

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)

INTERIM 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

Results

	For the six months ended 30th September, 2003		For the three months ended 30th September, 2003	
	2002		2002	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	133,739	133,932	75,130	62,256
Net profit for the period	35,014	34,871	24,387	12,369
Earnings per share (HK cents)	3.89	4.67	2.67	1.49

Assets and Liabilities

	(Unaudited) As at 30th September, 2003 <i>HK\$'000</i>	(Audited) As at 31st March, 2003 <i>HK\$'000</i>
Total assets	221,344	134,647
Total liabilities	10,229	8,960
Shareholders' fund	211,115	125,687

Turnover for the six months ended 30th September, 2003 was approximately HK\$134 million, about the same as the corresponding period in 2002.

Net profit from ordinary activities attributable to shareholders amounted to approximately HK\$35 million for the period under review.

The Board of Tungda Innovative Lighting Holdings Limited recommends the payment of an interim dividend of HK0.2 cents per share.

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 six months ended 30th September, 2003 together with the comparative unaudited figures for the corresponding periods in 2002, as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30th September,		For the three months ended 30th September,	
		2003	2002	2003	2002
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	3	133,739	133,932	75,130	62,256
Cost of sales		(83,247)	(84,659)	(44,898)	(39,991)
Gross profit		50,492	49,273	30,232	22,265
Other operating income		318	125	170	79
Selling expenses		(3,249)	(3,715)	(585)	(3,328)
Administrative expenses		(7,596)	(5,079)	(4,092)	(3,213)
Research and development expenses		(2,372)	(2,727)	–	(2,727)
Profit from operations	5	37,593	37,877	25,725	13,076
Finance costs	6	(5)	(161)	–	(62)
Profit before taxation		37,588	37,716	25,725	13,014
Taxation	7	(2,574)	(2,845)	(1,338)	(645)
Net profit for the period		35,014	34,871	24,387	12,369
Dividend	8	2,131	–	2,131	–
Earnings per share (HK cents)	9	3.89	4.67	2.67	1.49

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 30th September, 2003 <i>HK\$'000</i>	(Audited) As at 31st March, 2003 <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	10	<u>45,760</u>	<u>32,524</u>
Current assets			
Inventories		9,726	6,770
Debtors, deposits and prepayments	11	30,392	6,688
Pledged bank deposits		304	2,319
Bank balances and cash		<u>135,162</u>	<u>86,346</u>
		<u>175,584</u>	<u>102,123</u>
Current liabilities			
Creditors and accrued charges	12	9,454	6,967
Amount due to ultimate holding company		–	475
Taxation payable		775	565
Bank overdraft – unsecured		<u>–</u>	<u>953</u>
		<u>10,229</u>	<u>8,960</u>
Net current assets		<u>165,355</u>	<u>93,163</u>
Total net assets		<u>211,115</u>	<u>125,687</u>
Capital and reserves			
Share capital	13	10,656	8,880
Reserves		<u>200,459</u>	<u>116,807</u>
		<u>211,115</u>	<u>125,687</u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	General reserve <i>HK\$'000</i>	Accumulated profit <i>HK\$'000</i>	Dividend Reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2002	–	–	–	9	126	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	–	–	–	–	–	34,871	–	34,871
Issue expenses in connection with private placing	–	(11,221)	–	–	–	–	–	(11,221)
At 30th September, 2002	<u>8,880</u>	<u>39,399</u>	<u>(2,128)</u>	<u>9</u>	<u>126</u>	<u>56,259</u>	<u>–</u>	<u>102,545</u>
At 1st April, 2003	8,880	39,399	(2,128)	9	3,524	76,003	–	125,687
New shares issued for private placing on 18th September, 2003	1,776	57,542	–	–	–	–	–	59,318
Net profit for the period	–	–	–	–	–	32,883	2,131	35,014
Issue expenses in connection with private placing	–	(8,901)	–	–	–	–	–	(8,901)
Exchange difference arising on translation	–	–	–	(3)	–	–	–	(3)
At 30th September, 2003	<u>10,656</u>	<u>88,040</u>	<u>(2,128)</u>	<u>6</u>	<u>3,524</u>	<u>108,886</u>	<u>2,131</u>	<u>211,115</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30th September,	
	2003	2002
	HK\$'000	HK\$'000
Net cash generated from operating activities	11,547	23,124
Net cash (used in) generated from investing activities	(12,195)	902
Net cash generated from financing activities	50,417	48,279
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Net increase in cash and cash equivalents	49,769	72,305
Cash and cash equivalents at beginning of the period	85,393	16,402
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Cash and cash equivalents at end of the period	135,162	88,707
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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 six months ended 30th September, 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 No.27 “Accounting for group reconstructions” issued by the Hong Kong Society of Accountants. The unaudited consolidated results of the Group for the six months ended 30th September, 2002 has been prepared as if the Group Reorganisation had been effective since 1st April, 2002. The directors of the Company 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 the Statement of Standard Accounting Practice (“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, 2003, except that the Company has adopted, for the first time in the current period, SSAP No. 12 (Revised) “Income Taxes” (“SSAP 12 (Revised)”) issued by the Hong Kong Society of Accountants.

In the current period, the Group has adopted SSAP 12 (Revised). 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.

The unaudited consolidated financial statements for the six months ended 30th September, 2003 have not been audited nor reviewed by the Group’s auditors, but have been reviewed by the Company’s audit committee.

3. Turnover

Turnover represents the amount received and receivable for goods, net of returns, sales discounts, and value-added tax, where applicable, sold to customers during the six months and three months ended 30th September, 2003.

4. Segmental information

Business segments

	(Unaudited) For the six months ended 30th September, 2003		(Unaudited) For the three months ended 30th September, 2003	
	2002	2003	2002	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment turnover				
House brand light source products	55,102	62,593	24,731	38,172
Agency brand light source products	78,830	71,146	37,525	36,958
	<u>133,932</u>	<u>133,739</u>	<u>62,256</u>	<u>75,130</u>
Segment results				
House brand light source products	41,001	45,321	18,628	27,399
Agency brand light source products	8,272	5,171	3,637	2,833
	<u>49,273</u>	<u>50,492</u>	<u>22,265</u>	<u>30,232</u>
Unallocated net corporate expenses	(11,396)	(12,899)	(9,189)	(4,507)
	<u>37,877</u>	<u>37,593</u>	<u>13,076</u>	<u>25,725</u>
Profit from operations				
Finance costs	(161)	(5)	(62)	–
	<u>37,716</u>	<u>37,588</u>	<u>13,014</u>	<u>25,725</u>
Profit before taxation				
Taxation	(2,845)	(2,574)	(645)	(1,338)
	<u>34,871</u>	<u>35,014</u>	<u>12,369</u>	<u>24,387</u>
Net profit for the period				

Geographical segments

The Group's operations are located in People's Republic of China (the "PRC") and Hong Kong. The following table provides an analysis of the Group's turnover by geographical markets, irrespective of the origin of the goods:

	(Unaudited)		(Unaudited)	
	For the six months ended 30th September,		For the three months ended 30th September,	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The PRC	66,701	74,920	34,435	35,549
Hong Kong	4,593	4,996	2,594	2,503
Europe	62,445	54,016	38,101	24,204
	<u>133,739</u>	<u>133,932</u>	<u>75,130</u>	<u>62,256</u>

5. Profit from operations

	(Unaudited)		(Unaudited)	
	For the six months ended 30th September,		For the three months ended 30th September,	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:				
Auditors remuneration	340	151	170	75
Depreciation	1,177	28	653	14
Cost of inventories recognized as an expense	83,247	84,659	44,898	39,991
Operating lease rentals in respect of land and buildings	637	265	275	133
Staff costs:				
Directors' remuneration	1,450	835	735	709
Other staff costs	1,939	1,153	983	568
	<u>3,389</u>	<u>1,988</u>	<u>1,718</u>	<u>1,277</u>

and after crediting:

Interest income	<u>316</u>	<u>78</u>	<u>169</u>	<u>77</u>
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6. Finance costs

	(Unaudited)		(Unaudited)	
	For the six months		For the three months	
	ended 30th September,		ended 30th September,	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reimbursement of interest paid by ultimate holding company on behalf of the Group	5	161	–	62

7. Taxation

Taxation charge represents Hong Kong Profits Tax calculated at the rate of 17.5% (for the six months ended 30th September, 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 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 commenced on 1st January, 2001, and a 50% reduction of PRC Enterprise Income Tax for the three years thereafter.

	(Unaudited)		(Unaudited)	
	For the six months		For the three months	
	ended 30th September,		ended 30th September,	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong Profits Tax	1,738	2,845	1,338	645
PRC Enterprise Income Tax	836	–	–	–
	<u>2,574</u>	<u>2,845</u>	<u>1,338</u>	<u>645</u>

There is no significant unprovided deferred taxation for the periods.

8. Dividend

The Board recommends the payment of an interim dividend of HK0.2 cents per share amounting to approximately HK\$2,131,000 (2002 interim dividend: nil). The Group should pay to shareholders of the Company whose names appear on the Register of Members on 9th December, 2003.

9. Earnings per share

The calculations of the earnings per share is based on the followings:

	(Unaudited)		(Unaudited)	
	For the six months ended 30th September,		For the three months ended 30th September,	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net profit for the period and earnings for the purpose of calculation of basic earnings per share	35,014	34,871	24,387	12,369
Weighted average number of shares for the purpose of calculation of basic earnings per share	900,616,393	747,278,689	913,095,652	827,673,913

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, 2002.

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

10. Property, plant and equipment

During the six months ended 30th September, 2003, the Group spent approximately HK\$14,526,000 (six months ended 30th September, 2002: HK\$980,000) for the acquisition of property, plant and equipment.

11. Debtors, deposits and prepayments

The following is an aged analysis of the Group's trade debtors which is included in debtors, deposits and prepayments:

	(Unaudited) As at 30th September, 2003 <i>HK\$'000</i>	(Audited) As at 31st March, 2003 <i>HK\$'000</i>
Within three months	1,938	1,240
Four to six months	84	178
Seven to twelve months	51	56
More than one year	22	9
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	2,095	1,483
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The Group allows an average credit period ranging from 7 days to 90 days to its trade customers.

The remaining balances of debtors, deposits and prepayments mainly represent design fee for machinery and advance payment to supplier.

12. Creditors and accrued charges

The following is an aged analysis of the Group's trade creditors which is included in creditors and accrued charges:

	(Unaudited) As at 30th September, 2003 <i>HK\$'000</i>	(Audited) As at 31st March, 2003 <i>HK\$'000</i>
Within three months	2,919	1,969
Four to six months	71	53
Seven to twelve months	49	21
More than one year	92	78
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	3,131	2,121
	<hr/>	<hr/>

13. Share capital

	<i>Notes</i>	No. of shares	Amount HK\$'000
Shares of HK\$0.01 each			
<i>Authorised:</i>			
At date of incorporation on 17th December, 2001 and at 31st March, 2002	(a)	39,000,000	390
Increase in authorised share capital on 24th May, 2002	(b)	<u>4,961,000,000</u>	<u>49,610</u>
At 31st March 2003 and 30th September, 2003		<u>5,000,000,000</u>	<u>50,000</u>
<i>Issued and fully paid:</i>			
Issued of shares at date of incorporation on 17th December, 2001 and at 31st March, 2002		1	—
Issue of shares upon Group Reorganisation	(c)	399,999,999	4,000
Issue of shares by capitalisation of the share premium account		266,000,000	2,660
Issue of shares upon private placing on 26th July, 2002	(d)	222,000,000	2,220
Issue of shares upon private placing on 18th September, 2003	(e)	<u>177,600,000</u>	<u>1,776</u>
As 30th September, 2003		<u>1,065,600,000</u>	<u>10,656</u>
(a) At date of incorporation, the authorised share capital of the Company was HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each of which 1 share was allotted and issued as nil-paid and was transferred to Standard Exceed Limited on 19th December, 2001 and credited as fully paid on 19th December, 2001.			
(b) Pursuant to a written resolution dated 24th May, 2002, the authorised share capital of the Company was increased from HK\$390,000 to HK\$50,000,000 by creation of an additional 4,961,000,000 shares of HK\$0.01 each.			

- (c) On 8th July, 2002, the Company entered into a sale and purchase agreement with Tungda Industrial Limited (“Tungda Industrial”) and Mr. Chu Chien Tung, Mr. Chu Chick Kei (brother of Mr. Chu Chien Tung) and Mr. Chu Siu Chun (father of Mr. Chu Chien Tung), pursuant to which the Company issued 399,999,999 shares credited as fully paid to Tungda Industrial’s nominee, which was Standard Exceed Limited, and crediting as fully paid at par the 1 Share issued nil paid by the Company on 19th December, 2001 and held by Standard Exceed Limited as the consideration for acquisition of the companies comprising the Group from Tungda Industrial, details of the Group Reorganisation are set out in the Appendix 4 of the Prospectus.
- (d) On 26th July, 2002, the Company allotted a total of 222,000,000 new shares of HK\$0.01 each at the price of HK\$0.25 per share.
- (e) On 18th September, 2003, the Company allotted a total of 177,600,000 new shares of HK\$0.01 each at the placing price of HK\$0.334 per share.

14. Capital commitments

	(Unaudited) As at 30th September, 2003 HK\$'000	(Audited) As at 31st March, 2003 HK\$'000
Capital expenditure contracted for but not provided in the financial statements	28,302	26,035

In December 2001, the Group entered into a joint venture agreement with Shanghai Fudan University to establish a joint venture company with limited liability in Shanghai, the PRC. Pursuant to the joint venture agreement, the Group should contribute the total registered capital of approximately HK\$2,830,000 (equivalent to RMB3,000,000) of this new joint venture company and share 80% of the equity interest in this new joint venture company. Shanghai Fudan University should contribute the relevant technical know-how to this new joint venture company and share 20% equity interest in this new joint venture company.

In May 2002, the Group entered into a supplementary agreement with Shanghai Fudan University to extend the establishment of the new joint venture company in Shanghai, the PRC. Up to 31st March, 2003, the Group has not yet established this new joint venture company and did not contribute for any registered capital in this regard.

15. Lease commitments

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

	(Unaudited) As at 30th September, 2003 <i>HK\$'000</i>	(Audited) As at 31st March, 2003 <i>HK\$'000</i>
Within one year	1,334	1,409
Within second to fifth years	25	558
	<u>1,359</u>	<u>1,967</u>

16. Related party transactions

During the period, the Group entered into the following transactions with related parties:

	(Unaudited) For the six months ended 30th September, 2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	(Unaudited) For the three months ended 30th September, 2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Rental paid to Tungda Industrial	54	54	27	27
Purchase of finished goods from Tungda Industrial	–	3,110	–	–
Purchase of materials for production from Tungda Industrial	–	2,897	–	–
Reimbursement of interest paid by Tungda Industrial on behalf of Tungda Electrical & Lighting Limited	–	161	–	62

Tungda Industrial is the ultimate holding company of the Company.

The directors of the Company are of the opinion that the above transactions were carried out in the ordinary course of the Group's business based on normal commercial terms.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Turnover

For the six months ended 30th September, 2003, the Group's turnover was approximately HK\$134 million, about the same as in the same period in 2002. This resulted from the sales of light sources products.

Gross profit margin

The gross profit margin for the period ended 30th September, 2003 was 37.8% as compared to 36.8% for the same period in 2002. The gross profit margin of the Group was attributable to the continuous market response of the Group's induction lamp which was launched in November 2001.

Other operating income

The major component of other income is interest income which was approximately HK\$316,000 compared to HK\$78,000 for the same period in 2002. The increase represented a higher cash and bank balance for the Group.

Selling, Administrative and Research and development expenses

During the period under review, the selling, administrative and research and development expenses accounted for the majorities of the operational expenses. The selling expenses amounted to approximately HK\$3.2 million as compared to approximately HK\$3.7 million in the corresponding period in the previous year, which were primarily comprised of advertising and business promotion expenses and travelling expenses.

The administrative expenses comprised primarily of directors' and staff remuneration and entertainment which increased to approximately HK\$7.6 million due to the employment of additional staff as compared to approximately HK\$5.1 million in the corresponding period in the previous year.

The research and development expenses amounted to approximately HK\$2.4 million which comprised of the cost of development of new products. The Group recorded approximately HK\$2.7 million in the corresponding period in the previous year.

Net profit

As a results of the factors mentioned above, the net profit attributable to shareholders for the six months ended 30th September, 2003 increased slightly to approximately HK\$35 million from HK\$34.9 million for the same period in 2002.

Liquidity, financial resources and capital structure

As at 30th September, 2003, the Group's shareholders' funds amounted to approximately HK\$211.1 million. Cash and bank balances was approximately HK\$135.1 million, as compared to HK\$88.7 million as at 30th September, 2002. Increases in cash was primarily due to HK\$50.4 million net proceeds received from the placing of share of the Company in September 2003 and income generated from sales of light source products.

As at 30th September, 2003, the Group had no bank facilities in place and no bank borrowing outstanding. 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.

There has not been any change to the capital structure of the Group during the relevant period.

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 30th September, 2003 and 2002.

Charges on group assets

	(Unaudited) As at 30th September, 2003 HK\$'000	(Audited) As at 31st March, 2003 HK\$'000
The amounts represent the bank deposits pledged to a bank to secure the general banking facilities granted to the Group	<u>304</u>	<u>5,301</u>

Details of future plans for material investment or capital assets

As at 30th September, 2003, the Group had no future plans for material investments except those capital assets to be purchased in accordance with the details set out in the section headed “Statement of Business Objectives” in the Prospectus.

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 30th September, 2003 and 2002.

Employee information

As at 30th September, 2003, the Group has 203 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 and private placing

The net proceeds raised from the listing of the Group on the GEM on 26th July, 2002 and private placing on 18th September, 2003 was approximately HK\$44.2 million and HK\$50.4 million, respectively.

During the period from 26th July, 2002 to 30th September, 2003, the Group had incurred the following amount to achieve the business objectives as set out in the Prospectus:

		Planned use of proceeds stated in the Prospectus up to 30th September, 2003	Actual amount used up to 30th September, 2003
	<i>Notes</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Development and enhancement of new lighting source technologies products and strengthening of research and development collaboration with Fudan University	1	<u>13.0</u>	<u>8.2</u>
Expansion of manufacturing capacity and Capability	2	<u>18.0</u>	<u>5.8</u>
Establishment and expansion of sales and distribution network in the PRC and the overseas market	3	<u>10.0</u>	<u>6.5</u>
Enhancement of brand recognition and public awareness		<u>10.0</u>	<u>3.8</u>
		<u>51.0</u>	<u>24.3</u>

The unused proceeds have been deposited at banks for future use as set out in the business development plan in the Prospectus.

Notes:

1. Owing to the re-organisation of Fudan University, the incorporation of the joint venture had been slightly delayed.
2. Owing to the late delivery of some specific plant and machinery, the expansion of manufacturing capacity was slightly delayed.
3. It was due to the delayed of incorporation of the Joint Venture with Fudan University in PRC.

Prospect

The PRC economy is expected to continue to grow rapidly in the next few years and the lighting source industry to be benefited from such growth. This provides a solid foundation for an increasing demand for energy saving light source products. The Board remains positive about its business outlook. Sales of the Group's products are 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.

The Group had made an application the Stock Exchange on 17th October, 2003 for the listing of the Company's shares by way of introduction on the Main Board of the Stock Exchange and to voluntarily withdraw its listing on the GEM Board conditional upon, amongst other things, the successful outcome of the application for the proposed listing of the Company's shares on the Main Board. The application is currently being processed by the Stock Exchange. The Group anticipated that upon listing on the Main Board, the Group will be able to gain further recognition from larger institutional investors and in a better position to raise appropriate equity financing to fund capital investment in the future. The Group will continue to pursue and focus on its core business of being a provider of good quality lighting source products.

BUSINESS OBJECTIVES REVIEW

An analysis comparing the business objectives as stated in the Prospectus with the Group's actual business progress up to 30th September, 2003 is set out below.

Business objectives as stated in the Prospectus	Actual business progress up to 30th September, 2003
Development and enhancement of new lighting source technologies products	The Group is working closely with Fudan University in development of new products as stated planned in the Prospectus.
Strengthening of research and development collaboration with Fudan University	The setting up of a joint venture company in PRC by the Group and Fudan University was delayed due to re-organisation of Fudan University. The Group spent research and development expenses of approximately HK\$8.2 million on new products including low-wattage induction lamps, ceramic metal halide lamps and xenon lamps for automobile.
Expansion of manufacturing capacity and capability	All the production facilities were set up as planned.
Establishment and expansion of sales and distribution network in the PRC and the overseas markets	The Group has appointed a distribution agent in USA and continued to seek agents in PRC. Also the Group has established a representative office in Shanghai and decided to postpone the establishment of other overseas office.
Enhancement of brand recognition and to promote its public awareness	The Group spent advertising and business promotion expenses of approximately HK\$3.8 million to promote its product and participated in domestic and lighting international exhibition.

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

Save as disclosed below, as at 30th September, 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	590,000,000	55.37%

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.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 30th September, 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 5% 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 of the Company

Name	Number of shares	Percentage of shareholding
Tungda Industrial Limited (<i>Note 1</i>)	590,000,000	55.37%
Standard Exceed Limited (<i>Note 2</i>)	590,000,000	55.37%
Mr. Chu Chien Tung (<i>Note 3</i>)	590,000,000	55.37%
Ms. Chan Pik Kam (<i>Note 4</i>)	590,000,000	55.37%

Notes:

1. 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.
2. 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.
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 spouse 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 September, 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

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 30th September, 2003.

SPONSOR'S INTEREST

Pursuant to the sponsor agreement dated 10th October, 2003 entered into between the Company and China Everbright Capital Limited ("CEL"), CEL is entitled to receive a fee for acting as the Company's retained sponsor for the period from 10th October, 2003 to 31st March, 2005 or until the sponsor agreement is terminated upon the terms and condition set out therein.

As notified by CEL, neither of CEL, nor any of its respective directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules), as at 30th September, 2003 had any interests in the securities of the Company or any members of the Group, or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

Pursuant to the agreement dated 19th July, 2002 entered into between the Company and Core Pacific – Yamaichi Capital Limited ("CPY Capital"), whereby, for a fee, CPY Capital would act as the Company's sponsor for the period from 26th July, 2002 to 10th October, 2003. The Company and CPY Capital have mutually agreed to terminate the engagement of CPY Capital as sponsor to the Company with effect from 10th October, 2003.

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 Mr. Zhu Lei Bo and Mr. Hong Yong Hwan, and an executive Director, Mr. Chu Chien Tung. The Group's unaudited interim results for the six months ended 30th September, 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, 12th November, 2003