

USE OF PROCEED

The proceeds from the Company's issued of new shares at the time of its listing on the Hong Kong Stock Exchange in December 2000, after deduction of related issuance expenses, amounted to approximately HK\$61 million. HK\$39.6 million were applied during the year ended 31 December 2001 and the remaining proceeds of HK\$21.4 million were applied during the six months ended 30 June 2002. In accordance with the proposed applications set out in the Company's prospectus, as follows:

- approximately HK\$8 million was used for the acquisition of production machinery and equipment to expand the Group's production capacity;
- approximately HK\$4 million was used for the establishment of new production facilities in Shenzhen, the PRC;
- approximately HK\$4.7 million was used for the research and development of new products;
- approximately HK\$2.7 million was for the investment in an associate carrying out screen printing business; and
- approximately HK\$2 million was applied as additional working capital of the Group.

BUSINESS REVIEW AND PROSPECTS

Review

In the last second half year, the worldwide economic environment has entered into a critical condition. The worldwide depression has directly affected the Group's performance and the effect was reflected in the second half-year of the year 2001. While the worldwide economic started to rebound in the year of 2002, the Group's performance has gradually improved in the first-half of the year 2002 and has fully picked up its sales to the last year's level.

During the period, the turnover for the manufacture of accessories electrical appliances and electronic products was maintained at about last year's level. Owing to a few successful launched newly developed and leading technology products, which have been widely adopted by a number of prestige electrical appliance manufacturers contributing to a satisfactory profit level. The orders are full for our capacity. The price competition in the electronic and ironware products was fierce which has negative impact to their profitability. In the ironware products, a number of clients have delayed to place their orders. Consequently, there is a drop of 20% in the turnover of this sector in comparing with last year. According to our orders on hand and the forecast orders for the whole year, we expect that there will be a moderate growth in comparing with last year.

The overall market for household electrical appliances in China was facing keen competition, especially in the pricing pressure. Despite that the critical situation being faced, the Group's first six month result is encouraging recording a net profit after tax amounting to HK\$18,200,000 (2001: HK\$22,349,000). Owing to the keen competition in the market, the profitability has been dropped and the Group has tried a number of means to maintain its profit level including to tighten the control over its costs and to develop new products and new markets.

The Group has invested in an optical fiber factory in last year. Owing to the significant fluctuation in the price of optical fiber, the first six months' result can only reach to a mild profit level. On the other hand, the Group has continuously expanded its customer base. Tongda Group has successfully gained the exclusive right to supply optical fiber for China Mobile Group and China Unicom Group and other big customers are now soliciting by the Group. With the continuous development of infrastructure in China, we expected that the demand for optic fiber will steadily grow.

In order to achieve the goals of lowering down the production cost and to strengthen Tongda Group's competitiveness, the Group has strengthened its research department to develop new products, to expand its sales team and to acquire new machineries and to directly develop the long term relationship with other prestige electrical appliance manufacturers, to develop new staff training schemes and to improve the efficiency of the working team.

Prospect

In the foreseeable future, with the joining of the WTO, China is expected to attract more manufacturers to establish factories in China. The demand for electronic and electrical parts is expected to increase. Located in the "World Factory" and with its accumulated knowledge in the business and in the market, Tongda Group will establish a number of sales offices to serve the clients closely, having stable clients base and the goodwill of Tongda Group. Our new Shenzhen factory is now taking up some test-orders and normal sales will be started in the second half year. The first six months operation forecast to contribute about ten percent of the total Group's sales.

The strength of Tongda Group are its strong research team, in line the market trend, its tight cost control, full quality guarantee system, the energetic business and our combined strength of our Group. Ultimately, Tongda Group aims to become a worldwide manufacturer for electronic and electrical parts supplies and hoping to offer a fringe return to the shareholders and investors.