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TONGDA GROUP HOLDINGS LIMITED

通達集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 698)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

HIGHLIGHTS

- Our turnover for the six months ended 30 June 2020 reached approximately HK\$3,990,306,000, representing an increase of approximately 2.1% as compared with that for the six months ended 30 June 2019.
- Our net profit attributable to owners of the Company for the six months ended 30 June 2020 reached approximately HK\$29,025,000, representing a decrease of approximately 90.8% as compared with that for the six months ended 30 June 2019.
- Basic earnings per share for the six months ended 30 June 2020 was HK0.45 cent, representing a decrease of approximately 90.8% as compared with that for the six months ended 30 June 2019.
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2020.

The board (the “Board”) of directors (the “Directors”) of Tongda Group Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2020 (the “Period”) together with comparative figures for the corresponding period as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE	4	3,990,306	3,908,942
Cost of sales		(3,383,091)	(3,083,099)
Gross profit		607,215	825,843
Other income and gains, net		63,705	74,607
Selling and distribution expenses		(61,853)	(58,534)
Administrative expenses		(451,725)	(427,101)
Other operating income/(expenses), net		(29,653)	74,495
Finance costs		(88,375)	(102,123)
Share of profit/(loss) of a jointly-controlled entity		(1,652)	928
PROFIT BEFORE TAX	5	37,662	388,115
Income tax expense	6	(6,851)	(72,113)
PROFIT FOR THE PERIOD		30,811	316,002
Attributable to:			
Owners of the Company		29,025	315,777
Non-controlling interests		1,786	225
		30,811	316,002
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	8		
– Basic		HK0.45 cent	HK4.87 cents
– Diluted		HK0.45 cent	HK4.87 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT FOR THE PERIOD	<u>30,811</u>	<u>316,002</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(expense) that will not be reclassified to profit or loss in subsequent periods:		
Loss on property revaluation	(2,424)	(252)
Income tax effect	<u>343</u>	<u>42</u>
	<u>(2,081)</u>	<u>(210)</u>
Other comprehensive income/(expense) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations		
– subsidiaries	(13,385)	174,015
– jointly-controlled entity	<u>(136)</u>	<u>1,701</u>
	<u>(13,521)</u>	<u>175,716</u>
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD, NET OF TAX	<u>(15,602)</u>	<u>175,506</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>15,209</u>	<u>491,508</u>
ATTRIBUTABLE TO:		
Owners of the Company	13,427	492,142
Non-controlling interests	<u>1,782</u>	<u>(634)</u>
	<u>15,209</u>	<u>491,508</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited 30 June 2020 <i>HK\$'000</i>	Audited 31 December 2019 <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	9	5,361,536	5,088,849
Right-of-use assets		424,989	410,606
Investment in a jointly-controlled entity		60,193	61,981
Long term deposits		452,911	531,145
Lease receivable		8,721	13,067
Deferred tax assets		3,703	3,703
		6,312,053	6,109,351
TOTAL non-current assets			
CURRENT ASSETS			
Inventories	10	2,001,467	2,244,890
Trade and bills receivables	11	2,923,360	2,946,188
Prepayments, deposits and other receivables		503,785	545,077
Due from a jointly-controlled entity		74,085	65,973
Loans to a jointly-controlled entity		134,576	134,871
Loan receivable		–	3,154
Lease receivable		8,216	7,721
Tax recoverable		2,649	28,607
Pledged deposits		427,307	409,872
Cash and cash equivalents		868,703	1,077,676
		6,944,148	7,464,029
TOTAL current assets			
CURRENT LIABILITIES			
Trade and bills payables	12	2,509,213	2,948,445
Accrued liabilities and other payables		414,179	514,299
Interest-bearing bank and other borrowings		2,276,885	2,632,800
Lease liabilities		19,776	18,345
Due to a jointly-controlled entity		48,939	65,997
Due to a former non-controlling shareholder of a subsidiary		30,034	30,034
Tax payable		95,212	134,416
		5,394,238	6,344,336
TOTAL current liabilities			
NET CURRENT ASSETS		1,549,910	1,119,693
TOTAL ASSETS LESS CURRENT LIABILITIES		7,861,963	7,229,044

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	1,748,125	1,117,339
Lease liabilities	28,627	37,827
Deferred tax liabilities	90,864	91,500
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Total non-current liabilities	1,867,616	1,246,666
	<hr/>	<hr/>
Net assets	5,994,347	5,982,378
	<hr/>	<hr/>
EQUITY		
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Share capital	64,795	64,795
Reserves	5,891,491	5,881,425
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	5,956,286	5,946,220
	<hr/>	<hr/>
NON-CONTROLLING INTERESTS		
	38,061	36,158
	<hr/>	<hr/>
Total equity	5,994,347	5,982,378
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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands.

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

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are manufacture and sale of components of handset casings and high-precision components, smart electrical appliances casings, household and sports goods and network communications facilities and others. There were no significant changes in the nature of the subsidiaries' principal activities during the Period.

2. BASIS OF PRESENTATION

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

3. ACCOUNTING POLICIES

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

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

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

4. OPERATING SEGMENT INFORMATION

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

	Unaudited six months ended 30 June									
	Handset casings and high-precision components		Smart electrical appliances casings		Household and sports goods		Network communications facilities and others		Consolidated	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	3,149,336	2,856,176	268,094	342,517	289,966	327,843	282,910	382,406	3,990,306	3,908,942
Segment results before depreciation	317,202	552,507	(20,407)	26,592	38,583	56,140	20,706	42,714	356,084	677,953
Depreciation of property, plant and equipment	(197,294)	(177,757)	(17,655)	(20,385)	(11,872)	(7,677)	(39,618)	(35,029)	(266,439)	(240,848)
Depreciation of right-of-use assets	(6,855)	(2,441)	(816)	(1,809)	(693)	–	(4,293)	(5,832)	(12,657)	(10,082)
Segment results	113,053	372,309	(38,878)	4,398	26,018	48,463	(23,205)	1,853	76,988	427,023
Unallocated income									63,705	74,607
Corporate and other unallocated expenses									(14,313)	(13,312)
Finance costs (other than interest expenses on lease liabilities)									(87,066)	(101,131)
Share of profit/(loss) of a jointly-controlled entity									(1,652)	928
Profit before tax									37,662	388,115
Income tax expense									(6,851)	(72,113)
Profit for the period									30,811	316,002

4. OPERATING SEGMENT INFORMATION (Continued)

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

	Unaudited 30 June 2020				Consolidated HK\$'000
	Handset casings and high-precision components HK\$'000	Smart electrical appliances casings HK\$'000	Household and sports goods HK\$'000	Network communications facilities and others HK\$'000	
Segment assets	<u>8,085,151</u>	<u>848,380</u>	<u>524,863</u>	<u>2,226,592</u>	11,684,986
Unallocated assets					<u>1,571,215</u>
Total assets					<u>13,256,201</u>
Segment liabilities	<u>2,278,926</u>	<u>194,488</u>	<u>171,291</u>	<u>327,091</u>	2,971,796
Unallocated liabilities					<u>4,290,058</u>
Total liabilities					<u>7,261,854</u>
	31 December 2019				
	Handset casings and high-precision components HK\$'000	Smart electrical appliances casings HK\$'000	Household and sports goods HK\$'000	Network communications facilities and others HK\$'000	Consolidated HK\$'000
Segment assets	<u>8,134,648</u>	<u>924,907</u>	<u>577,909</u>	<u>2,150,079</u>	11,787,543
Unallocated assets					<u>1,785,837</u>
Total assets					<u>13,573,380</u>
Segment liabilities	<u>2,773,735</u>	<u>223,312</u>	<u>210,744</u>	<u>311,125</u>	3,518,916
Unallocated liabilities					<u>4,072,086</u>
Total liabilities					<u>7,591,002</u>

4. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

During the Period, management amended the geographical classification to i) PRC, ii) Asia Pacific (excluding PRC), iii) United States and iv) Others to better present the Group's geographical information. Accordingly, the related comparative amounts have been reclassified to conform with current period's presentation.

The following table presents unaudited revenue for the Group's geographical information for the six months ended 30 June 2020 and 2019.

	Unaudited six months ended 30 June									
	PRC*		Asia Pacific (excluding PRC)		United States		Others		Consolidated	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from customers										
Segment revenue:										
Sales to external customers [#]	<u>3,300,014</u>	<u>3,059,191</u>	<u>426,111</u>	<u>651,075</u>	<u>92,027</u>	<u>84,891</u>	<u>172,154</u>	<u>113,785</u>	<u>3,990,306</u>	<u>3,908,942</u>

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

* People's Republic of China ("PRC") including Hong Kong and Macau.

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

Information about major customers

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

	Unaudited Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Customer A	1,609,921	1,262,520
Customer B	N/A*	560,949
Customer C	<u>398,228</u>	<u>407,687</u>
	<u>2,008,149</u>	<u>2,231,156</u>

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

* Revenue from Customer B individually accounted for less than 10% of the total revenue of the Group for the six months ended 30 June 2020.

5. PROFIT BEFORE TAX

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

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	266,439	240,848
Depreciation of right-of-use assets	12,657	10,082
Research and development costs	202,279	171,236
Salaries and wages	845,012	944,419
Impairment of trade receivables	17,479	8,435
Write-back of impairment of trade receivables	(70)	(1,197)
Provision against obsolete inventories	1,869	13,081
Foreign exchange differences, net	11,180	(85,562)
Loss on disposal of items of property, plant and equipment	196	72
Interest income	(4,424)	(3,546)

6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the Period, except for the Company which is a qualifying entity under the two-tier profits tax rates regime effective from the year of assessment 2018/2019. The first HK\$2,000,000 of assessable profits of the Company is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

6. INCOME TAX (Continued)

During the six months ended 30 June 2020, 福建省石獅市通達電器有限公司 (Tongda Electrics Company Limited, Shishi City, Fujian), 通達(廈門)科技有限公司 (Tongda (Xiamen) Technology Limited), 深圳通達電子有限公司 (Shenzhen Tongda Electronic Company Limited), 通達創智(廈門)股份有限公司 (Tongda Smart Tech (Xiamen) Co., LTD) (previously named as “廈門市通達創智實業有限公司 (Tongda (Xiamen) Smart Tech Industry Company Limited)”), 通達(廈門)精密橡塑有限公司 (Tongda (Xiamen) Elastomers Company Limited) and 通達揚帆科技(東莞)有限公司 (Tongda Yangfan Technology (Dongguan) Company Limited) were subject to a preferential tax rate of 15% under High New Technology Enterprises.

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Current – Hong Kong		
Charge for the period	4,740	13,003
Under/(overprovision) in prior years	(13,242)	5
	<u>(8,502)</u>	<u>13,008</u>
Current – Elsewhere	<u>15,646</u>	<u>56,549</u>
Deferred	<u>(293)</u>	<u>2,556</u>
Total tax charge for the period	<u>6,851</u>	<u>72,113</u>

7. DIVIDENDS

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Dividends paid during the period:		
Final dividend declared of HK0.05 cent per ordinary share in respect of the financial year ended 31 December 2019 (2019: final dividend declared and paid in respect of the financial year ended 31 December 2018 – HK0.8 cent per ordinary share)	<u>3,240</u>	<u>51,836</u>

At the board meeting held on 20 August 2020, the Board did not recommend the payment of any interim dividend for the Period (six months ended 30 June 2019: declared and approved an interim dividend of HK1.0 cent per ordinary share totalling HK\$64,795,000).

8. EARNINGS PER SHARE

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

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Earnings:		
Profit for the period attributable to owners of the Company used in the basic earnings per share calculation	<u>29,025</u>	<u>315,777</u>
	<i>'000</i>	<i>'000</i>
Number of shares:		
Number of ordinary shares for the purpose of basic earnings per share	<u>6,479,505</u>	<u>6,479,505</u>

9. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired property, plant and equipment of approximately HK\$552,748,000 (30 June 2019: HK\$570,182,000). In addition, the Group disposed of certain items of property, plant and equipment with a carrying amount of approximately HK\$1,522,000 (30 June 2019: HK\$14,113,000) for proceeds of approximately HK\$1,326,000 (30 June 2019: HK\$14,041,000).

At 30 June 2020, the Group's leasehold building and the related right-of-use asset situated in Hong Kong were revalued at the end of the reporting period based on valuations performed by Asset Appraisal Ltd., an independent firm of professionally qualified valuers, at HK\$51,000,000 (31 December 2019: HK\$53,500,000). In the opinion of the directors, the current use of the leasehold building in Hong Kong and the related right-of-use asset is its highest and best use.

A revaluation loss of HK\$2,424,000 (30 June 2019: loss of HK\$252,000), resulting from the above valuation, has been debited to asset revaluation reserve. The resulting decrease in deferred tax liability of HK\$343,000 (30 June 2019: decrease in deferred tax liability of HK\$42,000) arising from the revaluation has also been credited in the asset revaluation reserve.

The Group's leasehold building and the related right-of-use asset situated in Hong Kong with a net carrying amount of HK\$51,000,000 (31 December 2019: HK\$53,500,000) were pledged to secure bank loans granted to the Group.

10. INVENTORIES

	Unaudited	Audited
	30 June	31 December
	2020	2019
	HK\$'000	HK\$'000
Raw materials	468,623	557,946
Work in progress	454,080	524,918
Finished goods	<u>1,078,764</u>	<u>1,162,026</u>
	<u>2,001,467</u>	<u>2,244,890</u>

As at 30 June 2020, moulds of HK\$458,131,000 (31 December 2019: HK\$448,733,000) are included in the finished goods.

11. TRADE AND BILLS RECEIVABLES

	Unaudited	Audited
	30 June	31 December
	2020	2019
	HK\$'000	HK\$'000
Trade receivables	2,849,754	2,898,369
Impairment allowances	<u>(52,520)</u>	<u>(38,371)</u>
	2,797,234	2,859,998
Bills receivables	<u>126,126</u>	<u>86,190</u>
	<u>2,923,360</u>	<u>2,946,188</u>

It is the general policy of the Group to allow a credit period of three to six months. In addition, for certain customers with long-established relationships and good repayment histories, a longer credit period may be granted in order to maintain a good relationship. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by management. Trade receivables are non-interest bearing. At the end of reporting period, 39.4% (31 December 2019: 32.2%) and 60.9% (31 December 2019: 53.8%) of the total trade and bills receivables were due from the Group's largest customer and the five largest customers, respectively.

11. TRADE AND BILLS RECEIVABLES (Continued)

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

	Unaudited 30 June 2020 <i>HK\$'000</i>	Audited 31 December 2019 <i>HK\$'000</i>
Within 3 months	2,746,879	2,733,957
4 to 6 months, inclusive	155,977	183,509
7 to 9 months, inclusive	16,657	12,816
10 to 12 months, inclusive	2,642	9,422
More than 1 year	53,725	44,855
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	2,975,880	2,984,559
Impairment allowances	(52,520)	(38,371)
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	2,923,360	2,946,188
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12. TRADE AND BILLS PAYABLES

	Unaudited 30 June 2020 <i>HK\$'000</i>	Audited 31 December 2019 <i>HK\$'000</i>
Trade payables	1,187,176	1,611,979
Bills payable	1,322,037	1,336,466
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	2,509,213	2,948,445
	<hr/>	<hr/>

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

	Unaudited 30 June 2020 <i>HK\$'000</i>	Audited 31 December 2019 <i>HK\$'000</i>
Within 3 months	1,809,450	2,240,609
4 to 6 months, inclusive	622,293	665,114
7 to 9 months, inclusive	26,380	17,345
10 to 12 months, inclusive	14,266	6,466
More than 1 year	36,824	18,911
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	2,509,213	2,948,445
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MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the Period, the Group's turnover increased from HK\$3,908.9 million in the same period last year by 2.1% to HK\$3,990.3 million. Profit attributable to owners of the Company decreased from HK\$315.8 million in the same period last year by 90.8% to HK\$29.0 million during the Period.

Revenue

During the Period, given the impacts of the outbreak of the novel coronavirus pandemic (the "Pandemic"), global mobile phone shipments recorded a year-on-year decline. However, as the Group's products continued to be adopted by more major mobile phone models, the Group's revenue still recorded a growth of 2.1%, from HK\$3,908.9 million in the same period last year to HK\$3,990.3 million during the Period.

Gross Profit and Margin

The Group's gross profit for the Period decreased by 26.5% to HK\$607.2 million and the gross profit margin was 15.2%, which was 5.9 percentage points lower than that of the same period last year. The decrease in gross profit margin was mainly due to the keen competition faced by the Group's existing products and the spread of the Pandemic throughout the world during the Period, resulting in the delay of the Group's expected product upgrades.

Other Income and Gains, net

During the Period, other income and gains, net decreased by 14.6% or HK\$10.9 million, to HK\$63.7 million compared with the same period last year. The decrease in other income and gains, net was mainly due to the decrease in government grants.

Selling and Distribution Expenses

During the Period, selling and distribution expenses increased by 5.7% or HK\$3.3 million, to HK\$61.9 million, accounting for 1.6% of the Group's revenue, which was 0.1 percentage point higher than that of the same period last year. The increase was in line with the increase in sales during the Period.

Administrative Expenses

During the Period, administrative expenses increased by 5.8% or HK\$24.6 million, to HK\$451.7 million, accounting for 11.3% of the Group's revenue, which was 0.4 percentage point higher than that of the same period last year. The increase in administrative expenses was mainly attributable to the increase in research and development ("R&D") expenses for continuous investment in R&D projects and further business development.

Other Operating Income/(Expenses), net

During the Period, the Group recorded net other operating expenses of HK\$29.7 million, compared with net other operating income of HK\$74.5 million for the same period last year. The decline was mainly due to the booking of an exchange loss of HK\$11.2 million during the Period, versus an exchange gain of HK\$85.6 million recorded in the same period last year.

Finance Costs

During the Period, finance costs decreased by 13.4% or HK\$13.7 million, to HK\$88.4 million. The decrease was mainly due to the lower average interest rate during the Period.

Profit Attributable to Owners of the Company for the Period

Profit attributable to owners of the Company decreased by 90.8% from HK\$315.8 million in the same period last year to HK\$29.0 million during the Period, and the net profit margin attributable to owners of the Company decreased to 0.7% (30 June 2019: 8.1%), which was mainly due to the decrease in gross profit and the Group recorded a net loss arising from exchange difference during the Period, versus a net gain from exchange difference in the same period last year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group is in a healthy financial position. The Group derives its working capital mainly from cash on hand and net cash generated from operating activities. The Board expects that the Group will rely on net cash generated from operating activities, bank borrowings and debt financing to meet its working capital and other capital expenditure requirements in the short run. In the long run, the Group will be funded by net cash from operating activities, and if necessary, by additional bank borrowings and debt financing. There were no material changes in the funding and financial policies of the Group for the six months ended 30 June 2020.

As at 30 June 2020, the Group has cash and cash equivalents and pledged deposits balance of HK\$1,296.0 million (31 December 2019: HK\$1,487.5 million) without holding any structural investment contract.

HK\$427.3 million (31 December 2019: HK\$409.9 million) of the Group's cash and bank balances of HK\$1,296.0 million (31 December 2019: HK\$1,487.5 million) has been pledged to banks as security for trade financing.

As at 30 June 2020, the Group had total assets of HK\$13,256.2 million (31 December 2019: HK\$13,573.4 million), net current assets of HK\$1,549.9 million (31 December 2019: HK\$1,119.7 million) and equity of HK\$5,994.3 million (31 December 2019: HK\$5,982.4 million).

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

CAPITAL EXPENDITURE

The total capital expenditure incurred for the Period was HK\$579.9 million (31 December 2019: HK\$925.6 million), which was mainly used in the acquisition of production equipment and the construction of new manufacturing plants.

TREASURY POLICY

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

CHARGES ON GROUP ASSETS

Apart from bank deposits amounting to HK\$427.3 million (31 December 2019: HK\$409.9 million) that were pledged to banks and a leasehold building in Hong Kong together with the related right-of-use asset, with a total carrying amount of HK\$51.0 million (31 December 2019: HK\$53.5 million) mortgaged by the Group as at 30 June 2020, the Group had not pledged its assets to any financial institutions.

HUMAN RESOURCES

As at 30 June 2020, the Group employed a total of approximately 21,000 (30 June 2019: 19,000) permanent employees in Hong Kong and the PRC. The total salaries and wages for the six months ended 30 June 2020 amounted to HK\$845.0 million (30 June 2019: HK\$944.4 million).

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

GEARING RATIO AND INDEBTEDNESS

As at 30 June 2020, the gearing ratio of the Group (consolidated net borrowings/total equity) was 45.5% (31 December 2019: 37.8%).

As at 30 June 2020, other than the non-current portion of bank borrowings of HK\$1,748.1 million (31 December 2019: HK\$1,117.3 million), the Group had bank and other borrowings of HK\$2,276.9 million (31 December 2019: bank loans of HK\$2,632.8 million) which will be repayable within one year from the end of the Period.

Bank borrowings carry interest rate ranging from 1.70% per annum ("p.a.") to 6.18% p.a. (31 December 2019: carry interest rate ranging from 2.06% p.a. to 6.18% p.a.).

BUSINESS REVIEW

The Group is a world-leading solution provider of high-precision components for smart mobile communications and consumer electronics products, and provides customers with one-stop solutions from product design, technological R&D to manufacturing. Its products cover handsets, smart electrical appliances, automotive, household and sports goods and network communications facilities.

Despite the inevitable impacts affected by the Pandemic during the Period, the Group still recorded revenue amounting to HK\$3,990.3 million, an increase of 2.1% from HK\$3,908.9 million compared with the same period last year. However, as the expected product upgrade was delayed during the Period and the existing products encountered keen competition, gross profit margin of the Group decreased to 15.2%. In addition, the Group recorded a net exchange loss of HK\$11.2 million during the Period (a net exchange gain of HK\$85.6 million was recorded in the same period last year), leading the net profit attributable to owners of the Company decreased by 90.8% during the Period, from HK\$315.8 million in the same period last year to HK\$29.0 million during the Period.

Handset casings and high-precision components

This segment primarily comprises various handset casings, waterproof/dustproof/shockproof (“tri-proof”) high-precision components, high-precision insert molding parts and high-precision rubber molding parts. This segment recorded an increase of 10.3% in turnover from HK\$2,856.2 million in the same period last year to HK\$3,149.3 million, representing 78.9% of the Group’s total turnover.

The global shipment volume for handsets recorded a year-on-year decline due to the impacts of the Pandemic during the Period. The progress of launching new products by various handset brands was therefore being affected and the expected product upgrade was also delayed accordingly. Despite the fierce competition, the main products developed by the Group such as 2.5D, 3D and uni-body Glastic casings are quickly adopted by various models of smartphone brands so that there was still growth in market shares by the Group during the Period. At the same time, the Group provides 2.5D/3D glass back covers and metal middle frames in order to meet the demand for different price ranges in the market.

As for the high-precision components, the unit prices and gross profit margin of the order were under short-term pressure due to the lack of obvious upgrade in high-precision components provided by the Group for new handset models of international customers and the impacts of the Pandemic on the downstream assembly process during the Period.

Smart electrical appliances casings

This segment primarily engages in the production of control panels, metal accessories and casings for high-end electrical appliances for Chinese and international brands. During the Period, as the Group continued to restructure its resources and reduced the order with lengthy turnover period of capital, the sales of that business decreased by 21.7% from HK\$342.5 million in the same period last year to HK\$268.1 million, representing 6.7% of the total turnover.

Household and sports goods

The Group primarily supplies durable household goods, household utensils, sports goods and healthcare goods to sizable European and American brands. Given the impacts of the Pandemic, customer orders were delayed. Sales of this division decreased by 11.5% from HK\$327.8 million in the same period last year to HK\$290.0 million during the Period, representing 7.3% of the total turnover. The Group has announced the possible spin-off of that business and separate listing on the ChiNext Board of the Shenzhen Stock Exchange.

Network communications facilities and others

During the Period, segment revenue decreased by 26.0% from HK\$382.4 million in the same period last year to HK\$282.9 million, representing 7.1% of the turnover. The Group mainly produces casings of set-top boxes and routers as well as automotive interior decorations. During the Period, the automotive market was weak due to the impacts of the Pandemic, which affected the automotive business of the Group.

The proportion of total revenue by product categories for the Period and a comparison with the same period last year are as follows:

	2020	2019
i. Handset casings and high-precision components	78.9%	73.1%
ii. Smart electrical appliances casings	6.7%	8.7%
iii. Household and sports goods	7.3%	8.4%
iv. Network communications facilities and others	7.1%	9.8%

Prospects

As global economic activities gradually resume to normal operations, the Group expects demand in the handset market to be steadily recovering as a result of the revitalising consumption power driven by the gradual lifting of lockdowns in various countries. Since the introduction of 5G handsets to China's handset market in 2019, dozens of 5G handset models have been competing in the market after the launch of a series of joint promotion by telecommunication companies and handset brands. Though 5G handsets are still at their beginning stage in the global market, and the progress of the roll out of 5G base station still requires further observation, it is expected that 5G handsets will still be the highlight of growth in the market in the coming two to three years. While the market expects that the shipment volume of 5G handsets can increase swiftly, there will also be potential upgrades of conceptual design for the Group's casings from 2.5D Glastic casings to the 3D and uni-body Glastic casings, thereby increasing the pricing of product mix and the profit margins.

In terms of pricing, various handset brands are still actively launching middle to low-end handsets and the marketing promotion of 5G handsets tends to highlight "4G price in exchange for 5G-enabled devices". The Group's new market-leading products with relatively high technological entry barriers such as 3D and uni-body Glastic casings can meet the demand for mid-range casings with "high texture and highly competitive pricing". Given that the six largest global handset brands are already the customers of the Group, this will help the Group to increase its market share in the handset market.

The Group will continue to focus on its handset and high-precision components businesses. Apart from striving to capture handset product orders from each international customer, the Group will also develop peripheral industry encompassing the production lines of its existing brands. Given that the popularity of 5G may drive the trend for the artificial intelligence industry in the long run, the Group has diversified its resources for business development relating to that sector, which mainly focuses on household smart appliances and mobile appliances. The Group is aware that the international environment will be complicated and changeable in coming years. In the future, the Group will continue to focus on the R&D of new products, new sectors and the application of new materials. Meanwhile, the Group will continue to optimise its organisational structure, to recruit and train talents in different fields, while engaging in sophistication of production line management and enhancement of various cost controls on and off the production lines, as well as improving automation, in order to strengthen its own competitiveness while flexibly responding to the ever-changing market conditions, and explore business opportunities.

SUPPLEMENTARY INFORMATION

Interim Dividend

The Board does not recommend the payment of any interim dividend for the Period (2019: declared an interim dividend of HK1.0 cent per ordinary share).

Purchase, Sale or Redemption of the Company's Securities

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

Corporate Governance

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

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

Code provision A.2.1 of the CG Code states that the roles of chairman and chief executive should be separated and should not be performed by the same individual. The Company does not have a separate chairman and chief executive and Mr. Wang Ya Nan currently holds both positions. The Board believes that vesting the roles of both chairman and chief executive in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies. The current structure is considered to be the most appropriate under specific circumstances.

Audit Committee

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

The AC had reviewed the unaudited interim results of the Group for the Period prior to the submission to the Board for approval.

Model Code of Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry of all Directors that they have fully complied with the required standard set out in the Model Code throughout the Period.

Events after the Reporting Period

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

Publication of Interim Results Announcement and Interim Report

This announcement is published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the Company’s website at <http://www.tongda.com>. The full interim report will be made available on the website of the Stock Exchange and the Company in due course.

APPRECIATION

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

By Order of the Board
Tongda Group Holdings Limited
Wang Ya Nan
Chairman

Hong Kong, 20 August 2020

As at the date of this announcement, the Board comprises Mr. Wang Ya Nan, Mr. Wang Hung Man, Mr. Wong Ming Sik, Mr. Wong Ming Yuet and Mr. Hui Wai Man as executive Directors; Ms. Chan Sze Man as non-executive Director; and Dr. Yu Sun Say, GBM, GBS, SBS, JP, Mr. Cheung Wah Fung, Christopher, SBS, JP and Mr. Ting Leung Huel Stephen as independent non-executive Directors.