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TONGDA HONG TAI HOLDINGS LIMITED

通達宏泰控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2363)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022**

HIGHLIGHTS

- Revenue of the Group in 2022 was approximately HK\$150.5 million, representing a decrease of approximately 59.4% as compared with the revenue of approximately HK\$370.7 million in 2021.
- The net loss attributable to the equity holders of the Company for 2022 amounted to approximately HK\$231.4 million as compared with approximately HK\$197.0 million in 2021.
- Basic loss per share for 2022 was approximately HK37.41 cents (2021: HK85.38 (restated) cents).
- The Board did not recommend the payment of any dividend for the year ended 31 December 2022 (2021: Nil).

The board (the “Board”) of directors (the “Directors”) of Tongda Hong Tai Holdings Limited (the “Company”) announces the consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2022 (the “Year”), together with the comparative figures for the previous year, as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2022

	<i>Notes</i>	2022 HK\$’000	2021 HK\$’000
REVENUE	5	150,545	370,693
Cost of sales		<u>(264,477)</u>	<u>(481,468)</u>
Gross loss		(113,932)	(110,775)
Other income	5	998	3,073
Selling and distribution expenses		(4,996)	(7,976)
General and administrative expenses		(52,942)	(69,357)
Other operating expenses, net		(54,700)	(4,372)
Finance costs	6	<u>(5,851)</u>	<u>(7,553)</u>
LOSS BEFORE TAX	7	(231,423)	(196,960)
Income tax expense	8	<u>—</u>	<u>—</u>
LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		<u>(231,423)</u>	<u>(196,960)</u>
			(Restated)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	10	<u>HK(37.41) cents</u>	<u>HK(85.38) cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022	2021
	HK\$'000	HK\$'000
LOSS FOR THE YEAR	<u>(231,423)</u>	<u>(196,960)</u>
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income/(expense) that may be reclassified to the income statement in subsequent periods, net of tax:		
Exchange differences on translation of a foreign operation	<u>11,135</u>	<u>(1,558)</u>
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	<u>(220,288)</u>	<u>(198,518)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		8,271	33,914
Right-of-use assets		6,132	10,140
Long term deposits		497	2,299
		<hr/>	<hr/>
Total non-current assets		14,900	46,353
CURRENT ASSETS			
Inventories	<i>11</i>	49,912	183,582
Trade and bills receivables	<i>12</i>	57,771	174,949
Prepayments, deposits and other receivables		12,236	13,704
Tax recoverable		832	893
Restricted bank balances		3,125	3,327
Cash and bank balances		7,603	11,038
		<hr/>	<hr/>
Total current assets		131,479	387,493
CURRENT LIABILITIES			
Trade payables	<i>13</i>	47,623	139,135
Other payables and accruals		88,482	32,636
Interest-bearing bank borrowings		–	74,859
Loans from related parties		8,041	213,698
Lease liabilities		5,209	5,042
		<hr/>	<hr/>
Total current liabilities		149,355	465,370
NET CURRENT LIABILITIES		(17,876)	(77,877)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		(2,976)	(31,524)
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Lease liabilities		16,430	11,480
Other payable		184,013	–
		<hr/>	<hr/>
Total non-current liabilities		200,443	11,480
		<hr/>	<hr/>
Net liabilities		(203,419)	(43,004)
		<hr/>	<hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*31 December 2022*

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
DEFICIENCY			
Equity attributable to equity holders of the Company			
Issued capital	<i>14</i>	6,807	2,269
Deficit		(210,226)	(45,273)
Total deficit		(203,419)	(43,004)

NOTES

1. CORPORATE AND GROUP INFORMATION

Tongda Hong Tai Holdings Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

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

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through other comprehensive income 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.

Going concern assumptions

The Group incurred net loss of approximately HK\$231,423,000 (2021: HK\$196,960,000) for the year ended 31 December 2022. As at 31 December 2022, the Group had net current liabilities of HK\$17,876,000 (2021: HK\$77,877,000) and net liabilities of HK\$203,419,000 (2021: HK\$43,004,000).

These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern.

The consolidated financial statements have been prepared on the assumptions that the Group will continue to operate as a going concern notwithstanding the conditions prevailing as at 31 December 2022 and subsequently thereto up to the date when the consolidated financial statements are authorised for issue. In order to improve the Group’s financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the directors of the Company have adopted several measures together with other measures in progress at the date when the consolidated financial statements are authorised for issue, but not limited to, the followings:

- (a) Implementing comprehensive policies to monitor cash flows through cutting costs and capital expenditure;
- (b) On the date of this result announcement, the Group has negotiated with Mr. Wang Ya Nan and independent third party and they agreed not to demand the amount due to him of HK\$2,400,000 and HK\$60,000,000 as at 31 December 2022 within the next twelve months from the date of this result announcement. Letter of undertakings are obtained; and

- (c) Mr. Wang Ya Nan, one of the controlling shareholders of the Company has committed to provide continuous financial support to the Group as is necessary to enable the Group to meet its financial obligations as they fall due within the next twelve months from the date of this result announcement. Letter of financial support is obtained from Mr. Wang Ya Nan.

The directors of the Company have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of not less than twelve months from the date of this result announcement. They are of the opinion that, taking into account the abovementioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from the date of this result announcement. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to write down the carrying amounts of the Group's assets to their recoverable amounts, to provide for any further liabilities that may arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following amended HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKFRS 16 (March 2021)	<i>Covid-19 Related Rent Concessions beyond 30 June 2021</i>
Annual Improvements Project	<i>Annual Improvements to HKFRS Standards 2018-2020</i>
Amendments to Accounting Guideline 5	<i>Merger Accounting for Common Control Combinations</i>

The adoption of the amendments to standards did not have any material impact on the Group's results and financial position for the current or prior year.

4. OPERATING SEGMENT INFORMATION

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

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

Information about major customers

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Customer A	71,665	95,538
Customer B	27,973	95,368
Customer C	24,404	49,941
	<u>124,042</u>	<u>240,847</u>

5. REVENUE AND OTHER INCOME

An analysis of revenue is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<i>Revenue from contracts with customers</i>		
Sale of casings of notebook and tablet	<u>150,545</u>	<u>370,693</u>

Revenue from contracts with customers

Performance obligation

Sale of casings of notebook and tablet

The performance obligation is satisfied upon delivery of the goods and payment is generally due within one to four months from delivery, except for new customers, where payment in advance is normally required.

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Other income		
Bank interest income	25	26
Sale of scrap materials	779	2,811
Government grants*	194	236
	<hr/> 998 <hr/>	<hr/> 3,073 <hr/>

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

6. FINANCE COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest on bank borrowings	1,826	5,106
Interest on lease liabilities	1,067	771
Interest on loans from a shareholder	–	1,676
Interest on loan from an independent third party	2,958	–
	<hr/> 5,851 <hr/>	<hr/> 7,553 <hr/>

7. LOSS BEFORE TAX

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Cost of inventories sold ¹	264,477	481,468
Depreciation of property, plant and equipment	7,080	6,964
Depreciation of right-of-use assets	5,258	4,074
Research and development costs ²	16,631	23,224
Lease payments not included in the measurement of lease liabilities	168	168
Employee benefit expense (excluding directors' remuneration):		
Salaries and wages	43,331	63,247
Pension scheme contributions [#]	11,111	14,975
	<u>54,442</u>	<u>78,222</u>
Auditor's remuneration		
– Annual audit services	1,280	1,180
– Non-audit services	–	280
Impairment of/(reversal of impairment of) trade receivables*	2,727	(68)
Gain on early termination of leases*	(4,178)	–
Write-off of prepayments*	9,488	1,214
Provision for inventories	127,321	109,111
Loss on disposal/write-off of items of property plant and equipment*	1,116	1,305
Impairment of property, plant and equipment*	18,667	–
Impairment of right-of-use assets*	13,840	–
Foreign exchange differences, net*	<u>10,385</u>	<u>2,465</u>

* Impairment of/(reversal of impairment of) trade receivables, write-off of prepayments, loss on disposal/write-off of items of property, plant and equipment, impairment of property, plant and equipment, impairment of right-of-use assets, gain on early termination of leases and foreign exchange differences, net, are included in "Other operating expenses, net" on the face of the consolidated income statement.

At 31 December 2022, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2021: Nil).

¹ Cost of inventories sold includes HK\$161,755,000 (2021: HK\$165,736,000) relating to employee benefit expense, lease payments not included in the measurement of lease liabilities, provision for inventories, and depreciation, which are also included in the respective total amounts disclosed above for each of these types of expenses.

² Research and development costs include HK\$14,868,000 (2021: HK\$21,718,000) relating to depreciation of a research and development centre and employee benefit expense for research and development activities, which are also included in the respective total amounts disclosed above for each of these types of expenses.

8. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the Year (2021: Nil). No provision for profits tax in Mainland China has been made as the Group did not generate any assessable profits during the Year (2021: Nil).

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

通達宏泰科技(蘇州)有限公司 (Tongda HT Technology (Suzhou) Company Limited), as a High New Technology Enterprise, was subject to a preferential tax rate of 15% starting from the year ended 31 December 2022 for three years.

9. DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31 December 2022 (2021: Nil).

10. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

For the year ended 31 December 2022, the calculation of the basic loss per share amount is based on the loss for the year attributable to the equity holders of the Company of HK\$231,423,000 (2021: HK\$196,690,000), and the weighted average number of ordinary shares of 618,584,238 (2021: 230,692,452 (restated)) has been adjusted for the bonus element of the rights issue on 21 February 2022.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2022 and 2021.

11. INVENTORIES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Raw materials	5,800	18,127
Work in progress	12,677	131,129
Finished goods	31,435	34,326
	<u>49,912</u>	<u>183,582</u>

12. TRADE AND BILLS RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	59,749	172,057
Impairment	(3,068)	(1,838)
	<u>56,681</u>	<u>170,219</u>
Bills receivable	1,090	4,730
	<u>57,771</u>	<u>174,949</u>

As at 31 December 2022, gross trade receivables of certain customers of HK\$Nil (2021: HK\$91,088,000), which are designated in trade receivable factoring arrangements entered into between the Group and certain banks in the PRC, and bills receivable of HK\$1,090,000 (2021: HK\$4,730,000) were measured at fair value through other comprehensive income as these trade and bills receivables are managed within a business model with the objective of both holding to collect contractual cash flows and selling for working capital management and the contractual terms of these receivables give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one to four months. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing. As at 31 December 2022, 61.3% (2021: 26.8%) and 89.7% (2021: 94.4%) of the total trade and bills receivables were due from the Group's largest customer and five largest customers, respectively.

An ageing analysis of the Group's trade receivables (based on the invoice date) and bills receivable (based on the issue date) as at the end of the reporting period, and net of loss allowance, is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 3 months	44,375	141,628
4 to 6 months, inclusive	12,838	33,321
7 to 9 months, inclusive	484	–
10 to 12 months, inclusive	74	–
	<hr/> 57,771	<hr/> 174,949

13. TRADE PAYABLES

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 3 months	26,464	88,358
4 to 6 months, inclusive	8,527	28,781
7 to 9 months, inclusive	4,196	14,965
10 to 12 months, inclusive	4,060	4,219
Over 1 year	4,376	2,812
	<hr/> 47,623	<hr/> 139,135

14. ISSUED CAPITAL

	Number of ordinary shares of HK\$0.01 each	Nominal value of ordinary shares HK\$'000
Authorised:		
As at 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	<u>1,000,000,000</u>	<u>10,000</u>
Issued and fully paid:		
As at 1 January 2021	189,115,638	1,891
Issuance of shares upon placing (<i>Note (a)</i>)	<u>37,800,000</u>	<u>378</u>
As at 31 December 2021 and 1 January 2022	226,915,638	2,269
Issuance of shares upon rights issue (<i>Note (b)</i>)	<u>453,831,276</u>	<u>4,538</u>
As at 31 December 2022	<u>680,746,914</u>	<u>6,807</u>

Note:

- (a) On 9 April 2021, the Company entered into the placing agreement with the placing agent pursuant to which the Company has conditionally agreed to place, through the placing agent on a best basis, up to 37,800,000 placing shares at the placing price at HK\$0.31 per placing share to certain independent placees. The net proceeds (after deducting the placing commission and other related expenses and professional fees of approximately HK\$235,000) from the placing has been used for settlement of outstanding bank loans of the Group. Accordingly, the Group's share capital increased by approximately HK\$378,000 and the remaining balance of approximately HK\$11,105,000 was credited to the share premium account.
- (b) On 23 November 2021, the Board of the Company proposed to implement the rights issue on the basis of two rights shares for every 1 share at the subscription price of HK\$0.133 per rights share, to raise gross proceeds of approximately HK\$60,360,000 before share issue expenses of approximately HK\$2,627,000 by way of rights issue of 453,831,276 rights shares, to the qualifying shareholders of the Company. The rights issue was completed on 21 February 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a “one-stop” manufacturing solution provider of casings for notebooks and other accessories. During the Year, sales of notebook casings continued to account for the largest proportion of the Group’s total sales.

During the Year, as the COVID-19 pandemic (the “Pandemic ”) in various countries gradually stabilized and government restrictions eased, the previous surge in demand for personal computers (“PC”) brought by remote working and online classroom have been digested. Also, the fluctuation of material prices, the continual increase in staff costs, the shortage in the supply of semiconductors, and the continuing increase in competition in the market all put pressure to the operations of the Group.

To combat these problems, during the Year, the Group reviewed our initiatives to maintain a healthy operational cashflow and reformed the management team and organisational structure to increase the operational efficiency. However, during the operation restructuring, the Group’s sales orders and production yield were negatively impacted by internal and external challenges. As a result, the Group’s sales declined even though the gross loss improved when compared to last year. Nevertheless, the Group strongly believes that all these taken measures are on the right track to improve the Group’s future performance.

BUSINESS PROSPECTS

During the Year, with increased geopolitical risks, the US interest rate hike policy, the high inflation rate, and the significantly tightened currencies of various major economies, all these caused the international financial situations in more complex and volatile, which restrained individual consumption and corporate spending. The global demand for consumer goods slowed down, resulting in a challenging business environment. In order to improve the business operations and diverse the risks, the Group will continuously implement the tightened cost controls and adjustments on organization structure. The Group will continue to pay attention to the latest development trend of the market of notebook computers, explore the possibilities of relocating its production facilities to lower-cost areas such as South-East Asia and explore to capture business opportunities in the manufacturing of electric vehicles and their infrastructures as well as research and investment in innovative technology projects by making use of our existing production facilities and production techniques.

Given the tough industry challenges, the Group is confident that the business strategies outlined as aforesaid will set it on the trajectory for preserving and generating value to the shareholders of the Company, and will strive to explore more development opportunities to further improve its profitability and create better returns for its shareholders.

FINANCIAL REVIEW

The Group's total revenue decreased by approximately 59.4%, from approximately HK\$370.7 million in 2021 to approximately HK\$150.5 million for the Year. The decrease was mainly due to the Group reassessed the projects to improve the operating cashflow and therefore less sales orders received.

During the Year, the Group recorded an increase in gross loss by approximately 2.8% from approximately HK\$110.8 million in 2021 to approximately HK\$113.9 million for the Year, which was mainly due to the Group recorded inventory provision of approximately HK\$127.3 million for the Year (2021: approximately HK\$109.1 million). The Group reassessed its projects aiming to maintain a healthy operating cashflow and reformed the management team and organisation structure aiming to improve the operation efficiency during the Year. However, the Group's production efficiency and yield were being impacted negatively by the internal and external challenges while the operation restructuring was in progress.

The Group's selling and distribution expenses decreased by approximately 37.5%, from approximately HK\$8.0 million in 2021 to approximately HK\$5.0 million for the Year, and was in line with the decrease in sales during the Year.

The Group's general and administrative expenses decreased by approximately 23.8%, from approximately HK\$69.4 million in 2021 to approximately HK\$52.9 million for the Year. The decrease was due to the decrease in salary and research and development expenses.

The Group's finance costs reduced by approximately 22.4%, from approximately HK\$7.6 million in 2021 to approximately HK\$5.9 million for the Year. The decrease in finance costs was mainly attributable to the fully repayment of bank borrowings during the Year.

The Group's other income decreased by approximately 67.7%, from approximately HK\$3.1 million in 2021 to approximately HK\$1.0 million for the Year. The decrease was due to the decrease in the sales of scrap materials and government grant during the Year.

The Group's other operating expenses, net, increased by approximately 1,102.3%, from approximately HK\$4.4 million in 2021 to approximately HK\$52.9 million for the Year. The increase was mainly because the Group recorded impairment of property, plant and equipment of approximately HK\$18.7 million and impairment of right-of-use assets of approximately HK\$13.8 million respectively during the Year while there were no such impairments in 2021.

As a result of the foregoing, the Group's loss for the Year attributable to equity holders of the Company amounted to approximately HK\$231.4 million, as compared with a loss of approximately HK\$197.0 million in 2021. Basic loss per share attributable to equity holders of the Company was approximately HK37.41 cents for the Year as compared with basic loss per share attributable to equity holders of the Company of approximately HK85.38 cents in 2021 (after adjusted for the bonus element of right issue).

The Group's inventory turnover days decreased to approximately 161.1 days for the Year as compared to approximately 175.0 days for 2021.

The Group's trade and bills receivables turnover days increased from approximately 205.1 days for the year ended 31 December 2021 to approximately 282.1 days for the Year. The increase was contributed by the lower sales were recognised during the early phase of COVID-19 outbreak at the first half of the Year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2022, the Group had cash and bank balances of HK\$7.7 million (2021: HK\$11.0 million), which were denominated in USD, HK\$ and RMB.

As at 31 December 2022, the Group had restricted bank balances of HK\$3.1 million (2021: HK\$3.3 million).

As at 31 December 2022, the Group had no interest-bearing bank borrowings payable within one year (2021: HK\$74.9 million).

As at 31 December 2022, the Group had no interest-bearing bank borrowings payable more than one year (2021: Nil).

As at 31 December 2022, the Group had interest-bearing loans from an independent third party of HK\$184.0 million (2021: loans from a related party of HK\$105.1 million).

As at 31 December 2022, the Group had non-interest bearing loan from a related party and one of the controlling shareholders of HK\$8.0 million (2021: HK\$108.6 million).

Average trade and bills receivable turnover days was 282.1 days (2021: 205.1 days).

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

Average inventory turnover days was 161.1 days (2021: 175.0 days). Overall, the current ratio of the Group was 0.88 as at 31 December 2022 (2021: 0.83).

As at 31 December 2022, the gearing ratio was 89.1% (2021: 637.6%).

Gearing ratio is calculated based on total borrowings (i.e. bank borrowings, other payable classified as non-current portion and loans from related parties) less total cash and bank balances (including restricted bank balances) divided by total equity attributable to equity holders of the Company as at year-end date and expressed as a percentage.

The Group's operations were mainly financed by internal resources including but not limited to existing cash and cash equivalents, cash flow from its operating activities, the net proceeds generated from the Listing, bank borrowings and loan from related parties. The Board believes that the Group's liquidity needs will be satisfied.

CAPITAL EXPENDITURE

The Group incurred capital expenditure of approximately HK\$1.4 million during the Year (2021: HK\$6.5 million), which was mainly for the additions and expansions of property, plant and equipment. Management believes that the Group's ability to invest in capital expenditure in timely anticipation of demand is a competitive advantage of the Group.

FOREIGN EXCHANGE

Given the increasingly international nature of our operations and business coverage, the Group faces foreign exchange exposure including transaction and translation exposure. As far as possible, the Group aims to achieve natural hedging by investing and borrowing in the functional currencies. Where a natural hedge is not possible, the Group will mitigate foreign exchange risks via appropriate foreign exchange contracts. The Group has not entered nor will it enter into any derivative transactions for speculative trading purposes as at 31 December 2022.

SIGNIFICANT INVESTMENTS HELD

The Group had not held any significant investments during the Year.

MATERIAL ACQUISITIONS AND DISPOSALS

During the Year, the Group did not have any material acquisitions and disposal of subsidiaries, associates and joint ventures.

CONTINGENT LIABILITIES

As at 31 December 2022, the Group did not have any significant contingent liabilities (2021: Nil).

EMPLOYEE INFORMATION

As at 31 December 2022, the Group employed a total of 312 permanent employees, who are mainly employees in production department, down from 536 as at 31 December 2021. Employees of the Group are remunerated based on their individual performance, professional qualifications, experience in the industry and relevant market trends. The management regularly reviews the Group's remuneration policy and appraises the work performance of its staff. Employee remuneration includes salaries, allowances, bonuses, social insurance and mandatory pension fund contribution. As required by the relevant regulations in the PRC, the Group participates in the social insurance schemes operated by the relevant local government authorities. Our employees in Hong Kong participate in the mandatory provident fund scheme.

PAST PERFORMANCE AND FORWARD LOOKING STATEMENTS

The performance and the results of operation of the Group as set out in this announcement are historical in nature and past performance is not a guarantee of future performance. This 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, employees and agents of the Group assume (a) no obligation to correct or update the forward-looking statements or opinions contained in this 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.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, (i) the Group's largest customer and five largest customers accounted for approximately 47.5% and 87.7% respectively of the Group's total revenue; and (ii) the Group's largest supplier and five largest suppliers accounted for approximately 12.1% and 41.3% respectively of the Group's total purchases (not including purchases of items which are of a capital nature).

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

EVENT AFTER THE REPORTING PERIOD

Save as disclosed in this announcement and/or other announcements of the Company, there were no other important events affecting the Group that had occurred after 31 December 2022 and up to the date of this announcement.

USE OF NET PROCEEDS FROM THE LISTING

The Company was successfully listed on the Main Board of the Stock Exchange on 16 March 2018. Net proceeds from the Listing (after deducting underwriting fee and relevant expenses payable by the Group in connection with the Listing) amounted to approximately HK\$48.5 million. As at 31 December 2022, a total amount of HK\$42.9 million out of the net proceeds had been used by the Group and the unutilised amount will be used by the Group according to the allocation set out in the Company's prospectus dated 28 February 2018.

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

Purpose	Percentage to total amount	Net proceeds HK\$ million	Utilised	Unutilised	Expected timeline of full utilisation of the balance
			amount (as at 31 December 2022) HK\$ million	amount (as at 31 December 2022) HK\$ million	
Lease of a new factory (<i>Note 1</i>)	15.1%	7.3	1.7	5.6	2028-2029
Refurbishment of the new factory as mentioned above	19.9%	9.6	9.6	–	–
Capital expenditure for additional production facilities and machineries	46.2%	22.4	22.4	–	–
Capital expenditure for enhancing the automation in the Group’s manufacturing process	16.1%	7.8	7.8	–	–
Additional effort in sales and marketing activities	0.3%	0.2	0.2	–	–
Enhancement of research and development capabilities	2.4%	1.2	1.2	–	–
Total	<u>100%</u>	<u>48.5</u>	<u>42.9</u>	<u>5.6</u>	

Note:

- The lease of the factory is for a term of ten years, and therefore the remaining balance of approximately HK\$5.6 million is expected to be fully utilised by the year 2028 to 2029.

USE OF PROCEEDS FROM THE RIGHTS ISSUE

On 21 February 2022, the Group completed the rights issue on the basis of two rights shares for every one ordinary share of the Company at the subscription price of HK\$0.133 per rights share, the net proceeds from the rights issue, after deducting the estimated expenses and after the set off of loans from related party of approximately HK\$32.0 million (including but not limited to placing commission, legal expenses and disbursements), are approximately HK\$25.7 million. The Company intends to apply the net proceeds to (i) approximately HK\$7.0 million for staff costs of the Group; (ii) approximately HK\$16.0 million for payment to the Group’s suppliers; and (iii) approximately HK\$2.7 million as general working capital of the Group. As of 31 December 2022, the said net proceeds has been fully utilised as intended.

CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) for the Year.

AUDIT COMMITTEE

According to Rule 3.21 of the Listing Rules and the CG Code, the Group established the audit committee of the Company (the “AC”) on 8 February 2018. The AC comprised of all independent non-executive Directors, namely Ms. Leung Pik Kwan (“Ms. Leung”), Mr. Sun Wai Hong and Mr. Chan Shiu Man. Ms. Leung 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 monitor and safeguard 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 annual results for the Year 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 considered the risk management and internal control systems to be effective and adequate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the Year.

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 announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS (THE “MODEL CODE”)

For the Year, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. The Company has made specific enquiries to all Directors and all Directors have confirmed that they have complied with the Model Code throughout the Year and up to the date of this announcement.

PUBLICATION OF FINAL RESULTS

This announcement will be published on the websites of the Stock Exchange and the Company.

The annual report of the Company for the Year containing all the information required by Appendix 16 to the Listing Rules and other applicable laws and regulations will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

DIVIDEND

The Directors do not recommend the payment of any dividend for the Year (2021: Nil).

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the “Annual General Meeting”) will be held on Monday, 15 May 2023. A notice convening the Annual General Meeting will be published on the websites of the Stock Exchange and the Company and despatched to the Shareholders on or before Wednesday, 12 April 2023.

CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the Shareholders to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Wednesday, 10 May 2023 to Monday, 15 May 2023, both days inclusive, during which period no transfer of shares will be registered. All transfers of shares accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar and transfer office, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Tuesday, 9 May 2023.

PRELIMINARY ANNOUNCEMENT OF THE GROUP'S RESULTS

The figures in respect of the Group's consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the Year as set out in this preliminary announcement have been agreed by the Company's auditor to the amounts set out in the Group's consolidated financial statements for the Year. The work performed by the Company's auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company's auditor on this preliminary announcement.

APPRECIATION

Lastly, the Group would like to thank all the staff and the management team for their hard work in the past year. The Group would also like to express heartfelt gratitude to all of its customers and suppliers, and wish for their continuous supports in the future. The Company will keep working closely with its shareholders and employees to steer the Group to a more modernised and sophisticated level of operation, through which it aspires to turn to a new chapter in the Group's development.

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

Hong Kong, 31 March 2023

As at the date of this announcement, the executive Directors are Mr. Wong Ming Li, Mr. Lee King On Jeff and Mr. Wang Ming Zhi; the non-executive Director is Mr. Wang Ya Nan; and the independent non-executive Directors are Ms. Leung Pik Kwan, Mr. Sun Wai Hong and Mr. Chan Shiu Man.