



Tungda Innovative Lighting Holdings Limited

東大新材料照明控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Third Quarterly Report 2002/2003 ●

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This report, for which the directors of Tungda Innovative Lighting Holdings Limited collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Tungda Innovative Lighting Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

Turnover for the nine months ended 31st December, 2002 was approximately HK\$197 million representing approximately 141% increase as compared with that of the corresponding period in 2001.

Net profit from ordinary activities attributable to shareholders amounted to approximately HK\$45.6 million for the period under review.

To retain cash flow for future development, the Board of Tungda Innovative Lighting Holdings Limited does not recommend the payment of an interim dividend for the nine months ended 31st December, 2002.

INTERIM RESULTS

The board of directors (the “Board”) of Tungda Innovative Lighting Holdings Limited (the “Company”) presents the unaudited consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the three months and nine months ended 31st December, 2002 together with the comparative unaudited figures for the corresponding periods in 2001, as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		For the		For the	
		nine months ended		three months ended	
Notes		31st December,		31st December,	
		2002	2001	2002	2001
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	3	197,115	81,883	63,183	38,236
Cost of sales		(127,124)	(64,087)	(42,465)	(28,104)
Gross profit		69,991	17,796	20,718	10,132
Other income		232	6	107	1
Distribution costs		(7,573)	(681)	(3,858)	(358)
Administrative expenses		(8,646)	(3,566)	(3,567)	(1,418)
Research and development expenses		(4,956)	(195)	(2,229)	(53)
Profit from operations		49,048	13,360	11,171	8,304
Finance costs		(161)	(473)	–	(231)
Profit before taxation		48,887	12,887	11,171	8,073
Taxation	4	(3,300)	(1,940)	(455)	(1,164)
Net profit for the period		45,587	10,947	10,716	6,909
Earnings per share (HK cents)	5	5.74	1.64	1.21	1.04

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	General reserve fund <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated (losses) profit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2001	–	–	–	–	9	(193)	(184)
Net profit for the period	–	–	–	–	–	10,947	10,947
At 31st December, 2001	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>9</u>	<u>10,754</u>	<u>10,763</u>
At 1st April, 2002	–	126	–	–	9	21,388	21,523
New shares issued	4,000	–	(2,128)	–	–	–	1,872
New shares issued for private placing on 26th July, 2002	2,220	–	–	53,280	–	–	55,500
Capitalisation issue	2,660	–	–	(2,660)	–	–	–
Net profit for the period	–	–	–	–	–	45,587	45,587
Issue expenses in connection with private placing	–	–	–	(11,221)	–	–	(11,221)
At 31st December, 2002	<u>8,880</u>	<u>126</u>	<u>(2,128)</u>	<u>39,399</u>	<u>9</u>	<u>66,975</u>	<u>113,261</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Group reorganisation and basis of preparation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Company Law (2001 Second Revision) of Cayman Islands on 17th December, 2001. Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the group structure in preparation for the listing of the Company’s shares on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the Group upon completion of the Group Reorganisation on 10th July, 2002. Details of the Group Reorganisation are set out in the Company’s prospectus dated 19th July, 2002 (the “Prospectus”). The Company’s shares were listed on GEM on 26th July, 2002.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the unaudited consolidated financial statements of the Group for the nine months ended 31st December, 2002 have been prepared as if the Company had always been the holding company of the Group in accordance with the Statement of Standard Accounting Practice (“SSAP”) No.27 “Accounting for group reconstructions” issued by the Hong Kong Society of Accountants. The unaudited consolidated results of the Group for the nine months ended 31st December, 2001 has been prepared as if the Group Reorganisation had been effective since 1st April, 2001. The directors consider that this basis provides meaningful information for shareholders as regards the historical performance of the companies now comprising the Group.

2. Principal accounting policies

The condensed consolidated financial statements have been prepared under the historical cost convention.

The interim report has been prepared in accordance with SSAP No.25 “Interim financial reporting” issued by the Hong Kong Society of Accountants and the accounting policies adopted are consistent with those adopted the Group in the preparation of the Group’s audited consolidated financial statements for the year ended 31st March, 2002 as set out in Appendix I “Accountants’ report” of the Prospectus.

All significant intra-group transactions and balances have been eliminated on consolidation.

The unaudited consolidated financial statements have not been audited nor reviewed by the Company’s auditors, but have been reviewed by the Company’s audit committee.

3. Turnover

The amount received and receivable for goods, net of returns, sales discounts, and value-added tax, where applicable, sold to customers during the three months and nine months ended 31st December, 2002. An analysis of the Group's turnover is as follow:

	(Unaudited) For the nine months ended 31st December, 2002		(Unaudited) For the three months ended 31st December, 2002	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
House brand lighting source products	78,398	13,964	23,296	8,852
Agency brand lighting source products	118,717	67,919	39,887	29,384
	<u>197,115</u>	<u>81,883</u>	<u>63,183</u>	<u>38,236</u>

4. Taxation

Taxation charge represents Hong Kong Profits Tax calculated at the rate of 16% (for the nine months ended 31st December, 2001: 16%) on the estimated assessable profit arising in Hong Kong. Light Power (Shenzhen) Co., Ltd ("Light Power"), a wholly-owned subsidiary of the Group established in Shenzhen, the People's Republic of China (the "PRC"), is subject to PRC Enterprise Income Tax at the rate of 15% as it is a foreign invested enterprise established in the special economic zone in the PRC. Pursuant to the relevant laws and regulations in the PRC, Light Power is entitled to a full exemption of PRC Enterprise Income Tax for a period of two years commencing from the first profitable year, which was commencing on 1st January, 2001, and a 50% reduction of PRC Enterprise Income Tax for the three years thereafter.

	(Unaudited) For the nine months ended 31st December, 2002		(Unaudited) For the three months ended 31st December, 2002	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong Profits Tax	3,300	1,940	455	1,164
PRC Enterprise Income Tax	—	—	—	—
	<u>3,300</u>	<u>1,940</u>	<u>455</u>	<u>1,164</u>

There is no significant unprovided deferred taxation for the periods.

5. Earnings per share

The calculations of the earnings per share is based on the following data:

	(Unaudited) For the nine months ended 31st December, 2002 HK\$'000		(Unaudited) For the three months ended 31st December, 2002 HK\$'000	
	2001 HK\$'000		2001 HK\$'000	
Net profit for the period and earnings for the purpose of calculation of basic earnings per share	<u>45,587</u>	10,947	<u>10,716</u>	6,909
Weighted average number of shares for the purpose of calculation of basic earnings per share	<u>794,356,364</u>	666,000,000	<u>888,000,000</u>	666,000,000

The calculation of basic earnings per share is based on the assumption that the Group Reorganisation as described in note 1 had been completed on 1st April, 2001.

No diluted earnings per share have been presented as the Company did not have any dilutive potential ordinary shares during the three months and nine months ended 31st December, 2002 and 2001.

6. Capital commitments

At the balance sheet date, the Group had no material outstanding capital commitments.

7. Lease commitments

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	(Unaudited) 31st December, 2002 HK\$'000	(Audited) 31st March, 2002 HK\$'000
Within one year	1,080	214
In the second to fifth years inclusive	<u>915</u>	<u>—</u>
	<u>1,995</u>	<u>214</u>

8. Post balance sheet events

Subsequent to the balance sheet date, the Group set up a subsidiary which will engage in the business of manufacturing and trading of lighting products in the PRC in the coming financial year. The Group has just started the plant construction in January 2003 and expected to complete the plant construction and commence the production in early April 2003.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 31st December, 2002 (nine months ended 31st December, 2001: nil).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Turnover

For the nine months ended 31st December, 2002, the Group's turnover was approximately HK\$197 million representing an increase of approximately by 1.4 times from HK\$81.9 million in the same period in 2001. This increase was resulted from the increased demand of PRC market of energy-saving lamp and continuous demand for induction lamps which was launched in November 2001. The induction lamps bears 31.6% of the total turnover of the Group during the period under review.

Gross profit margin

The gross profit margin for the period ended 31st December, 2002 was 35.5% compared to 21.7% for the same period in 2001. The high gross margin of the Group was attributable to the continuous market response of the Group's induction lamp which was launched in November 2001. The gross profit margin of induction lamp remains 83% which is same as that of the corresponding period.

Other income

The major component of other income is interest income which was approximately HK\$180,000 compared to HK\$6,000 for the same period in 2001. The increase was due to substantial amount of cash and bank balances held by the Group.

Selling, general and administrative expenses

During the period under review, the administrative and selling expenses accounted for the majorities of the operational expenses. The administrative expenses comprised primarily of entertainment, directors' and staff remuneration which increased to approximately HK\$8.6 million due to the employment of additional staff in line with

the increased turnover compared to approximately HK\$3.6 million of the corresponding period in the previous year. The distribution costs amounted to approximately HK\$7.6 million as compared to approximately HK\$0.7 million of the corresponding period in the previous year, which were primarily comprised of advertising and business promotion expenses and travelling expenses.

Net profit

As a results of the factors discussed above, the net profit attributable to shareholders for the nine months ended 31st December, 2002 increased to approximately HK\$45.6 million from HK\$10.9 million for the same period in 2001.

Liquidity, financial resources and capital structure

As at 31st December, 2002, the Group's shareholders' funds amounted to approximately HK\$113.3 million. Cash and bank balances was approximately HK\$84 million, compared to HK\$0.7 million as at 31st December, 2001. Increases in cash stemmed primarily from HK\$44.2 million net proceeds received from the placing of share of the Company in July 2002 and income generated from sales of induction lamps.

As at 31st December, 2002, the Group and the Company had no outstanding bank borrowing. The Group obtained general banking facilities amounting to HK\$5 million secured by the pledged time deposit amounted to approximately HK\$2 million together with a joint and several guarantees given by Mr. Chu Siu Chun, Chu Chien Tung and Chu Chick Kei. The Group's gearing ratio, defined as the Group's total borrowings to the shareholders' funds, was zero.

The Board believes that the Group has adequate funds to support its operations and capital expenditures.

Material acquisition and disposals

There were neither significant investment held by the Group nor material acquisitions and disposals of subsidiaries and affiliated companies for the periods ended 31st December, 2002 and 2001.

Charges on group assets

As at 31st December, 2002, the Group pledged a bank deposit of approximately HK\$2 million (31st December, 2001: Nil) to secure general banking facilities granted to the Group. This time deposit is pledged together with a joint and several guarantees given by Mr. Chu Siu Chun, Chu Chien Tung and Chu Chick Kei to secure general banking facilities granted to the Group.

Foreign exchange exposure

The Group's entire present operation is carried out in Hong Kong and the PRC. All its receipts and payments in relation to the operation are denominated in US\$, HK\$ and RMB. In this aspect, the Directors consider there is no currency mismatch in its operational cashflows and the Group is not exposed to any foreign currency exchange risk in its operation.

Contingent liabilities

The Group had no contingent liabilities as at both 31st December, 2002 and 2001.

Employee information

As at 31st December, 2002, the Group has 135 full time employees. The Group's employees were remunerated according to the nature of their duty and market trend, with discretionary bonus and benefit of retirement scheme, share options and necessary training.

Use of proceeds from the listing

The net proceeds raised from the listing of the Group on the GEM on 26th July, 2002 was approximately HK\$44.2 million.

Prospect

The Board remains positive about its business outlook. Sales of the Group's products is expected to continue growing in the years ahead with the introduction of more new products.

The Board is confident that customers will continuously use induction lamps with long life hours and energy efficiency to replace the traditional lamps due to its shorter life hours and high consumption power.

The Board expects the Group to continue achieve profitable results in the current year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31st December, 2002, the interests of the directors and chief executive of the Company in the shares of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI

Ordinance or as required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of director	No. of shares held			
	Personal Interests	Family Interests	Corporate Interests	Other Interests
Mr. Chu Chien Tung	–	–	633,000,000	–

Note: The shares are registered in the name of Standard Exceed Limited, a wholly-owned subsidiary of Tungda Industrial Limited, which in turn is owned as to 33.3334% by Mr. Chu Chien Tung, as to 33.3333% by Mr. Chu Chick Kei and 33.3333% by Mr. Chu Siu Chun. Under the SDI Ordinance, Tungda Industrial Limited is deemed to be interested in the shares which Standard Exceed Limited has interests and Mr. Chu Chien Tung deemed to be interested in all the shares in which Tungda Industrial Limited is interested as he is entitled to exercise more than one-third of the voting power at general meeting of the Tungda Industrial Limited.

Save as disclosed above, as at 31st December, 2002, none of the directors and chief executive of the Company had any personal, family, corporate or other interests in the shares of the Company or any of its associated corporations as defined in the SDI Ordinance or which required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

As at 31st December, 2002, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures of the Company or any of its subsidiaries, and none of the directors and chief executive of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

Other than the interest disclosed above in respect of the directors and chief executive of the Company or their respective associates, the register of substantial shareholders maintained under the Section 16(1) of the SDI Ordinance showed that as at 31st December, 2002, the Company had the following substantial shareholders' interests, being 10% or more of the Company's issued share capital:

Name	Number of shares	Percentage of shareholding
Standard Exceed Limited (<i>Note 1</i>)	633,000,000	71.28%
Tungda Industrial Limited (<i>Note 2</i>)	633,000,000	71.28%
Mr. Chu Chien Tung (<i>Note 3</i>)	633,000,000	71.28%
Ms. Chan Pik Kam (<i>Note 4</i>)	633,000,000	71.28%

Notes:

1. Standard Exceed Limited is wholly and beneficially-owned by Tungda Industrial Limited which in turn is beneficially owned as to 33.3334% by Mr. Chu Chien Tung, as to 33.3333% by Mr. Chu Chick Kei and 33.3333% by Mr. Chu Siu Chun.
2. Tungda Industrial Limited is interested in the entire issued share capital of Standard Exceed Limited and is deemed to be interested in all the shares in which Standard Exceed Limited is interested in under the SDI Ordinance.
3. The shares are registered in the name of Standard Exceed Limited, under the SDI Ordinance, Mr. Chu Chien Tung is deemed to be interested in all the shares which Tungda Industrial Limited has interests as he is entitled to exercise more than one-third of the voting power at general meeting of Tungda Industrial Limited.
4. Ms. Chan Pik Kam is the wife of Mr. Chu Chien Tung. Under the SDI Ordinance, she is deemed to have interest in all the shares in which Mr. Chu Chien Tung is interested.

Save as disclosed above, the Company had not been notified of any other interests being 10% or more of the Company's issued share capital as at 31st December, 2002.

SHARE OPTION SCHEME

The Company has conditionally adopted the share option scheme. A summary of the principal terms of the share option scheme is set out in paragraph headed "Share Option Scheme" in Appendix 4 to the Prospectus.

As at 31st December, 2002, no option has been granted by the Company pursuant to the Company's share option scheme adopted on 12th July, 2002.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The shares of the Company commenced trading on GEM on 26th July, 2002. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities from 26th July, 2002 to 31st December, 2002.

SPONSOR'S INTEREST

As updated and notified by the Company's sponsor, Core Pacific – Yamaichi Capital Limited (the "Sponsor"), neither of the Sponsor, nor any of its respective directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the share capital of the Company as at 31st December, 2002.

Pursuant to the sponsor agreement dated 19th July, 2002 entered into between the Company and the Sponsor, the Sponsor is entitled to receive a fee for acting as the Company's retained sponsor for the period from 26th July, 2002 to 31st March, 2005 or until the sponsor agreement is terminated upon the terms and condition set out therein.

COMPETING INTERESTS

None of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had any interest in a business which competes or may compete with the business of the Group or any other conflicts of interest which any such person has or may have with the Group.

AUDIT COMMITTEE

The Company established an audit committee on 8th July, 2002 with written terms of reference in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The audit committee currently comprises two independent non-executive Directors, namely Miss Chow Sau Fong, Fiona and Mr. Liu Juh, James, and an executive Director, Mr. Chu Chien Tung. The Group's unaudited third quarterly results for the nine months ended 31st December, 2002 have been reviewed by the audit committee, who was of the opinion that such results complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing rules during the period.

By Order of the Board

Chu Chien Tung

Chairman

Hong Kong, 12th February, 2003