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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 2022

HIGHLIGHTS

- Our turnover for the six months ended 30 June 2022 was approximately HK\$4,267,330,000, representing a decrease of approximately 16.6% as compared with that for the six months ended 30 June 2021.
- Our net profit attributable to owners of the Company for the six months ended 30 June 2022 was approximately HK\$33,219,000, representing a decrease of approximately 38.7% as compared with that for the six months ended 30 June 2021.
- Basic earnings per share for the six months ended 30 June 2022 was HK0.34 cent, representing a decrease of approximately 55.3% as compared with that for the six months ended 30 June 2021.
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2022.

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 2022 (the “Period”) together with comparative figures for the corresponding period as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
		2022	2021
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE	4	4,267,330	5,115,225
Cost of sales		(3,494,840)	(4,345,703)
Gross profit		772,490	769,522
Other income and gains, net		68,020	92,857
Selling and distribution expenses		(69,337)	(85,717)
General and administrative expenses		(540,440)	(590,525)
Other operating expenses, net		(55,555)	(13,110)
Finance costs		(74,892)	(65,396)
Share of loss of a jointly-controlled entity		(16,772)	(17,366)
PROFIT BEFORE TAX	5	83,514	90,265
Income tax expense	6	(40,610)	(28,096)
PROFIT FOR THE PERIOD		42,904	62,169
Attributable to:			
Owners of the Company		33,219	54,241
Non-controlling interests		9,685	7,928
		42,904	62,169
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	8		(Restated)
– Basic		HK0.34 cent	HK0.76 cent
– Diluted		HK0.34 cent	HK0.76 cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT FOR THE PERIOD	<u>42,904</u>	<u>62,169</u>
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income/(expense) that will not be reclassified to profit or loss in subsequent periods:		
Gain on property revaluation	367	2,560
Income tax effect	<u>(60)</u>	<u>(422)</u>
	<u>307</u>	<u>2,138</u>
Other comprehensive income/(expense) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations		
– subsidiaries	(369,253)	411,668
– jointly-controlled entity	<u>(1,435)</u>	<u>3,199</u>
	<u>(370,688)</u>	<u>414,867</u>
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD, NET OF TAX	<u>(370,381)</u>	<u>417,005</u>
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD	<u>(327,477)</u>	<u>479,174</u>
ATTRIBUTABLE TO:		
Owners of the Company	(328,979)	469,938
Non-controlling interests	<u>1,502</u>	<u>9,236</u>
	<u>(327,477)</u>	<u>479,174</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited 30 June 2022 HK\$'000	Audited 31 December 2021 HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	9	6,230,877	6,657,555
Right-of-use assets		415,990	406,958
Investment property		86,284	91,176
Investment in a jointly-controlled entity		14,877	33,084
Long term deposits		182,820	209,085
Deferred tax assets		3,703	3,703
		6,934,551	7,401,561
CURRENT ASSETS			
Inventories	10	3,241,097	3,176,556
Trade and bills receivables	11	2,724,867	3,316,661
Prepayments, deposits and other receivables		474,413	523,405
Due from a jointly-controlled entity		186,632	186,299
Loans to a jointly-controlled entity		144,042	150,573
Lease receivable		3,186	6,582
Tax recoverable		21,090	16,868
Pledged deposits		472,647	535,089
Cash and cash equivalents		1,130,491	1,365,993
		8,398,465	9,278,026
Assets of a subsidiary held for sale		78,549	75,542
Total current assets		8,477,014	9,353,568
CURRENT LIABILITIES			
Trade and bills payables	12	3,057,636	3,772,257
Accrued liabilities and other payables		515,532	761,395
Interest-bearing bank and other borrowings		2,454,253	2,931,278
Lease liabilities		8,734	12,499
Due to a jointly-controlled entity		89,447	94,716
Tax payable		127,209	129,724
		6,252,811	7,701,869

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

	Unaudited 30 June 2022 <i>HK\$'000</i>	Audited 31 December 2021 <i>HK\$'000</i>
Liabilities of a subsidiary held for sale	<u>17,932</u>	<u>18,096</u>
Total current liabilities	<u>6,270,743</u>	<u>7,719,965</u>
NET CURRENT ASSETS	<u>2,206,271</u>	<u>1,633,603</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>9,140,822</u>	<u>9,035,164</u>
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	1,107,006	638,664
Other payables	63,306	95,588
Lease liabilities	10,297	13,423
Deferred tax liabilities	<u>64,206</u>	<u>65,997</u>
Total non-current liabilities	<u>1,244,815</u>	<u>813,672</u>
Net assets	<u>7,896,007</u>	<u>8,221,492</u>
EQUITY		
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Share capital	97,193	97,193
Reserves	<u>7,736,002</u>	<u>8,062,989</u>
	<u>7,833,195</u>	<u>8,160,182</u>
NON-CONTROLLING INTERESTS	<u>62,812</u>	<u>61,310</u>
Total equity	<u>7,896,007</u>	<u>8,221,492</u>

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 2021.

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 2021, 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>Reference of Conceptual Framework</i>
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>
Annual Improvements to HKFRSs 2018-2020	<i>Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41</i>

The application of the amendments to HKFRSs 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	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	2,859,234	3,677,274	228,190	322,201	673,989	587,940	505,917	527,810	4,267,330	5,115,225
Segment results before depreciation	455,499	310,158	6,781	60,075	123,227	101,863	7,724	35,188	593,231	507,284
Depreciation of property, plant and equipment	(348,911)	(282,195)	(55,643)	(53,911)	(19,022)	(16,005)	(39,049)	(46,554)	(462,625)	(398,665)
Depreciation of right-of-use assets	(2,545)	(7,218)	(2,715)	(3,063)	(591)	(469)	(2,884)	(3,432)	(8,735)	(14,182)
Segment results	104,043	20,745	(51,577)	3,101	103,614	85,389	(34,209)	(14,798)	121,871	94,437
Unallocated income									68,020	92,857
Corporate and other unallocated expenses									(15,293)	(15,290)
Finance costs (other than interest expenses on lease liabilities)									(74,312)	(64,373)
Share of loss of a jointly-controlled entity									(16,772)	(17,366)
Profit before tax									83,514	90,265
Income tax expense									(40,610)	(28,096)
Profit for the period									42,904	62,169

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 2022				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>8,940,634</u>	<u>1,642,862</u>	<u>967,233</u>	<u>1,808,805</u>	13,359,534
Assets of a subsidiary held for sale					78,549
Unallocated assets					<u>1,973,482</u>
Total assets					<u>15,411,565</u>
Segment liabilities	<u>2,310,074</u>	<u>474,700</u>	<u>329,608</u>	<u>541,123</u>	3,655,505
Liabilities of a subsidiary held for sale					17,932
Unallocated liabilities					<u>3,842,121</u>
Total liabilities					<u>7,515,558</u>
	31 December 2021				
	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>9,776,779</u>	<u>1,847,106</u>	<u>904,915</u>	<u>1,859,178</u>	14,387,978
Assets of a subsidiary held for sale					75,542
Unallocated assets					<u>2,291,609</u>
Total assets					<u>16,755,129</u>
Segment liabilities	<u>3,178,995</u>	<u>589,088</u>	<u>315,203</u>	<u>571,876</u>	4,655,162
Liabilities of a subsidiary held for sale					18,096
Unallocated liabilities					<u>3,860,379</u>
Total liabilities					<u>8,533,637</u>

4. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

The following table presents unaudited revenue for the Group's geographical information for the six months ended 30 June 2022 and 2021.

	Unaudited six months ended 30 June									
	PRC*		Asia Pacific (excluding PRC)		United States		Others		Consolidated	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	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>3,490,309</u>	<u>4,474,469</u>	<u>192,390</u>	<u>232,864</u>	<u>135,635</u>	<u>97,740</u>	<u>448,996</u>	<u>310,152</u>	<u>4,267,330</u>	<u>5,115,225</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	
	2022	2021
	HK\$'000	HK\$'000
Customer A	789,256	1,667,611
Customer B	<u>542,937</u>	<u>536,342</u>
	<u>1,332,193</u>	<u>2,203,953</u>

Revenues from Customer A and B 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.

5. PROFIT BEFORE TAX

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

	Unaudited	
	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	462,625	398,665
Depreciation of right-of-use assets	8,735	14,182
Research and development costs	241,215	248,226
Salaries and wages	1,043,731	1,232,275
Impairment of trade receivables	5,930	11,013
Write-back of impairment of trade receivables	(370)	(7)
Provision against obsolete inventories	10,081	3,442
Foreign exchange differences, net	56,266	(90)
Loss on disposal of items of property, plant and equipment	1,014	1,671
Fair value gain on an investment property	967	811
Interest income	(8,702)	(5,799)

6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 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. The first HK\$2,000,000 of assessable profits of the Company is taxed at 8.25% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 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 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 2022 and 2021, certain subsidiaries of the Group were subject to a preferential tax rate of 15% under High New Technology Enterprises.

	Unaudited	
	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Current – Hong Kong		
Charge for the period	6,834	11,563
Overprovision in prior years	–	(428)
	<u>6,834</u>	<u>11,135</u>
Current – Elsewhere	<u>35,567</u>	<u>16,450</u>
Deferred	<u>(1,791)</u>	<u>511</u>
Total tax charge for the period	<u>40,610</u>	<u>28,096</u>

7. DIVIDENDS

At the board meeting held on 30 August 2022, the Board did not recommend the payment of any interim dividend for the Period (six months ended 30 June 2021: nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

	Unaudited	
	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Profit		
Profit for the purpose of basic and diluted earnings per share	<u>33,219</u>	<u>54,241</u>
	'000	'000
Number of shares		(Restated)
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>9,719,258</u>	<u>7,103,402</u>

The basic and diluted earnings per share for the period ended 30 June 2021 have been restated to reflect the effect of a rights issue of the Company in 2021.

The Group had no potential dilutive ordinary shares in issue during the periods ended 30 June 2022 and 2021.

9. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired property, plant and equipment of approximately HK\$325,813,000 (30 June 2021: HK\$379,515,000) and incurred depreciation expenses of HK\$462,408,000 (30 June 2021: HK\$398,665,000). In addition, the Group disposed of certain items of property, plant and equipment with a carrying amount of approximately HK\$2,988,000 (30 June 2021: HK\$4,705,000) for proceeds of approximately HK\$1,974,000 (30 June 2021: HK\$3,034,000). During the Period, the exchange realignment of approximately HK\$284,657,000 (30 June 2021: HK\$314,363,000) was credited (30 June 2021: debited) to property, plant and equipment.

At 30 June 2022, the Group's leasehold building and the related right-of-use asset 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\$50,000,000 (31 December 2021: HK\$50,300,000). 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 surplus of HK\$367,000 (30 June 2021: HK\$2,560,000), resulting from the above valuation, has been credited to other comprehensive income. The resulting increase in deferred tax liability of HK\$60,000 (30 June 2021: HK\$422,000) arising from the revaluation has also been debited to other comprehensive income.

9. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group's leasehold building and the related right-of-use asset in Hong Kong with a net carrying amount of HK\$50,000,000 (31 December 2021: HK\$50,300,000) were pledged to secure bank loans granted to the Group.

10. INVENTORIES

	Unaudited 30 June 2022 <i>HK\$'000</i>	Audited 31 December 2021 <i>HK\$'000</i>
Raw materials	526,820	555,872
Work in progress	868,805	778,587
Finished goods	<u>1,845,472</u>	<u>1,842,097</u>
	<u>3,241,097</u>	<u>3,176,556</u>

As at 30 June 2022, moulds of HK\$712,385,000 (31 December 2021: HK\$720,395,000) are included in the finished goods.

11. TRADE AND BILLS RECEIVABLES

	Unaudited 30 June 2022 <i>HK\$'000</i>	Audited 31 December 2021 <i>HK\$'000</i>
Trade receivables	2,747,004	3,196,610
Impairment allowances	<u>(49,169)</u>	<u>(44,151)</u>
	2,697,835	3,152,459
Bills receivables	<u>27,032</u>	<u>164,202</u>
	<u>2,724,867</u>	<u>3,316,661</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 the management. Trade receivables are non-interest bearing. At the end of the reporting period, 16.9% (31 December 2021: 13.5%) and 47.8% (31 December 2021: 45.7%) 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)

An ageing analysis of the Group's trade and bills receivables as at 30 June 2022, based on the invoice date and issuance date, is as follows:

	Unaudited 30 June 2022 <i>HK\$'000</i>	Audited 31 December 2021 <i>HK\$'000</i>
Within 3 months	2,522,898	3,069,404
4 to 6 months, inclusive	167,574	235,857
7 to 9 months, inclusive	13,678	7,215
10 to 12 months, inclusive	21,632	2,920
More than 1 year	48,254	45,416
	2,774,036	3,360,812
Impairment allowances	(49,169)	(44,151)
	2,724,867	3,316,661

12. TRADE AND BILLS PAYABLES

	Unaudited 30 June 2022 <i>HK\$'000</i>	Audited 31 December 2021 <i>HK\$'000</i>
Trade payables	1,359,107	1,933,440
Bills payable	1,698,529	1,838,817
	3,057,636	3,772,257

The trade payables are non-interest bearing and are normally settled on 60 to 90 days' terms. An ageing analysis of the Group's trade and bills payables as at 30 June 2022, based on the invoice date and issuance date, is as follows:

	Unaudited 30 June 2022 <i>HK\$'000</i>	Audited 31 December 2021 <i>HK\$'000</i>
Within 3 months	2,075,702	2,845,033
4 to 6 months, inclusive	927,013	860,184
7 to 9 months, inclusive	16,751	12,433
10 to 12 months, inclusive	10,588	25,101
More than 1 year	27,582	29,506
	3,057,636	3,772,257

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 June 2022 (the “Period”), the Group’s turnover decreased from approximately HK\$5,115.2 million in the same period last year by approximately 16.6% to approximately HK\$4,267.3 million. Profit attributable to owners of the Company decreased from approximately HK\$54.2 million in the same period last year by 38.7% to approximately HK\$33.2 million during the Period.

Revenue

The Group’s revenue decreased by approximately 16.6%, from approximately HK\$5,115.2 million in the same period last year to approximately HK\$4,267.3 million during the Period. During the Period, economies across the globe are operating against various headwinds. In addition to the continuous impact of global inflation and supply chain instability, the pandemic prevention and control measures in the Mainland China have also put tremendous pressure on the sales of consumer electronic products. As one of the component suppliers of consumer electronics products, the Group was inevitably affected by the difficult external operating environment and the weak consumer market.

Gross Profit and Margin

The Group’s gross profit increased by approximately 0.4%, from approximately HK\$769.5 million in the same period last year to approximately HK\$772.5 million during the Period. The gross profit margin was approximately 18.1% during the Period, which was approximately 3.1 percentage points higher than that for the same period last year of approximately 15.0%. Although the Group recorded a drop in capacity utilisation rate due to external factors such as weakened market demands and disturbed supply chain, both the Group’s gross profit and gross profit margin during the Period recorded an increase compared to the same period last year. This was mainly due to the shipment of certain high-margin products produced for a major international customer during the peak season last year was postponed to the Period due to the impact of the pandemic, as well as the depreciation of RMB and the Group’s continuous improvement in management and operational efficiency during the Period.

Other Income and Gains, net

Other income and gains, net decreased by approximately 26.8% or approximately HK\$24.9 million from approximately HK\$92.9 million in the corresponding period last year to approximately HK\$68.0 million during the Period mainly due to the decrease in government grants.

Selling and Distribution Expenses

Selling and distribution expenses decreased by approximately 19.1% or approximately HK\$16.4 million from approximately HK\$85.7 million in the corresponding period last year to approximately HK\$69.3 million during the Period, accounting for approximately 1.6% of the Group's revenue, which was approximately 0.1 percentage point lower than that of the same period last year of 1.7%. The decrease was in line with the decrease in sales of the Group during the Period.

General and Administrative Expenses

General and administrative expenses decreased by approximately 8.5% or approximately HK\$50.1 million from approximately HK\$590.5 million in the corresponding period last year to approximately HK\$540.4 million during the Period, accounting for approximately 12.7% of the Group's revenue, which was approximately 1.2 percentage points higher than that for the same period last year of 11.5%. The decrease in general and administrative expenses was mainly attributable to the decrease in consultancy fee after the completion of the consultancy contracts engaged with certain leading international consulting firms in last year, and various cost saving measures adopted by the Group which lead to the decrease in overall administrative expenses during the Period.

Other Operating Expenses, net

Other operating expenses, net increased by approximately 324.4% or approximately HK\$42.5 million from approximately HK\$13.1 million in the corresponding period last year to approximately HK\$55.6 million during the Period mainly attributable to the increase in foreign exchange losses recorded as a result of the depreciation of RMB during the Period.

Finance Costs

Finance costs increased by approximately 14.5% or approximately HK\$9.5 million from approximately HK\$65.4 million in the corresponding period last year to approximately HK\$74.9 million during the Period. The increase was mainly due to the increase in average loan balance during the Period.

Profit Attributable to Owners of the Company for the Period

Profit attributable to owners of the Company decreased by approximately 38.7% from approximately HK\$54.2 million in the same period last year to approximately HK\$33.2 million during the Period, and the net profit margin attributable to owners of the Company decreased to approximately 0.8% (30 June 2021: 1.1%), which was mainly because of the decrease in the other income and gains, net by approximately HK\$24.9 million and the increase in the other operating expenses, net and the income tax expenses by approximately HK\$42.5 million and approximately HK\$12.5 million respectively, which was partially offset by the decrease in the selling and distribution expenses and the general and administrative expenses by approximately HK\$16.4 million and approximately HK\$50.1 million respectively.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group derives its working capital mainly from cash on hand, net cash generated from operating activities and interest-bearing bank and other borrowings. The Board expects that the Group will rely on net cash generated from operating activities, interest-bearing bank and other borrowings and equity financing, if considered as appropriate by the management of the Company, to meet its working capital and other capital expenditure requirements. There were no change in the funding and financial policy of the Group for the six months ended 30 June 2022.

As at 30 June 2022, the Group has cash and cash equivalents and pledged deposits balance of HK\$1,603.1 million (31 December 2021: HK\$1,901.1 million) without holding any structural investment contract.

HK\$472.6 million (31 December 2021: HK\$535.1 million) of the Group's cash and bank balances of HK\$1,603.1 million (31 December 2021: HK\$1,901.1 million) has been pledged to banks as security for trade financing.

As at 30 June 2022, 72.9% (31 December 2021: 76.6%) of the Group's cash and bank balances was denominated in Renminbi, 20.1% (31 December 2021: 19.2%) was denominated in United States dollars and 7.0% (31 December 2021: 4.2%) was denominated in other currencies (mainly Hong Kong dollars).

As at 30 June 2022, the Group had total assets of HK\$15,411.6 million (31 December 2021: HK\$16,755.1 million), net current assets of HK\$2,206.3 million (31 December 2021: HK\$1,633.6 million) and equity of HK\$7,896.0 million (31 December 2021: HK\$8,221.5 million).

CAPITAL EXPENDITURE

The total capital expenditure incurred for the Period was HK\$356.0 million (31 December 2021: HK\$1,313.6 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 RMB and US dollars while purchases were principally transacted in RMB. The Group will continue to 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\$472.6 million (31 December 2021: HK\$535.1 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\$50.0 million (31 December 2021: HK\$50.3 million) mortgaged by the Group as at 30 June 2022, the Group had not pledged its assets to any financial institutions.

HUMAN RESOURCES

As at 30 June 2022, the Group employed a total of approximately 20,000 (30 June 2021: 27,000) permanent employees in Hong Kong and the PRC. The total salaries and wages for the six months ended 30 June 2022 amounted to HK\$1,043.7 million (30 June 2021: HK\$1,232.3 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 2022, the gearing ratio of the Group (consolidated net borrowings/total equity) was 24.8% (31 December 2021: 20.3%).

As at 30 June 2022, other than the non-current portion of bank borrowings of HK\$1,107.0 million (31 December 2021: HK\$638.7 million), the Group had bank and other borrowings of HK\$2,454.3 million (31 December 2021: bank and other borrowings of HK\$2,931.3 million) which will be repayable within one year from the end of the Period. The bank and other borrowings were denominated in Renminbi, Hong Kong dollars and United States dollars.

Bank borrowings carry interest rate ranging from 1.16% per annum (“p.a.”) to 5.95% p.a. (31 December 2021: interest rate ranging from 1.11% p.a. to 5.95% 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 research and development (“R&D”) to manufacturing plans. Its products mainly cover handset casings and high-precision components, hardware and component relating to the metaverse, household and sports goods, aluminum components for batteries of new energy vehicles, network communications facilities and control panels for smart electrical appliances.

During the Period, economies across the globe were operating against various headwinds. In addition to the continuous impact of global inflation and the instability of the supply chain, the pandemic prevention and control measures in the Mainland China also put tremendous pressure on the sales of consumer electronics products. As one of the component suppliers of consumer electronics products, the Group was inevitably affected by the difficult external operating environment and the weak consumer market. The Group’s revenue decreased by 16.6% from HK\$5,115.2 million in the same period last year to HK\$4,267.3 million for the Period. As far as the gross profit and gross profit margin are concerned, although the Group recorded a drop in the capacity utilisation rate as affected by external factors such as weakened market demand and supply chain disruption, the Group recorded increases in both the gross profit and gross profit margin during the Period compared with the corresponding period last year, primarily due to the fact that the shipment of certain high-margin products produced for a major international customer during the peak season last year was postponed to the Period due to the impact of the pandemic, as well as the depreciation in RMB and the Group’s continuous improvement

in management and operational efficiency during the Period. Because of the above effects, the Group's gross profit increased by 0.4% from HK\$769.5 million in the same period last year to HK\$772.5 million during the Period, while the gross profit margin increased from 15.0% in the same period last year to 18.1% during the Period. Net profit attributable to owners of the Company decreased by 38.7% from HK\$54.2 million in the same period last year to HK\$33.2 million for the Period.

Handset Casings and High-precision Components

This business segment primarily comprises various handset casings, waterproof/dustproof/shockproof ("tri-proof") high-precision components, high-precision insert molding parts, high-precision rubber molding parts and accessories products. This business segment recorded a decrease of 22.2% in turnover, down from HK\$3,677.3 million in the same period last year to HK\$2,859.3 million for the Period, representing 67.0% of the Group's total turnover.

In light of the impact of the increasingly uncertain economic environment, chaos in the handset electronics components supply chain and the pandemic prevention and control measures in the Mainland China, under the dual impact of manufacturing processes instability and weakening consumption momentum, global handset shipments in the first half of the year continued to be weak. According to the data released by the China Academy of Information and Communications Technology, during the Period, the overall shipment of handsets in the domestic market recorded a significant drop of 21.7% compared with the same period last year, among which the shipment of domestic brand handsets recorded a year-on-year decrease of 25.9%, resulting in a year-on-year decrease in the Group's handset casings shipments.

For tri-proof and high-precision components, the market demand on the products of an international customer remain strong due to its brand effect. On the other hand, the shipment of certain products produced for that customer during the peak season last year was postponed to the Period due to the impact of the pandemic, and this, coupled with the increase in the types of components produced by the Group for that customer, led to an overall increase in business, which partially offset the impact brought on by the decline in the handset casings business. The Group will focus its resources on this customer and strive to provide it with a more diverse range of high-precision components. Meanwhile, as more international brands are developing hardware related to the metaverse, the Group is also working with different international brands to provide solutions for various components.

Household and Sports Goods

This business segment primarily includes the production of durable household goods, household utensils and sports goods for European and American brands. As a result of the business growth of major customers in the Mainland China, European and American markets, sales increased by 14.6% from HK\$587.9 million in the same period last year to HK\$674.0 million for the Period, representing 15.8% of the Group's total turnover. During the Period, the Group continued to focus on investing in businesses with high growth potential and grew alongside the customers of many major international brands, resulting in a year-on-year increase in the number of orders during the Period. The Group also announced its application for the separate listing of its spin-off business on the Main Board of the Shenzhen Stock Exchange, and its listing application has been accepted by the China Securities Regulatory Commission.

Network Communications Facilities and Others

During the Period, the revenue of this business segment decreased by 4.2% from HK\$527.8 million in the same period last year to HK\$505.8 million, representing 11.9% of the Group's total turnover. The Group primarily produces aluminum battery components for new energy vehicles, interior decorative parts of automotive and other network communications products, such as wireless routers for European and American customers.

This segment's major customers include leading electric car battery manufacturers in China, as well as local and Sino-foreign funded automotive brands. During the Period, the Mainland China implemented various policies to support the new energy vehicle industry and promote spending on the renewal of vehicles, which is beneficial to the Group's development in the new energy vehicle sector. The decline of sales in this segment was mainly attributable to the growth of the automotive business (including aluminum battery components for new energy vehicles), which was offset by weak demand for other network communications products.

Smart Electrical Appliances Casings

During the Period, the turnover of this business segment decreased by 29.2%, from HK\$322.2 million in the same period last year to HK\$228.2 million, representing 5.3% of total turnover. This business segment primarily engages in the production of customised control panels, metal components and casings of electrical appliances for domestic and international brands. As the demand for orders and profit of this business segment during the Period has been continuously affected by unfavourable factors such as uncertainty in the macroeconomy, a slowdown in the property market, declining downstream demand and fluctuations in raw material prices, the Group will focus on the implementation of various cost control policy to improve the profitability of the business segment and the Group will also continue to adjust its overall business structure and focused on business sectors with more development potential.

The proportion of total revenue by business segment for the six months ended 30 June 2022 and a comparison with the same period last year are as follows:

	2022	2021
i. Handset casings and high-precision components	67.0%	71.9%
ii. Household and sports goods	15.8%	11.5%
iii. Network communications facilities and others	11.9%	10.3%
iv. Smart electrical appliance casings	5.3%	6.3%
	100%	100%

PROSPECTS

The ecosystems of both the global economy and the consumer electronic product market are changing rapidly. The Group will closely monitor and proactively respond to the emerging opportunities and imminent risks forthwith and will review the Group's strategic planning when necessary, while also aligning its operating structure through business restructuring, thereby focusing on the business sectors with higher development potential. The Group considers the handset casings and high-precision components business remains its core business, and it will develop diversified businesses in a concentric and diversified manner.

Currently, the demand for smartphones is still highly unforeseeable. In view of various uncertainties, the prospects of global shipments throughout the year may fall below expectations. The Group's handset casings business now covers major handset brands globally and will certainly strive to maintain its existing market share and enhance operational efficiency while proactively securing high-profit orders of tri-proof and high-precision components. There are high entry barriers in the requirements of mold precision, craftsmanship and techniques for metaverse-related product. As such, when the metaverse-related application scenarios and the demand for hardware become clearer, the Group will strategically match its related components with existing customers and other globally leading internet technology brands that are developing metaverse products. In addition, the Group will take market-oriented steps to explore new markets and opportunities in various fields.

The Group will prudently deploy resources according to various of factors such as the development potential, profit margins and capital turnover efficiency of various principal businesses, and grasp opportunities arising from the high market growth stage while capitalising on the Group's existing innovative techniques, market-leading craftsmanship, diversified production capacity and outstanding R&D teams. For example, for the current new energy vehicle market, driven by both policies and market demand, the market scale and product quality are improving simultaneously. The Group will continue to work closely with leading battery manufacturers for new energy vehicles, striving to expand its involvement in the components and expand its orders volume of different accessories. The market outlook for household and sports goods is relatively more promising. The Group has also issued an announcement regarding its application for a separate listing of its spin-off household and sports goods business on the Main Board of the Shenzhen Stock Exchange, to enhance the overall financial and financing capability of the business and support its business development.

In view of the ever-changing market environment, the Group, going forward, will maintain its strategy of providing customers with diversified processing techniques and solutions based on its innovative techniques and craftsmanship. Meanwhile, the Group will explore various emerging industries, new products, new materials and new sectors, so as to consolidate its product strength and reinforce its own comprehensive competitive edges. The Group will also continuously review and improve its corporate management, aiming to sustainably optimise its production processes and enhance its management efficiency, thereby ensuring the Group's operations remain stable amid the adversity.

PAST PERFORMANCE AND FORWARD LOOKING STATEMENTS

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

SUPPLEMENTARY INFORMATION

Interim Dividend

The Board does not recommend the payment of any interim dividend for the Period (2021: nil).

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.

UPDATE ON USE OF PROCEEDS FROM RIGHTS ISSUE

To strengthen the financial status and stability of the Group and to enhance the Group's liquidity and lowering the gearing level, the Company has completed a rights issue and issued 3,239,752,548 new shares at the subscription price of HK\$0.232 per rights share on the basis of one rights share for every two existing shares of the Company on 13 September 2021 ("Right Issue"). Upon completion of the Rights Issue, the Company received net cash proceeds of approximately HK\$749 million (the "Net Proceeds") of which approximately HK\$552 million has been utilised during the year ended 31 December 2021 where the remaining balance of approximately HK\$197 million has been fully utilised during the Period in accordance with the intentions previously disclosed by the Company as follows:

	Intended allocation of the remaining net proceeds (HK\$ million)	Actual allocation of the remaining net proceeds during the Period (HK\$ million)
Intended use of proceeds		
Capital expenditure for the purchase of machinery and equipment to improve automation and production efficiency and increase production capacity, to support the development of handset casings and high-precision components business	168	168
For research and development expenditure to strengthen the Group's competitive advantage in the handset casings and highprecision components business, so as to support the continuous development of the Group's major business	29	29
	<u>197</u>	<u>197</u>

SHARE OPTION AND SHARE AWARD SCHEMES

Share Option Scheme

The Company has adopted a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include all executive directors and any full-time employee of the Company or any of its subsidiaries and any suppliers, consultants or advisers who will provide or have provided services to the Group.

As at 30 June 2022 and 31 December 2021, there were no outstanding shares in respect of which options had been granted under the Scheme.

Share Award Scheme

The Company adopted a share award scheme on 17 January 2022 (the “Share Award Scheme”) under which the Directors may, from time to time, at its absolute discretion select any employee (other than excluded employee) for participation in the Share Award Scheme and determine the number of the awarded shares to be awarded to the selected employee(s) at a price per awarded share not less than the higher of:

- (a) the par value of the share of the Company;
- (b) 50% of the closing price of the shares of the Company as quoted on the Stock Exchange on the grant date; and
- (c) 50% of the average of the closing prices of the shares of the Company as quoted on the Stock Exchange for the five consecutive trading days immediately preceding the grant date.

The Board is entitled to impose any conditions, as it deems appropriate with respect to the entitlement of the selected employee to the awarded shares.

The purpose of the Share Award Scheme is to (i) establish a mechanism of “risk sharing and benefit sharing” between middle and senior management and the Group, so that the middle and senior management have the opportunity to share the results of the Group’s strategic development and organisational changes, and attract and retain core talents; (ii) establish an equity reward model linked to the Company’s overall value and personal performance indicators and achieve diversified and long-term rewards for middle and senior management; and (iii) attract suitable personnel for further development of the Group.

The Share Award Scheme shall be valid and effective for a term of 10 years from 17 January 2022 unless terminated earlier by the Board and is administered by the Board and the trustee of the Share Award Scheme. The total number of shares to be awarded under the Share Award Scheme shall not exceed 10% of the total number of issued shares of the Company as at the adoption date of the Share Award Scheme. The maximum number of shares of the Company which may be awarded to a selected employee under the Share Award Scheme shall not exceed 1% of the shares in issue of the Company from time to time.

During the Period, 64,500,000 awarded shares were granted under the Share Award Scheme to 14 selected employees who are individual third parties under the Listing Rule. The awarded shares are subject to certain vesting conditions specified by the Board at the time of granting the awarded shares and shall be vested in three tranches in 48 months started from the grant date. Details of the adoption of the Share Award Scheme and the grant of awarded shares are set out in the Company's announcement dated 17 January 2022.

Corporate Governance

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

Code provision B.2.4(a) of the CG Code states that where all the independent non-executive directors have served more than nine years on the board, the length of tenure of each existing independent non-executive director should be disclosed on a named basis in the circular to shareholders and/or explanatory statement accompanying the notice of the annual general meeting.

The independent non-executive Directors ("INEDs") have all been serving as INEDs for more than nine years. In the circular of the Company dated 11 April 2022, the disclosure of the length of the tenure of all the long serving INEDs on a named basis was inadvertently omitted. Accordingly, the Company issued a supplemental announcement to disclose the length of tenure of all the INEDs on 21 April 2022.

Code provision C.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, namely 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 as the Company’s code of conduct regarding securities transactions by Directors. 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 Period

There were no significant events affecting the Company or 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 websites 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, 30 August 2022

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, GBS, SBS, JP and Mr. Ting Leung Huel Stephen as independent non-executive Directors.