

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)

FIRST QUARTERLY REPORT 2003/2004

NEW ENERGY OF LIGHT



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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 of the Group for the three months ended 30th June, 2003 was approximately HK\$58,609,000.

The unaudited consolidated net profit for the period was approximately HK\$10,627,000.

To retain cash flow for future development, the Board does not recommend the payment of an interim dividend for the three months ended 30th June, 2003.

UNAUDITED QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 30TH JUNE, 2003

The board of directors (the “Board”) of Tungda Innovative Lighting Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 30th June, 2003 together with the unaudited comparative figures for the corresponding period in 2002 as follows:

		For the three months ended 30th June,	
		2003	2002
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	58,609	71,676
Cost of sales		(38,349)	(44,668)
Gross profit		20,260	27,008
Other operating income		147	46
Selling expenses		(2,664)	(387)
Administrative expenses		(3,437)	(1,866)
Research and development expenses		(2,372)	–
Profit from operations		11,934	24,801
Finance costs		(71)	(99)
Profit before taxation		11,863	24,702
Taxation	4	(1,236)	(2,200)
Net profit for the period		10,627	22,502
Dividend		0	0
Earnings per share	5	HK1.20 cents	HK3.38 cents

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	General reserve <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumu- lated profit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2002	–	126	–	–	9	21,389	21,524
Net profit for the period	–	–	–	–	–	22,502	22,502
At 30th June, 2002	–	126	–	–	9	43,891	44,026
At 1st April, 2003	8,880	3,524	(2,128)	39,399	9	76,003	125,687
Net profit for the period	–	–	–	–	–	10,627	10,627
Exchange difference on translation of oversea subsidiary	–	–	–	–	4	–	4
At 30th June, 2003	8,880	3,524	(2,128)	39,399	13	86,630	136,318

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 three months ended 30th June, 2003 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 three months ended 30th June, 2002 has been prepared as if the Group Reorganisation had been effective since 1st April, 2002. 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.

In the current period, the Group has adopted SSAP 12 (Revised) “Income Taxes”. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In the previous years, partial provisions was made for deferred tax using the income statement liability method, i.e. a liability was recognized in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. This change in accounting policy has not had any material effect for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

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 ended 30th June, 2003. An analysis of the Group's turnover is as follow:

	(Unaudited)	
	For the three months	
	ended 30th June,	
	2003	2002
	HK\$'000	HK\$'000
House brand light source products	24,421	29,872
Agency brand light source products	34,188	41,804
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	58,609	71,676
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4. Taxation

Taxation charge represents Hong Kong Profits Tax calculated at the rate of 16% (for the three months ended 30th June, 2002: 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 three months	
	ended 30th June,	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong Profits Tax	400	2,200
PRC Enterprise Income Tax	836	—
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	1,236	2,200
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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 three months	
	ended 30th June,	
	2003	2002
	HK\$'000	HK\$'000
Net profit for the period and earnings for the purpose of calculation of basic earnings per share	<u>10,627</u>	<u>22,502</u>
Weighted average number of shares for the purpose of calculation of basic earnings per share	<u>888,000,000</u>	<u>666,000,000</u>

The calculation of earning per share is based on the unaudited consolidated net profit for the three months ended 30th June, 2002 and 2003 of approximately HK\$10,627,000 (three months ended 30th June, 2002: HK\$22,502,000) and on the weighted average of approximately 888,000,000 (three months ended 30th June, 2002: 666,000,000) shares that would have been in issue throughout the year on the assumption that the Group Reorganisation has been completed on 1st April, 2002.

No diluted earnings per share have been presented as the Company did not have any dilutive potential ordinary shares during the three months ended 30th June, 2003 and 2002.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 30th June, 2003 (three months ended 30th June, 2002: nil).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Turnover

For the three months ended 30th June, 2003, the Group's turnover was approximately HK\$58.6 million representing a drop of approximately by 18.3% from HK\$71.7 million in the same period in 2002. This decrease was resulted from the slightly drop in selling price of the agency brand light source products. The drop in turnover of household brand light source products is due to the outbreak of atypical pneumonia in Hong Kong. The induction lamps bears one-third of the total turnover of the Group during the period under review.

Gross profit margin

The gross profit margin for the period ended 30th June, 2003 was 35% compared to 37.7% for the same period in 2002. The gross margin of the Group was dropped owing to the increased purchase cost and the drop in selling price of the agency brand light source products and the outbreak of atypical pneumonia in Hong Kong.

Other operating income

The major component of other operating income is interest income which was approximately HK\$128,000 (2002: Nil). The increase was contributed by the higher cash and bank balances held by the Group.

Selling and administrative expenses

During the period under review, the administrative and selling expenses accounted for the majorities of the operational expenses. The administrative expenses is primarily comprised of, directors' and staff remuneration, office rental and general administration expense. It is increased to approximately HK\$3.4 million due to the employment of additional staff in line with the increased revenue compared to approximately HK\$1.9 million in the corresponding period in the previous year. The selling expenses amounted to approximately HK\$2.7 million in 2003 as compared to approximately HK\$0.4 million in the corresponding period in the previous year, which were primarily comprised of advertising and business promotion expenses and travelling expenses.

Research and development expenses

The Group had spent research and development expenses of approximately HK\$2.4 million (2002: Nil) on new products including low-wattage induction lamps, microwave sulphur lamps, ceramic metal halide lamps and xenon lamps for automobile. The Group has proceeded to final stage and commenced initial mass production in second-generation products.

Net profit

As a results of the factors discussed above, the net profit attributable to shareholders for the three months ended 30th June, 2003 decreased to approximately HK\$10.6 million from HK\$22.5 million for the same period in 2002.

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 favourable results in the current year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Save as disclosed below, as at 30th June, 2003, none of the directors and the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Exchange") pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules.

Interests in the ordinary shares of HK\$0.01 each in the Company

Name of director	Capacity	No. of shares held	Percentage of shareholding
Mr. Chu Chien Tung	Interest of a controlled corporation	633,000,000	71.28

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 SFO, 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.

DISCLOSURE UNDER SFO AND SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 30th June, 2003, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or who was directly, or indirectly, interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital carrying rights to vote in all circumstances at general meetings of any other members of the Company, or substantial shareholders as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Long positions in Shares

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 SFO.
3. The shares are registered in the name of Standard Exceed Limited, under the SFO, 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 SFO, she is deemed to have interest in all the shares in which Mr. Chu Chien Tung is interested.

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 30th June, 2003, 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

During the three months ended 30th June, 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

SPONSOR'S INTEREST

As updated and notified by the Company's sponsor, Core Pacific – Yamaichi Capital Limited (the "Sponsor"), neither the Sponsor, nor any of its 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 or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 30th June, 2003.

Pursuant to the sponsor agreement dated 19th July, 2002 entered into between the Company and the Sponsor, the Sponsor will receive sponsorship fees 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 Dr. Liu Juh, James, and an executive Director, Mr. Chu Chien Tung. The Group's unaudited first quarterly results for the three months ended 30th June, 2003 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, 8th August, 2003