

MANAGEMENT DISCUSSION AND ANALYSIS

Financial status

Result for the Period

The turnover of the Group for the period ended 30 June 2005 was HK\$486.6 million (2004: 393.9 million), an increase of 23.5% year on year. The net profit attributable to shareholders was HK\$45.5 million (2004: 58.7 million), a decrease of 22.5% year on year.

Electrical Fittings Division

The turnover of the Electrical Fittings Division amounted to HK\$159.3 million (2004: HK\$139.3 million), increasing by 14% year on year. Sales growth in In-Mould Decoration (IMD) remained strong and it has occupied about 78% of the Division's turnover. The sales of IMD amounted to HK\$124.1 million (2004: HK\$105.0 million), increasing by 18% year on year and the growth are contributed from both handsets and electrical appliances products. The gross margin of the Division has declined by 2% from last year's level owing to stiff competition in the market, in particular in the handsets manufacturing market in China, which in turn adding price pressure to our accessories products. The gross margin of IMD for handsets application has declined by 6% in comparing with last period.

Diversification of application of our products is our strategy. We have already channeled the application of our products to other sectors of the market. IMD application is now extended to the application to game sets, electronic data bank and MP3, and the application to other areas such as motor vehicles are also exploring.

Ironware Parts Division

The turnover of Ironware Parts Division amounted to HK\$206.4 million (2004: HK\$175.8 million), increasing by 17.4% year on year. Suffering from the soaring of raw material price and selling price pressure, the Division's gross margin has declined by 8% from last year's level.

In order to strengthen our competitiveness, we decided to dispose an old metal manufacturing factory Tong Da Metals Co. Ltd., in Shishi, Fujian Province during the period. The turnover and the gross margin in this operation unit were HK\$91.6 million (2004: HK\$80.7 million) and 7% (2004: 11%) respectively. The completion of disposal of the factory is expected to be by the end of this year and relaxation of resources from this operation unit will improve our group's overall liquidity and competitiveness.

Running of traditional businesses such as casing for computer and VCD is increasingly difficult. During the period, we have focused on manufacturing aluminum alloy products. The sales of aluminum alloy products have doubled to HK\$101.7 million (2004: HK\$50.7 million). Further expansion of sales of aluminium alloy products is expected in the coming days. The growth of sales is in line with the overall increase in demand of plasma and LCD television in the market, which are usually adopted aluminum casing.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial status (Continued)

Communication Facilities Division

The turnover of Communication Facilities Division amounted to HK\$100.2 million (2004: HK\$64.5 million), increasing by 55.3% year on year. The gross margin decreased from 15% to 12%.

Turnover of "Tongtel" satellite television modem has occupied more than 68% (2004: 29%) of this Division's sales. With the accumulated manufacturing experience, our products were widely accepted by the market and "Tongtel" becomes one of the popular brand name in the Middle East market.

Trading Division

Turnover of the trading of China made electrical appliances to Australia amounted to HK\$20.7 million (2004: HK\$14.4 million), increasing by 44% year on year. It is consistent with the worldwide economic trend of popularization of China made products.

The Group reiterates that the most important intangible asset of the Group is its prestige customer base. During the period, the top 20 customers include Amoisonic, Berway, Bird, Changhong, China Telecom, Coship, Dbtel, Eurostar, Haier, Hutro, Kelon, Konka, Midea, Meiling, Samsung, Satco Telecom, Sony, TCL, TPV and Utstarcom, which have accounted for over 66% of the Group's total turnover.

Liquidity and financial resources

At 30 June 2005, the Group had total assets of HK\$930.4 million (31 December 2004: HK\$827.0 million); net current assets of HK\$180.7 million (31 December 2004: HK\$77.7 million) and capital and reserves of HK\$387.3 million (31 December 2004: HK\$372.1 million).

The Group's cash and bank balance as at 30 June 2005 was maintained at about HK\$108.1 million (31 December 2004: HK\$87.7 million), out of which HK\$8.7 million has been pledged to bank to secure banking facilities granted (31 December 2004: HK\$3.3 million).

The gearing ratio (total debt/total asset of the Group) was 0.58 (31 December 2004: 0.55).

On 11 April 2005, the Group has borrowed from a group of banks for a 3-years' period long term bank loan amounting to HK\$125,000,000 at an interest rate of HIBOR plus 1.25% per annum. The loan was applied to repay part of the short term loan, in particular, the Renminbi loan and the remaining balance was applied as working capital.

The Group's monetary assets, liabilities and transactions are mainly denominated in Hong Kong dollar, Renminbi and US dollar. There is no significant fluctuation in the exchange rate between Hong Kong dollar and Renminbi, the Group believes that the risk of exposure to exchange rate is minimal.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Contingent liabilities and capital structure

At 30 June 2005, the Company had contingent liabilities in respect of corporate guarantees provided for banking facilities for certain subsidiaries and an associate, which were utilised to the extent of HK\$203.6 million (31 December 2004: HK\$50.8 million).

Save as disclosed in above neither the Group, nor the Company, had any significant contingent liabilities as at 30 June 2005.

All of the Company's shares are ordinary shares. Other than the non-current portion of bank loans of HK\$130 million (31 December 2004: HK\$5.9 million), the Group's borrowings are repayable within one year as at the balance sheet date.

Pledge of assets

Certain of the Group's borrowings at 30 June 2005 were secured by bank deposits, leasehold land and buildings and investment properties situated in Hong Kong owned by the Group.

Employee

At 30 June 2005, the Group had approximately 5,900 employees (31 December 2004: 4,600). The Group provides competitive remuneration packages to employee commensurate to the level and market trend of pay in the business in which the Group operates, with mandatory provident fund schemes and a share option scheme.

FUTURE PLAN

Management remains full of confidence about the outlook of the Group for the coming years. With the past years' big jump in turnover and profitability, Tongda Group has stepped into its new generation; to consolidate the existing businesses and to strive for its further increase of market share. The general improvement in sales in all Divisions of the Group during the period has supported the vision of the management.

Management will maintain their focus on executing the traditional areas of products while strive for improved products to serve our prestige customers. In the coming days, we will continue to broaden the customer base by increasing the number of the international brandname customers, diversifying IMD application to other commercial products and to widen the application of aluminium alloy products.

FUTURE PLAN (Continued)

Competitive pressure intensified significantly throughout the manufacturing markets in China. We have to step up our efforts on all fronts. Under the tremendous stress, Tongda Group has to continue the research and development for new, high quality and competitive accessories products for our customers. While we continue to believe enhancement of gross margins is important, we will re-evaluate our expansion strategy to capitalize on the expected wave of consolidation.

To further expand our product base, we joined with Amoisonic to set up a new factory for manufacturing handset casing during the period. Amoisonic who is one of the major handset manufacturers in China, has occupied a significant portion of handset market in China. Trial run of the manufacturing has already been started and full operation is expected in early next year.

While competition has significantly intensified in Mainland China, the fact remains that the country continues to maintain growth, in particular in the manufacturing market. With our over 20 years' manufacturing experience in our products, management team is full of confidence to maintain consistent growth to the Group in the coming future.

OTHER INFORMATION

Dividends

The board of directors (the "Board") of the Company declared an interim dividend of HK\$0.005 (2004: HK\$0.007) per share and a special dividend of HK\$0.002 (2004: Nil) per share for the period ended 30 June 2005 payable on or about 8 November 2005 to shareholders whose names appear on the register of members of the Company on 1 November 2005.

Closure of register of member

The Register of Members will be closed from 1 November 2005 to 4 November 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:00 p.m. on 31 October 2005.

OTHER INFORMATION (Continued)

Directors' Interest and short positions in shares and underlying shares

At 30 June 2005, the interests 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of director	Directly beneficially owned	Number of shares held, capacity and nature of interest through controlled corporation	Total	Percentage of the Company's issued share capital
Mr. Wang Ya Nan	34,920,000	1,833,000,000 *	1,867,920,000	56.61
Mr. Wang Ya Hua	19,920,000	1,833,000,000 *	1,852,920,000	56.16
Mr. Wong Ah Yu	12,160,000	1,833,000,000 *	1,845,160,000	55.92
Mr. Wong Ah Yeung	–	1,833,000,000 *	1,833,000,000	55.55
Mr. Choi Wai Sang	–	78,750,000 **	78,750,000	2.39

Notes:

* These shares are held by Landmark Worldwide Holdings Limited, the issued share capital of which is beneficially owned as to 25% each by Messrs. Wang Ya Nan, Wang Ya Hua, Wong Ah Yu and Wong Ah Yeung (collectively referred to as the "Wong Brothers").

** These shares are held by Faye Limited, the entire issued share capital of which is held and beneficially owned by Mr. Choi Wai Sang.

Saved as disclosed above, as at 30 June 2005 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 Companies.

Subsequent to the period ended, as at 26 July 2005, the board of directors have granted a total of 50,000,000 shares options to the three executive directors of the Company, Messrs Wong Ah Yeung, Wong Ah Yu and Choi Wai Sang. These share options were vested on 26 July 2005 and have an exercise price of HK\$0.149 per share and an exercise period ranging from 26 July 2005 to 25 July 2015. The price of the Company's shares at the date of grant was HK\$0.14. These share options have not been included in the interest "Directly beneficially owned" in above.

OTHER INFORMATION (Continued)

Directors' rights to acquire shares or debentures

At no time during the period 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 spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Share Option Scheme

On 10 June 2002, the shareholders of the Company adopted a share option scheme (the "Scheme") with rules complying with the requirements of Chapter 17 of the Listing Rules. Under the terms of the Scheme, the board of directors may, at its discretion, grant options to eligible employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares in the Company.

During the period, no share option was granted pursuant to the Scheme. Details of the outstanding options during the period are set out below:

	Number of shares constituting the share options	Exercise period of share options	Exercise price of share options HK\$
Other employees	20,000,000	5 February 2004 to 31 December 2005	0.250

The price of the Company's shares at the date of grant was HK\$0.250. The above share options granted vest immediately on 5 February 2004.

OTHER INFORMATION (Continued)

Substantial shareholders

At 30 June 2005, 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	1,833,000,000	55.55
Value Partners Limited	2	Directly beneficially owned	320,040,000	9.70

1. The issued share capital of Landmark Worldwide Holdings Limited is held and beneficially owned as to 25% each by the Wong Brothers.
2. The issued share capital of Value Partners Limited is held and beneficially owned as to 31.82% by Mr Cheah Cheng Hye.

Save as disclosed above, 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.

Purchase, redemption or sales of listed securities

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

Audit committee

The Audit Committee has reviewed with management of the Company the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters including a review of the unaudited interim financial statements.

OTHER INFORMATION (Continued)

Corporate Governance

The Company has complied throughout the period ended 30 June 2005 with the Code Provisions set out in the Code of Corporate Governance Practices contained in Appendix 14 of the Listing Rules, 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 Bye Laws.

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

Remuneration Committee

The Remuneration Committee of the Company composed of three Independent Non-executive Directors and the Group's Chairman, reviews and approves the remunerations of Directors and senior management.

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 the Listing Rules. All directors have confirmed, following specific enquiry of all directors that they have fully complied with the required standard set out in the Model Code throughout the period under review.

Board of Directors

As at the date of this report, the Board comprises three Independent Non-Executive Directors, namely Mr Wong Kong Hon JP, Mr Ting Leung Huel Stephen and Mr Cheung Wah Fung Christopher and five Executive Directors, namely Mr Wang Ya Nan, Mr Wang Ya Hua, Mr Wong Ah Yu, Mr Wong Ah Yeung and Mr Choi Wai Sang.

On behalf of the Board
Wang Ya Nan
Chairman

Hong Kong, 26 September 2005