabilities – financial liabilities at amortised cost**

	2016 HK\$'000	2015 HK\$'000
Trade and bills payables	2,156,286	1,572,221
Financial liabilities included in accrued liabilities and other payables	149,190	176,999
Due to a former non-controlling shareholder of a subsidiary	30,034	30,034
Due to a jointly-controlled entity	51,197	–
Interest-bearing bank and other borrowings	2,099,827	1,495,677
Due to associates (note 15)	3,766	3,766
Convertible bonds	876,514	873,028
	5,366,814	4,151,725

35. TRANSFERRED FINANCIAL ASSETS**(i) Transferred financial assets that are not derecognised in their entirety**

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

2016

	Trade receivables Note (a) HK\$'000	Bills receivable Notes (b) and (c) HK\$'000	Total HK\$'000
Carrying amount of assets that continued to be recognised	130,771	50,433	181,204
Carrying amount of associated liabilities	116,406	50,433	166,839

2015

	Trade receivables Note (a) HK\$'000	Bills receivable Notes (b) and (c) HK\$'000	Total HK\$'000
Carrying amount of assets that continued to be recognised	–	72,104	72,104
Carrying amount of associated liabilities	–	72,104	72,104

Notes to Financial Statements

31 December 2016

35. TRANSFERRED FINANCIAL ASSETS *(continued)*

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

Notes:

(a) **Trade receivables factoring**

As part of its normal business, the Group entered into a trade receivable factoring arrangement (the "Factoring Arrangement") and transferred certain trade receivables to a bank. Under the Factoring Arrangement, the Group may be required to reimburse the bank for loss of interest if any trade debtors have late payment up to 30 days. The Group is not exposed to default risks of the trade debtors after the transfer. Subsequent to the transfer, the Group did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. The original carrying value of the trade receivables transferred under the Factoring Arrangement that have not been settled as at 31 December 2016 was HK\$130,771,000 (2015: Nil). The carrying amount of the assets that the Group continued to recognise as at 31 December 2016 was HK\$130,771,000 (2015: Nil) and that of the associated liabilities as at 31 December 2016 was HK\$116,406,000 (2015: Nil).

(b) **Discounting of bills receivable**

At 31 December 2016, the Group discounted certain bills receivable (the "Discounted Bills") with a carrying amount of HK\$10,584,000 (2015: HK\$61,363,000) to certain local banks and certain local financial institutions in the PRC for cash. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to the Discounted Bills, and accordingly, it continued to recognise the full carrying amount of the Discounted Bills and the respective bank and other loans. Subsequent to the discounting, the Group does not retain any rights on the use of the Discounted Bills, including sale, transfer or pledge of the Discounted Bills to any other third parties. The aggregate carrying amount of the bank and other loans recognised due to the Discounted Bills was HK\$10,584,000 (2015: HK\$61,363,000) as at 31 December 2016.

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

At 31 December 2016, the Group endorsed certain bills receivable accepted by certain local banks and certain local financial institutions in the PRC (the "Endorsed Bills") with a carrying amount of HK\$39,849,000 (2016: HK\$10,741,000) to certain of its suppliers in order to settle the trade payables due to such suppliers. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to the Endorsed Bills, and accordingly, it continued to recognise the full carrying amount of the Endorsed Bills and the associated trade payables settled. Subsequent to the endorsement, the Group does not retain any rights on the use of the Endorsed Bills, including sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the year to which the suppliers have recourse was HK\$39,849,000 (2015: HK\$10,741,000) as at 31 December 2016.

35. TRANSFERRED FINANCIAL ASSETS *(continued)***(ii) Transferred financial assets that are derecognised in their entirety****(a) Discounting of bills receivable**

At 31 December 2016, the Group discounted certain bills receivable (the “Derecognised Discounted Bills”) with a carrying amount of HK\$155,482,000 (2015: HK\$200,789,000) to certain reputable banks and a financial institution in the PRC. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Discounted Bills have a right of recourse against the Group if the bills default (the “Continuing Involvement”). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Discounted Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Discounted Bills. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Discounted Bills and the undiscounted cash flows to repurchase these Derecognised Discounted Bills is equal to their carrying amounts of HK\$155,482,000 (2015: HK\$200,789,000). In the opinion of the directors, the fair values of the Group’s Continuing Involvement in the Derecognised Discounted Bills are not significant. All Derecognised Discounted Bills have a maturity period from three to six months.

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

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

At 31 December 2016, the Group endorsed certain bills receivable accepted by certain reputable banks in the PRC (the “Derecognised Endorsed Bills”) to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of HK\$133,277,000 (2015: HK\$50,608,000). The Derecognised Endorsed Bills have a maturity from one to six months at the end of the reporting period. The Group has the Continuing Involvement in relation to the endorsed bills (the “Endorsement”). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Endorsed Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Endorsed Bills and the associated trade payables. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Endorsed Bills and the undiscounted cash flows to repurchase these Derecognised Endorsed Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group’s Continuing Involvement in the Derecognised Endorsed Bills are not significant.

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

Notes to Financial Statements

31 December 2016

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Interest rate risk

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

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

	Increase/ (decrease) in percentage points	Increase/ (decrease) in profit after tax and equity HK\$'000
2016		
Hong Kong dollars	0.5%	(3,988)
Hong Kong dollars	(0.5%)	3,988
2015		
Hong Kong dollars	0.5%	(4,484)
Hong Kong dollars	(0.5%)	4,484

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)***Commodity price risk**

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

Foreign currency risk

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

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 dollars, there will be a translation loss as a result of the RMB depreciation.

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

Notes to Financial Statements

31 December 2016

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in RMB rate %	Increase/ (decrease) in the Group's net profit HK\$'000
2016		
If the Hong Kong dollar weakens against RMB	5	38,578
If the Hong Kong dollar strengthens against RMB	(5)	(38,578)
2015		
If the Hong Kong dollar weakens against RMB	5	36,507
If the Hong Kong dollar strengthens against RMB	(5)	(36,507)

Credit risk

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

The credit risk of the Group's other financial assets, which comprise pledged deposits, cash and cash equivalents, amounts due from associates and a jointly-controlled entity, a loan to a jointly-controlled entity, a loan to a non-controlling shareholder of a subsidiary and deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Liquidity risk**

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

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

	On demand HK\$'000	Less than 3 months HK\$'000	2016 3 to less than 12 months HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
Trade and bills payables	-	2,156,286	-	-	2,156,286
Financial liabilities included in accrued liabilities and other payables	149,190	-	-	-	149,190
Due to a former non-controlling shareholder of a subsidiary	-	-	-	30,034	30,034
Due to associates	3,766	-	-	-	3,766
Due to a joint-controlled entity	51,197	-	-	-	51,197
Interest-bearing bank and other borrowings	-	715,269	809,140	623,724	2,148,133
Convertible bonds	-	-	8,680	996,876	1,005,556
	204,153	2,871,555	817,820	1,650,634	5,544,162
			2015 3 to		
	On demand HK\$'000	Less than 3 months HK\$'000	less than 12 months HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
Trade and bills payables	-	1,572,221	-	-	1,572,221
Financial liabilities included in accrued liabilities and other payables	176,999	-	-	-	176,999
Due to a former non-controlling shareholder of a subsidiary	-	-	-	30,034	30,034
Due to associates	3,766	-	-	-	3,766
Interest-bearing bank and other borrowings	-	303,539	674,408	545,334	1,523,281
Convertible bonds	-	4,267	9,041	1,005,556	1,018,864
	180,765	1,880,027	683,449	1,580,924	4,325,165

Notes to Financial Statements

31 December 2016

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

Capital management

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

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

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

	2016	2015
	HK\$'000	HK\$'000
Interest-bearing bank and other borrowings	2,099,827	1,495,677
Add: Convertible bonds	876,514	873,028
Less: Cash and cash equivalents	(869,082)	(762,392)
Less: Pledged deposits	(262,150)	(173,581)
Net debt	1,845,109	1,432,732
Total equity	4,666,305	4,039,318
Gearing ratio	40%	35%

37. 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:

	2016 HK\$'000	2015 HK\$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	117,862	117,862
Loan to a subsidiary (note 38)	12,610	12,610
Total non-current assets	130,472	130,472
CURRENT ASSETS		
Due from subsidiaries	2,346,250	2,940,384
Prepayments, deposits and other receivables	2,448	8,742
Loan to a subsidiary (note 38)	7,857	7,495
Cash and cash equivalents	96,451	41,358
Total current assets	2,453,006	2,997,979
CURRENT LIABILITIES		
Accrued liabilities and other payables	6,995	1,720
Interest-bearing bank borrowings	367,029	322,199
Total current liabilities	374,024	323,919
NET CURRENT ASSETS	2,078,982	2,674,060
TOTAL ASSETS LESS CURRENT LIABILITIES	2,209,454	2,804,532
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	–	373,779
Convertible bonds	876,514	873,028
Total non-current liabilities	876,514	1,246,807
Net assets	1,332,940	1,557,725
EQUITY		
Issued capital	57,805	57,257
Reserves (Note)	1,275,135	1,500,468
Total equity	1,332,940	1,557,725

Wang Ya Nan
Director

Wang Ya Hua
Director

Notes to Financial Statements

31 December 2016

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

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

	Share premium account HK\$'000	Share option reserve HK\$'000	Equity component of convertible bonds HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 31 December 2014 and 1 January 2015	1,295,199	20,696	-	79,179	287	1,387	1,396,748
Loss for the year	-	-	-	-	-	(40,690)	(40,690)
Issue of shares (note 27(i))	304,000	-	-	-	-	-	304,000
Issue of convertible bonds	-	-	6,972	-	-	-	6,972
Shares issued upon exercise of share options (notes 27(ii) and 28)	27,321	(6,205)	-	-	-	-	21,116
Equity-settled share option arrangements (note 28)	-	13,315	-	-	-	-	13,315
Final 2014 dividend declared and paid (note 10)	(109,383)	-	-	-	-	-	(109,383)
Interim 2015 dividend declared and paid (note 10)	(91,610)	-	-	-	-	-	(91,610)
At 31 December 2015 and 1 January 2016	1,425,527	27,806	6,972	79,179	287	(39,303)	1,500,468
Loss for the year	-	-	-	-	-	(32,465)	(32,465)
Shares issued upon exercise of share options (notes 27(iv) and 28)	37,688	(5,766)	-	-	-	-	31,922
Equity-settled share option arrangements (note 28)	-	10,372	-	-	-	-	10,372
Final 2015 dividend declared and paid (note 10)	(120,449)	-	-	-	-	-	(120,449)
Interim 2016 dividend declared and paid (note 10)	(114,713)	-	-	-	-	-	(114,713)
At 31 December 2016	1,228,053	32,412	6,972	79,179	287	(71,768)	1,275,135

- (i) Under the Companies Law (2001 Revision) of the Cayman Islands, the share premium account of the Company is distributable to its shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.
- (ii) As at 31 December 2016, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to HK\$1,235,464,000 (2015: HK\$1,465,403,000) subject to the restriction stated in note (i) above.
- (iii) The contributed surplus of the Company arose as a result of the Group's reorganisation completed on 7 December 2000 in preparation for the listing of the Company's shares, and represents the excess of the combined net assets of the subsidiaries then acquired by the Company, over the nominal value of the share capital of the Company issued in exchange therefor.
- (iv) The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will be transferred to the share premium account when the related options are exercised, or transferred to retained profits should the related options expire or be forfeited.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2016	2015	
Directly held					
Tong Da Holdings (BVI) Limited ³	British Virgin Islands ("BVI")	Ordinary US\$10,000	100	100	Investment holding
Indirectly held					
Tong Da General Holdings (H.K.) Limited	Hong Kong	Ordinary HK\$880,000	100	100	Investment holding, raw materials sourcing and trading of electrical appliance and ironware products
福建省石獅市通達電器有限公司 (Tongda Electrics Company Limited, Shishi City, Fujian) ^{1,3}	PRC/Mainland China	Registered HK\$340,000,000	100	100	Manufacture and sale of accessories for electrical appliance products
福建省石獅市通達電子有限公司 (Tongda Electronic Shishi, Fujian) ^{1,3}	PRC/Mainland China	Registered Renminbi ("RMB") 32,000,000	100	100	Manufacture and sale of resistors and other electronic products
通達五金(深圳)有限公司 (Tongda Ironware (Shenzhen) Company Limited) ^{1,3}	PRC/Mainland China	Registered HK\$100,000,000 (2015: HK\$50,000,000)	100	100	Manufacture and sale of ironware products
通達(廈門)科技有限公司 (Tongda (Xiamen) Technology Limited) ^{2,3,4} ("Xiamen Technology")	PRC/Mainland China	Registered RMB113,776,300	100	100	Manufacture and sale of precise injection and printing parts

Notes to Financial Statements

31 December 2016

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

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

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2016	2015	
Indirectly held (Continued)					
深圳通達電子有限公司 (Shenzhen Tongda Electronic Company Limited) ^{2, 3, 4} ("Shenzhen Electronic")	PRC/Mainland China	Registered HK\$45,000,000	100	100	Manufacture and sale of plastic injection and printing parts
通達宏泰科技(蘇州)有限公司 (Tongda HT Technology (Suzhou) Company Limited) ^{1, 3}	PRC/Mainland China	Registered HK\$200,000,000	100	100	Manufacture and sale of accessories for electrical appliance products
Tongda Precision Technology Company Limited ³	Hong Kong	Ordinary HK\$5,000,000	70	70	Investment holding and trading of electrical appliance products
通達(廈門)精密橡塑有限公司 Tongda (Xiamen) Elastomers Company Limited ³	PRC/ Mainland China	Registered HK\$30,000,000	70	–	Manufacture and sale of rubber products
Tongda Hong Tai Holdings Limited ³	Cayman Islands	Ordinary HK\$1,433,913	100	–	Investment holding
Tongda HT Holdings (BVI) Limited ³	BVI	Ordinary HK\$16	100	–	Investment holding
Tongda HT Technology (Hong Kong) Company Limited	Hong Kong	Ordinary HK\$2	100	–	Investment holding

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

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Notes:

1. Registered as wholly-foreign-owned enterprises under PRC law.
2. Registered as foreign-invested enterprises under PRC law.
3. The statutory financial statements of these entities are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.
4. Pursuant to a sale and purchase agreement entered into between the Group and the sole shareholder ("the Sole Shareholder") of Grand Prosper on 28 April 2015 (the "Agreement"), the Group acquired the entire issued share capital of Grand Prosper of 10,000 shares from the sole shareholder (the "Acquisition") for a cash consideration of HK\$30,357,000 and 190,000,000 ordinary shares of the Company (the "Consideration Shares") at an issue price of HK\$1.288 per share.

Grand Prosper Investments Limited ("Grand Prosper") is a private company set up in Hong Kong and acts as an investment holding company. Its principal assets were its interests in 25% of the equity interest of Xiamen Technology and Shenzhen Electronic, two indirectly held subsidiaries of the Group established in the PRC engaging in the manufacture and sale of accessories for electrical appliance products and ironware products. Xiamen Technology had an 80%-owned subsidiary, namely 通達(廈門)通訊有限公司 (Tongda (Xiamen) Communications Company Limited) ("Xiamen Communication"), established in the PRC and Xiamen Communication then had two wholly-owned subsidiaries, namely 南安展達電路有限公司 ("Nam On") and 台灣通達通訊有限公司 ("Taiwan Communication"), established in the PRC (collectively known as "Xiamen Group").

On 13 May 2015, the Group entered into a deed of transfer (the "Deed of Transfer") with the Sole Shareholder for transferring and assigning a loan of HK\$25,305,000 between Grand Prosper and the Sole Shareholder. Pursuant to the Deed of Transfer, the loan of HK\$25,305,000 originally due from Grand Prosper to the Shareholder was transferred to the Group.

On 20 July 2015, the Group issued 190,000,000 ordinary shares at the then market price of HK\$1.61 each to the Sole Shareholder to settle the Consideration Shares, resulted in additional share capital of HK\$1,900,000 and share premium of HK\$304,000,000 (before issue expense). Management considered the closing market price of HK\$1.61 per share as at the date of issue was the fair value of the Consideration Shares. Pursuant to the Agreement, the Sole Shareholder will be able to dispose of 30%, 60% and 100% of the Consideration Shares during the first, second, and third anniversaries of the completion date, respectively, and thereafter. The purchase of Grand Prosper was completed upon fulfillment of certain conditions set out in the Agreement on 20 July 2015 (the "Completion Date").

As at 31 December 2015, the cash consideration remained unsettled. The Group will settle the cash consideration upon at the earlier of i) the Sole Shareholder paying all tax required by competent tax authorities arising from the Acquisition and disposal of the Considerations Shares after the lock up period of three years or ii) five years from the Completion Date if no demand for payment of tax from tax authorities. Hence, the cash consideration of HK\$30,357,000, net of miscellaneous expenses of HK\$323,000 settled for the Sole Shareholder, was recorded as "Due to a former non-controlling shareholder of a subsidiary" under non-current liabilities on the face of the consolidated statement of financial position.

The net assets of Grand Prosper of HK\$193,592,000, including a loan previously due to the Sole Shareholder and now due to the Group of HK\$25,305,000, as at Completion Date comprised of i) share of equity interests of HK\$212,341,000, ii) a loan due to the Group of HK\$18,915,000, and iii) other miscellaneous assets of HK\$166,000. Taking into account the above total consideration, the then share of net assets of Grand Prosper of HK\$193,592,000 acquired, a net difference of HK\$142,665,000 was resulted and debited to the capital reserve upon the completion of the Acquisition. Thereafter, Grand Prosper, the former non-controlling shareholder of Xiamen Technology, Xiamen Technology and Shenzhen Electronic, the former 75%-owned subsidiaries of the Company, became wholly-owned subsidiaries of the Company. Besides, the Group's effective interest in Xiamen Group was then increased from 60% to 80%.

39. COMPARATIVE AMOUNTS

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

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2017.

Five-Year Financial Summary

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

RESULTS

	2016	2015	2014	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	7,825,077	6,074,061	4,791,346	3,627,101	3,408,091
Gross profit	1,885,355	1,512,029	1,143,635	798,013	730,647
Profit for the year attributable to:					
Owners of the Company	1,003,996	702,839	501,701	360,102	300,005
Non-controlling interests	16,478	35,136	46,509	8,876	33,509

EARNINGS PER SHARE

	2016	2015	2014	2013	2012
Basic	HK17.50 cents	HK12.60 cents	HK9.44 cents	HK7.47 cents	HK6.37 cents
Diluted	HK16.14 cents	HK11.97 cents	HK9.30 cents	HK7.36 cents	HK6.36 cents

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	2016	2015	2014	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets	3,876,065	3,053,854	2,101,461	1,608,520	1,478,120
Current assets	6,713,928	5,535,008	4,265,649	3,048,347	2,725,848
Total assets	10,589,993	8,588,862	6,367,110	4,656,867	4,203,968
Non-current liabilities	(1,590,928)	(1,484,465)	(399,007)	(293,460)	(145,116)
Current liabilities	(4,332,760)	(3,065,079)	(2,331,634)	(1,814,237)	(1,865,975)
Total liabilities	(5,923,688)	(4,549,544)	(2,730,641)	(2,107,697)	(2,011,091)
Net assets	4,666,305	4,039,318	3,636,469	2,549,170	2,192,877
Total assets less current liabilities	6,257,233	5,523,783	4,035,476	2,842,630	2,337,993
Equity attributable to owners of the Company	(4,667,898)	(4,057,186)	(3,477,194)	(2,454,877)	(2,102,106)
Non-controlling interests	1,593	17,868	(159,275)	(94,293)	(90,771)