



## 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)

### ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

The Board of Directors (the “Board”) of Tongda Group Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2007 (the “Year”), together with the comparative figures in 2006, as follows:

#### CONSOLIDATED INCOME STATEMENT

*Year ended 31 December 2007*

	<i>Notes</i>	<b>2007</b> <i>HK\$'000</i>	2006 <i>HK\$'000</i>
REVENUE	2	<b>1,139,540</b>	1,118,917
Cost of sales		<b>(896,142)</b>	(849,825)
Gross profit		<b>243,398</b>	269,092
Other income and gains		<b>66,211</b>	27,606
Selling and distribution costs		<b>(33,443)</b>	(39,015)
Administrative expenses		<b>(69,254)</b>	(54,682)
Other expenses, net		<b>(15,421)</b>	736
Finance costs	3	<b>(14,854)</b>	(17,675)
Share of profits and losses of:			
Associates		<b>3,818</b>	4,338
A jointly-controlled entity		<b>18,468</b>	4,990
PROFIT BEFORE TAX	4	<b>198,923</b>	195,390
Tax	5	<b>(28,915)</b>	(35,052)
PROFIT FOR THE YEAR		<b>170,008</b>	160,338

\* For identification purpose only

	<i>Notes</i>	<b>2007</b> <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Attributable to:			
Ordinary equity holders of the Company		<b>174,818</b>	161,194
Minority interests		<b>(4,810)</b>	(856)
		<b>170,008</b>	160,338
<b>DIVIDENDS</b>			
	6		
Interim		<b>32,132</b>	26,796
Proposed final		<b>31,918</b>	32,132
		<b>64,050</b>	58,928
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
	7		
– Basic		<b>HK4.42 cents</b>	HK4.84 cents
– Diluted		<b>HK4.41 cents</b>	HK4.82 cents

## CONSOLIDATED BALANCE SHEET

31 December 2007

	<i>Notes</i>	<b>2007</b> <i>HK\$'000</i>	2006 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>523,682</b>	355,447
Investment property		<b>4,000</b>	3,300
Prepaid land lease payments		<b>19,725</b>	18,774
Interests in associates		<b>22,895</b>	15,302
Interest in a jointly-controlled entity		<b>43,692</b>	19,789
Prepayments		<b>42,980</b>	40,357
Long term deposits		<b>13,442</b>	1,360
Deferred tax assets		<b>130</b>	130
		<hr/>	<hr/>
Total non-current assets		<b>670,546</b>	454,459
<b>CURRENT ASSETS</b>			
Inventories		<b>167,710</b>	121,134
Trade and bills receivables	8	<b>627,727</b>	446,772
Prepayments, deposits and other receivables		<b>58,245</b>	36,531
Pledged deposits		<b>584</b>	5,199
Derivative financial assets		<b>5,945</b>	–
Cash and cash equivalents		<b>146,627</b>	113,211
		<hr/>	<hr/>
Total current assets		<b>1,006,838</b>	722,847
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	9	<b>243,371</b>	154,050
Accrued liabilities and other payables		<b>58,003</b>	60,693
Trust receipt loans		–	1,362
Derivative financial liabilities		<b>1,984</b>	–
Interest-bearing bank borrowings		<b>112,844</b>	67,571
Due to a jointly-controlled entity		<b>13,787</b>	–
Due to a minority shareholder of a subsidiary		<b>609</b>	748
Tax payable		<b>105,883</b>	94,972
		<hr/>	<hr/>
Total current liabilities		<b>536,481</b>	379,396
		<hr/>	<hr/>
NET CURRENT ASSETS		<b>470,357</b>	343,451

	<b>2007</b> <i>HK\$'000</i>	2006 <i>HK\$'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>1,140,903</u>	<u>797,910</u>
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	–	169,429
Deferred tax liabilities	<u>2,502</u>	<u>1,850</u>
Total non-current liabilities	<u><u>2,502</u></u>	<u><u>171,279</u></u>
Net assets	<u><u>1,138,401</u></u>	<u><u>626,631</u></u>
EQUITY		
Equity attributable to ordinary equity holders of the Company		
Issued capital	39,975	33,715
Reserves	1,061,079	550,545
Proposed final dividend	<u>31,918</u>	<u>32,132</u>
	<u>1,132,972</u>	616,392
Minority interests	<u>5,429</u>	<u>10,239</u>
Total equity	<u><u>1,138,401</u></u>	<u><u>626,631</u></u>

Notes:

## **I 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, 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 an investment property, certain buildings and derivative financial instruments which have been measured at fair value. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company’s subsidiaries.

## **II IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

The Group has adopted the following new and revised HKFRSs for the first time for the current year’s financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKFRS 7	Financial instruments: Disclosures
HKAS 1 Amendment	Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

### III IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, which have been issued but are not yet effective, in these financial statements.

HKFRS 2 Amendment	Share-based Payment – Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions <sup>3</sup>
HK(IFRIC)-Int 12	Service Concession Arrangements <sup>4</sup>
HK(IFRIC)-Int 13	Customer Loyalty Programmes <sup>5</sup>
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on 1 January 2009

<sup>2</sup> Effective for annual periods beginning on 1 July 2009

<sup>3</sup> Effective for annual periods beginning on 1 March 2007

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2008

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 may result in new or amended disclosures, these new and revised HKFRSs should not have any significant impact on the Group's results of operations and financial position.

## 2. REVENUE AND SEGMENT INFORMATION

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

### (a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

#### Group

	Electrical fittings		Ironware parts		Communication facilities		Corporate and others		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	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	591,950	459,876	389,511	386,844	85,377	188,214	72,702	83,983	-	-	1,139,540	1,118,917
Intersegment sales	6,135	1,998	555	6,549	2,864	-	-	-	(9,554)	(8,547)	-	-
<b>Total</b>	<b>598,085</b>	<b>461,874</b>	<b>390,066</b>	<b>393,393</b>	<b>88,241</b>	<b>188,214</b>	<b>72,702</b>	<b>83,983</b>	<b>(9,554)</b>	<b>(8,547)</b>	<b>1,139,540</b>	<b>1,118,917</b>
Segment results	146,396	144,247	47,941	44,632	(18,656)	3,853	(15,578)	(15,493)	(2,318)	(1,108)	157,785	176,131
Unallocated income											33,706	27,606
Finance costs											(14,854)	(17,675)
Share of profits and losses of:												
Associates											3,818	4,338
A jointly-controlled entity											18,468	4,990
Profit before tax											198,923	195,390
Tax											(28,915)	(35,052)
<b>Profit for the year</b>											<b>170,008</b>	<b>160,338</b>
Segment assets	1,267,842	696,989	524,410	428,748	508,086	468,104	369,916	351,922	(1,212,743)	(922,088)	1,457,511	1,023,675
Unallocated assets											219,873	153,631
<b>Total assets</b>											<b>1,677,384</b>	<b>1,177,306</b>
Segment liabilities	906,282	553,700	314,730	153,681	378,994	374,712	43,435	55,486	(1,327,671)	(922,088)	315,770	215,491
Unallocated liabilities											223,213	335,184
<b>Total liabilities</b>											<b>538,983</b>	<b>550,675</b>

	Electrical fittings		Ironware parts		Communication facilities		Corporate and others		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information:												
Depreciation	20,847	13,392	11,875	8,240	3,337	5,698	779	489	-	-	36,838	27,819
Amortisation of prepaid land lease payments	400	400	-	-	70	65	-	-	-	-	470	465
Impairment/(write-back) of impairment) of bad and doubtful debts	1,051	(700)	-	-	-	(19)	-	-	-	-	1,051	(719)
Impairment/(write-back) of trade receivables	720	126	-	-	(87)	-	-	-	-	-	633	126
Write-back of obsolete inventories	-	-	-	-	-	(180)	-	-	-	-	-	(180)
Loss on disposal of items of property, plant and equipment	127	136	-	-	12,287	-	-	177	-	-	12,414	313
Amortisation of prepayments	-	-	964	897	-	-	-	-	-	-	964	897
Surplus on revaluation of property, plant and equipment recognised directly in equity	-	-	-	-	-	-	(3,723)	(1,013)	-	-	(3,723)	(1,013)
Change in fair value of an investment property	-	-	-	-	-	-	(700)	(400)	-	-	(700)	(400)
Capital expenditure	179,108	68,067	16,431	22,158	1,076	9,666	34	1,627	-	-	196,649	101,518

**(b) Geographical segments**

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2007 and 2006.

**Group**

	Hong Kong		Mainland China		Southeast Asia		Australia		Others		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	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	178,445	120,535	750,213	756,321	45,979	37,477	73,467	68,550	91,436	136,034	1,139,540	1,118,917
Total assets	189,260	140,399	1,404,149	973,598	11,772	2,738	40,463	25,703	31,740	34,868	1,677,384	1,177,306
Other segment information:												
Capital expenditure	34	1,627	196,615	99,891	-	-	-	-	-	-	196,649	101,518

### 3. FINANCE COSTS

	<b>Group</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest expenses on bank loans and overdrafts wholly repayable within five years	<b>14,854</b>	17,675

### 4. PROFIT BEFORE TAX

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

	<b>2007</b>	2006
	<b>HK\$'000</b>	<b>HK\$'000</b>
Cost of inventories sold	<b>896,142</b>	849,825
Employee benefits expense (excluding directors' remuneration)		
Salaries and wages	<b>120,217</b>	113,857
Equity-settled share option benefits	<b>948</b>	770
Pension scheme contributions	<b>593</b>	357
Less: Amounts included in research and development costs	<b>(1,291)</b>	(1,272)
	<b>120,467</b>	113,712
Minimum lease payments under operating leases of leasehold land and buildings	<b>4,150</b>	997
Auditors' remuneration	<b>1,500</b>	1,380
Depreciation	<b>36,838</b>	27,819
Amortisation of prepaid land lease payments	<b>470</b>	465
Changes in fair value of an investment property*	<b>(700)</b>	(400)
Amortisation of prepayments	<b>964</b>	897
Impairment/(write-back of impairment) of bad and doubtful debts*	<b>1,051</b>	(719)
Write-off of trade receivables*	<b>633</b>	126
Write-back of obsolete inventories*	<b>–</b>	(180)
Loss on disposal of items of property, plant and equipment*	<b>12,414</b>	313
Research and development costs**	<b>32,374</b>	32,490
Net fair value gains on foreign exchange derivative financial instruments***	<b>(3,961)</b>	–
Gross rental income with nil outgoings***	<b>(5,237)</b>	(2,095)
Bank interest income***	<b>(4,646)</b>	(1,457)
Foreign exchange differences, net***	<b>(34,471)</b>	(12,249)

\* The changes in fair value of an investment property, impairment/(write-back of impairment) of bad and doubtful debts, write-off of trade receivables, write-back of obsolete inventories and loss on disposal of items of property, plant and equipment for the year are included in "Other expenses, net" on the face of the consolidated income statement.

\*\* Included in the research and development costs are items of plant and equipment amounted to HK\$14,227,000 (2006: HK\$19,435,000) which are capitalised under property, plant and equipment in the consolidated balance sheet and are depreciated over their estimated useful lives.

\*\*\* The gross rental income with nil outgoings, bank interest income, foreign exchange differences, net fair value gains on foreign exchange derivative financial instruments for the year are included in “Other income and gains” on the face of the consolidated income statement.

Cost of inventories sold includes HK\$137,628,000 (2006: HK\$124,566,000) relating to staff costs, operating lease rentals on land and buildings, amortisation of prepayments, and depreciation of the manufacturing activities, which are also included in the respective total amounts disclosed above for each of these types of expenses.

## 5. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>2007</b> <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Group:		
Current – Hong Kong		
Charge for the year	<b>6,663</b>	5,656
Overprovision in prior years	–	(1,337)
Current – Elsewhere		
Charge for the year	<b>25,162</b>	36,952
Overprovision in prior years	<b>(2,910)</b>	(6,219)
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Total tax charge for the year	<b>28,915</b>	35,052
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## 6. DIVIDENDS

	<b>2007</b> <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Interim – HK0.8 cent (2006: HK0.8 cent)		
per ordinary share	<b>32,132</b>	26,796
Proposed final – HK0.8 cent (2006: HK0.8 cent)		
per ordinary share	<b>31,918</b>	32,132
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	<b>64,050</b>	58,928
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The proposed final dividend for the year is calculated based on 3,989,800,000 issued and fully paid up shares of the Company up to the date of these financial statements.

**7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY**

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company of HK\$174,818,000 (2006: HK\$161,194,000), and the weighted average of 3,954,223,000 (2006: 3,327,481,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2007 is based on the profit for the year attributable to ordinary equity holders of the Company of HK\$174,818,000 (2006: HK\$161,194,000). The weighted average number of ordinary shares of 3,963,170,000 (2006: 3,341,896,000) used in the calculation is the weighted average of 3,954,223,000 (2006: 3,327,481,000) ordinary shares in issued during the year, as used in the basic earnings per share calculation and the weighted average of 8,947,000 (2006: 14,415,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of 50,360,000 (2006: 72,000,000) share options during the year.

**8. TRADE AND BILLS RECEIVABLES**

	<b>Group</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Within 3 months	<b>503,169</b>	350,685
4 to 6 months, inclusive	<b>74,806</b>	56,127
7 to 9 months, inclusive	<b>29,830</b>	18,076
10 to 12 months, inclusive	<b>7,782</b>	9,374
More than 1 year	<b>20,108</b>	19,391
	<hr/>	<hr/>
	<b>635,695</b>	453,653
Impairment allowances for bad and doubtful debts	<b>(7,968)</b>	(6,881)
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	<b>627,727</b>	446,772
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It is the general policy of the Group to allow a credit period of three to six months except for the sale of fibre optic cable products on which a longer credit period of three to eighteen months is allowed in certain cases. In addition, for certain customers with long-established relationships and good past repayment histories, a longer credit period may be granted in order to maintain a good relationship. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest bearing. The carrying amounts of trade and bills receivables approximate to their fair values.

## 9. TRADE AND BILLS PAYABLES

The carrying amounts of trade and bills payables approximate to their fair values. The trade payables are non-interest-bearing and are normally settled on 60 to 90 days terms. An aged analysis of the Group's trade and bills payables as at 31 December 2007, based on the invoice date, is as follows:

	<b>Group</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Within 3 months	<b>222,808</b>	124,485
4 to 6 months, inclusive	<b>11,760</b>	20,566
7 to 9 months, inclusive	<b>1,360</b>	5,446
10 to 12 months, inclusive	<b>3,661</b>	692
More than 1 year	<b>3,782</b>	2,861
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	<b>243,371</b>	154,050
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## **BUSINESS REVIEW**

### **1. Financial**

For the year ended 31 December 2007, the Group's turnover was HK\$1,139,540,000, representing a rise of 1.8% as compared to HK\$1,118,917,000 last year. During the year, the Group strategically discontinued the low-margin fibre optic business. Excluding the turnover contributed by fiber optic business, turnover of the Group observed a gentle growth of 6.7% over last year.

During the year, the Group recorded a gross profit of HK\$243,398,000, representing a decrease of 9.5% as compared to HK\$269,092,000 last year, with a gross margin of 21.4% (2006: 24.0%). The Group's profit attributable to shareholders for the Year recorded HK\$174,818,000, representing a growth of 8.5% as compared to HK\$161,194,000 in 2006. The growth in net profit was attributable to the Group's continuous efforts in launching new products and implementing effective cost control measures. During the year, there is a discontinued fiber optic business. The loss arising from the discontinued business amounts to HK\$12,414,000. Excluding the above, net profits before the discontinued business will be HK\$187,232,000, representing a growth of 16.2% as compared to last year.

During the year, the Group made steady progress in terms of developing advanced and innovative technologies, as well as further enhanced product diversification. The Group strategically phased out its traditional, low-margin communication facilities business while focusing more on the higher-margin and more value-added electrical fittings business.

### **2. Operational information by division**

#### *a. Electrical Fittings Division – Overview*

For the year ended 31 December 2007, turnover generated from the electrical fittings division increased by 28.7% to HK\$591,950,000 (2006: HK\$459,876,000), representing a contribution of 51.95% to the total turnover. With immense market recognition for its high-quality and diversified products, together with its advanced technological capabilities, the Group managed to secure its first bulk orders from renowned international handset customers during the year. However, the management is not satisfied with the volume of orders coming from the international customers. The lower than expected number of orders is largely due to the overestimation of handset manufacturers to the market response of new handset products. Although it is a difficult path to enter into the international customer's supply chain, it is encouraging to report that subsequent to the year end, the Group starts to supply handset accessories to another renowned international customer. The management is still optimistic to the future large contribution in terms of volume and profit growth from the international customers.

In-Mould Decoration (“IMD”) remained as the core technology driving growth in this division, It has occupied for over 91% (2006: 90%) of the division’s turnover. Its derivative, In-Mould Lamination (“IML”), represents an enhancement of the Group’s state-of-the-art technology. Continuous efforts in research and development together with a wealth of manufacturing experience have propelled the Group further ahead of its industry peers. Apart from mobile handsets and various household electrical appliances, the Group achieved a breakthrough and began applying IMD technology to notebook computer casings.

#### *Electrical Fittings Division – Mobile Handset Segment*

Demand for mobile handsets utilising the Group’s IMD technology remained high during the year. Due to the persistent economic growth and increasing disposable income in China, the product cycle for mobile handsets have shortened considerably and are now classified as Fast Moving Consumer Goods (“FMCG”) rather than Durable Consumer Goods (“DCG”). Consumers expect a mobile handset not only to function well but also incorporate new and stylish exterior designs. The Group’s IMD technology exactly matches such consumers’ needs. To capture this new consumption trend, the Group further enhanced its IMD technology by including color coating, plasma surface treatment, leather incrustation, multi-color automatic printing, and alloys with various textures. These techniques can be combined to generate some very unique surface-decoration effects, which have received very positive responses from both mobile handset manufacturers and end-users.

Due to its high product quality and competitive time-to-delivery services, the Group continues to be a major accessories supplier for leading domestic mobile handset manufacturers in China, such as Lenovo, Huawei, ZTE Corporation, Bird and Amoi. Apart from supplying domestic manufacturers, in addition, the Group successfully gained orders from large international manufacturers during the year.

The Group’s new product, handset keypads, was successfully launched to its customers and an obvious improvement in sales volume was recorded during the year. In line with the Group’s strategy to diversify its product range, the Group will continue to strengthen the development of different mobile handset accessories such as handset casing, bluetooth and vacuum vaporized plated cell phone decorations, with the aim to provide a one-stop solution for mobile handset manufacturers. While there is currently no obvious surge in orders for handset accessories, the Group believes this will be the trend in the market, and is actively striving for future growth by introducing a more diversified product portfolio. Given the strong market demand and higher margins within this segment, the Group will continue to develop and reinforce its IMD business for mobile handsets.

*Electrical Fittings Division – Household Electrical Appliance and other Products Segment*

For the year ended 31 December 2007, IMD application in household electrical appliances products accounts for approximately 21.5% of the division's turnover. With the rising living standard in China which drives the pursuit of artistic exterior of household electrical appliances, the management believes that the market for household electrical appliances will continue to grow and contribute a significant portion within the electrical fittings division. During the year, IMD notebook computer casings had achieved thrilling growth and further expansion of sales is expected in the coming few years. As such, the Group had invested in a new factory in its existing manufacturing site in Shishi, Fujian Province, for the production of IMD notebook, which will be put into used from mid 2008. Going forward, the Group is confident that it will get more bulk orders from notebook manufacturers.

The Group will continue to diversify its products, applying its state-of-the-art IMD technology not only to refrigerators, air conditioners, washing machines but also to microwave ovens, induction cookers, MP3 and MP4 players, producing a more appealing surface-decoration effect for a wider range of household electrical appliances. In order to maximize its revenue and enhance overall profitability, the Group is currently attempting to apply IMD technology to motor vehicles' interior design and it will be announced when the products are successful.

*b. Ironware Parts Division*

For the year ended 31 December 2007, turnover from the Group's ironware parts division increased from HK\$386,844,000 to HK\$389,511,000, representing a rise of 0.7% as compared to 2006. Although there is no obvious change in turnover in this Division, the product mix has substantially changed. During the year, there is 24.2% decrease in orders of aluminum TV casing as compared to year 2006. The portion of the Division's turnover occupied by aluminum products have decreased from 52.2% to 39.3%.

In common with other industries in China, the division has been seriously hit by the increased labour cost and raw material cost, regardless of the transfer of certain portion additional cost to customers. Moving to the higher margin products is the predetermined strategy. During the year, the Group continues to shift its focus from larger ironware parts to smaller, more delicate precision ironware parts, due to its relatively higher profit margin. High precision ironware parts can be applied in handsets and other consumer electronics such as MP3/MP4 players and digital camera cases and has successfully launched into the market recording about HK\$18 million sales in its first year's operation, contributing about 4.6% to the Division's turnover.

In order to maintain a relatively higher margin, the current two major products of the Division, iron casing and aluminum alloy products, are both targeted for the international market now. Based on its advanced technology and high product quality, the Group successfully secured orders from renowned international brands such as Cisco, Pace, Samsung and Sony.

*c. Communication Facilities Division*

For the year ended 31 December 2007, turnover from the Group's communication facilities division decreased to HK\$85,377,000, representing a decline of 54.6% as compared to HK\$188,214,000 in 2006.

The two major businesses of this Division were digital satellite television modems and fiber optic cable. During the year, fiber optic cable business was strategically eliminated owing to its long receivable period and relatively low margin.

There was a drop of 37.5% in the sales of digital satellite television business due to the reduced marketing efforts, as margin for this product is relatively low as compared to our Group's other products. The Group will continue to research on other related product of the satellite television modem business and to look for expansion in its related products.

*d. Product turnover breakdown for the 12 months ended December 31*

	<b>2007</b>	2006
Electrical Fittings Division	<b>52%</b>	41%
Ironware Parts Division	<b>34%</b>	35%
Communication Facilities Division	<b>8%</b>	17%
Other Trading Division	<b>6%</b>	7%

For the year ended 31 December 2007, the Group continued its strategy of product mix optimization in order to improve its profitability. The above table illustrates the changes in the Group's product turnover breakdown in the past two years: the major income of the Group came from the most profitable electrical fittings division, whose turnover contribution increased from 41% in 2006 to 52% during the year. The turnover attributable to the ironware parts division dropped slightly from 35% in 2006 to 34%. The turnover attributable to the communication facilities division with relatively lower margin has been cut from 17% in 2006 to 8% during the Year. In future, the Group will continue its market-oriented strategy to allocate more resources to manufacturing innovative products with the highest potentials, so as to maximize profits.

### **3. Prospect**

As the sustaining boom in the consumer electronic product market coupled with the Group's growing maturity as a one-stop solution provider for handset manufacturers offers a strong competitive edge, the management is fully confident in the business outlook for the Group.

To further consolidate its position as a leading manufacturer of exterior outfit for consumer electronic products in China and in particular mobile handsets and notebook computers, the Group will continue focusing on the electrical fittings division. In reward for its efforts in research and development, the Group had developed IML technology which distinguishes itself from its peers. The Group will continue putting relentless efforts on R&D to further consolidate this advantage.

Despite the high standard required, the Group still managed to increase the share of international clients in its business. The management has enormous confidence in the quality of the Group's products, and will further penetrate into the international mobile handset manufacture market through its diversified product mix and advantage as a vertically-integrated one-stop solution provider. Striving to enter into the supply chain of international mobile handset manufacturers remains the Group's long-term strategy and the management believes that the success of entering into the supply chain of international market will bring in bulk orders and high profitability to the Group.

Apart from the above, the Group has expanded to other handset accessories such as handset casing and keypad. The success of handset casing business has delivered about 3.7 times of last year profit contribution reaching to about HK\$18.5 million recorded profit for the year. Owing to its profitability, by the end of the year and subsequent to year end, the Group has further invested in this business by injection of additional capital to Tongda (Xiamen) Technology Limited and Shenzhen Tongda Electronics Limited for further expansion, and consequently, the companies became a 70% partly controlled subsidiary of the Group. With the promising macro-environment and surging demand for mobile handset products, the Group is confident that the enhancement in production capacity is beneficial for long-term development. The management expects that further growth in this business will appear in coming years.

Other than handset business, the Group has also extended its business to other consumer electronic products such as notebook computer casing. The few months' operation of the business brings tremendous confidence to the management in further investment in this business. Further growth in turnover of notebook business is expected in the following few years.

Product diversification will continue to top the Group's priority list in the future. The Group is confident that the strategic optimisation of product mix will enhance the Group's overall profitability, and further product diversification will enhance the Group's position as a one-stop solution provider for handset manufacturers.

As to the ironware parts division, emphasis will progressively be put on higher value-added precision ironware which possesses a rapid growing demand and a relatively higher margin. Going forward, the Group will seek opportunities to expand its cooperation with international customers from ironware parts to electrical fittings, creating a synergy effect between divisions, thereby paving its way to be a more comprehensive one-stop service provider.

To seize the opportunity of increasing orders from customers, and huge demand in handset accessories by the handset manufacturers, the Group will proceed to expand its production capacity by continuing to invest in plant and machineries. A new factory with additional machineries will be ready to be used in mid of 2008 to capture the increasing demand of electrical appliance and handset accessories products. Additional land for further development will be acquired near our existing factory site in order to cater for our future growth.

Through international market expansion, product diversification, business structure optimization and production scale expansion, the Group's competitive advantages are enhanced to a large extent. The management has strong confidence in providing high-quality products and services to its customers while creating a splendid future for the Group and maximizing shareholders' returns.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group generally financed its development and operations with internally generated cash flow and other banking facilities by its principal bankers.

On 22 January 2007, 645,000,000 new shares were allotted and issued at an issue price of HK\$0.6 per share to independent third parties pursuant to a subscription agreement dated 22 January 2007. This placement raised net cash proceeds of approximately HK\$376,903,000. With the support of the cash from the new issue of shares and the profitability of the business and the careful monitoring of the liquidity position, the liquidity of the Group is maintained at a healthy level and gearing level has dropped significantly during the year.

As at 31 December 2007, the Group had cash and bank balances of HK\$147,211,000 (2006: HK\$118,410,000), of which more than 90 per cent were denominated in Hong Kong dollars and RMB. The Group carried on its trade mainly in Hong Kong dollars and RMB. As there is adequate amount of RMB sales proceeds, the Group was not exposed to any exchange rate risk with the continuous appreciation of RMB during the year.

As at 31 December 2007, the gearing ratio (total debt/total asset of the Group) was 0.27 (2006: 0.42).

### **EMPLOYEE**

As at 31 December 2007, the Group had about 7,000 (2006: 7,000) employees. The Group provides competitive remuneration packages to employee commensurable 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.

### **CAPITAL STRUCTURE**

All of the Company's shares are ordinary shares. All of the Group's borrowings are repayable within one year as at the balance sheet date. In 2006, the Group's borrowings repayable more than one year was HK\$69.4 million.

### **CONTINGENT LIABILITIES**

As at the balance sheet date, the Group had contingent liabilities in respect of outstanding irrevocable letters of credit of HK\$44 million (2006: HK\$24 million).

In addition, 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\$120.6 million (2006: HK\$39.9 million) at the balance sheet date.

Save as disclosed above, neither the Group nor the Company, had any significant contingent liabilities at the balance sheet date.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

The Company purchases its own Shares in the Stock Exchange from 18 December 2007 to 1 February 2008, with a price range from 0.31 to 0.398, totalling 28,700,000 Shares.

Neither the Company, its holding company, nor any of its subsidiaries redeemed or sold 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 report.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

In the opinion of the directors, the Company has complied with all code provisions of the Code on Corporate Governance Practices in as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") of the Stock Exchange throughout the year covered by the Annual Report, except for the deviations as mentioned below:

The independent non-executive directors of the Company are not appointed for specific terms, but are subject to retirement by rotation at the annual general meeting in accordance with the Company's memorandum and articles of association.

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.

The Company has an audit committee "the Committee", which was established in accordance with the requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The Committee comprises the three independent non-executive directors of the Company. The Group's financial statements for the year ended 31 December 2007 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards, and legal requirements, and that adequate disclosures have been made.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the “Model Code”) as the Company’s code of conduct for dealings in securities of the Company by the directors. Based on specific enquiries of the Company’s directors, the directors have complied with the required standard set out in the Model Code throughout the accounting period covered by the annual report.

## **AUDITORS**

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

## **DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE**

All the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

## **CLOSURE OF REGISTER OF MEMBERS**

The Company’s branch share registers will be closed from 27 May 2008 to 2 June 2008 (inclusive of the first and last day) to process share transfer. A member entitled to the proposed final dividend, must submit the share transfer form together with the relevant shares on or before 4:00 pm on 26 May 2008 to our Company’s branch share registrars, Union Registrars Limited, at Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.

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

Hong Kong, 22 April 2008

*As at the date of this announcement, the executive directors of the Company includes Messrs Wang Ya Nan, Wang Ya Hua, Wong Ah Yu, Wong Ah Yeung, Choi Wai Sang, Wang Ming Che, and independent non-executive directors Dr. Yu Sun Say JP, Mr. Ting Leung Huel Stephen and Mr. Cheung Wah Fung, Chirstopher, JP*