

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 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

Achieved turnover of approximately HK\$78.4 million for the three months ended 31st December, 2003, representing an increase of approximately 24.1% compared with the corresponding period in 2002. For the nine months ended 31st December, 2003, turnover is approximately HK\$212.1 million, representing approximately an increase of approximately 7.6% as compared with the corresponding period in 2002.

Net profit from ordinary activities attributable to shareholders amounted to approximately HK\$53.9 million for the nine months ended 31st December, 2003.

The Board does not recommend the payment of a dividend for the three months ended 31st December, 2003.

RESULTS

The board of Directors (the “Board”) of Tungda Innovative Lighting Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the three months and nine months ended 31st December, 2003.

Turnover for the three months ended 31st December, 2003 is approximately HK\$78.4 million, representing an increase of approximately 24.1% compared with the corresponding period in 2002. Turnover for the nine months ended 31st December, 2003 is approximately HK\$212.1 million representing approximately an increase of approximately 7.6% as compared with the corresponding period in 2002.

Net profit of the Group for the three months ended 31st December, 2003 is approximately HK\$18.9 million, representing an increase of approximately 76.1% compared with the corresponding period in 2002. Net profit of the Group for the nine months ended 31st December, 2003 is approximately HK\$53.9 million representing approximately an increase of approximately 18.2% as compared with the corresponding period in 2002.

The unaudited results of the Group for the three months and nine months ended 31st December, 2003 together with the unaudited comparative unaudited figures for the same period in 2002 are as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	For the nine months ended 31st December,		For the three months ended 31st December,	
		2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover	3	212,137	197,115	78,398	63,183
Cost of sales		(131,362)	(127,124)	(48,115)	(42,465)
Gross profit		80,775	69,991	30,283	20,718
Other operating income		506	232	188	107
Selling expenses		(6,167)	(7,573)	(2,918)	(3,858)
Administrative expenses		(13,156)	(8,646)	(5,560)	(3,567)
Research and development expenses		(5,255)	(4,956)	(2,883)	(2,229)
Profit from operations		56,703	49,048	19,110	11,171
Finance costs		(5)	(161)	-	-
Profit before taxation		56,698	48,887	19,110	11,171
Taxation	4	(2,818)	(3,300)	(244)	(455)
Net profit for the period		53,880	45,587	18,866	10,716
Dividend	5	2,131	-	-	-
Earnings per share	6				
– Basic (HK cents)		5.64	5.74	1.77	1.21
– Diluted (HK cents)		5.63	N/A	1.77	N/A

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	–	–	–	–	–	45,587	–	45,587
Issue expenses in connection with private placing	–	(11,221)	–	–	–	–	–	(11,221)
At 31st December, 2002	8,880	39,399	(2,128)	9	126	66,975	–	113,261
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	–	–	–	–	–	51,749	2,131	53,880
Issue expenses in connection with private placing	–	(8,901)	–	–	–	–	–	(8,901)
Dividend paid	–	–	–	–	–	–	(2,131)	(2,131)
At 31st December, 2003	10,656	88,040	(2,128)	9	3,524	127,752	–	227,853

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, 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 nine months ended 31st December, 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 provision 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 and nine months ended 31st December, 2003. An analysis of the Group's turnover is as follow:

	(Unaudited)		(Unaudited)	
	For the nine months ended 31st December, 2003		For the three months ended 31st December, 2003	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
House brand light source products	100,897	78,398	38,304	23,296
Agency brand light source products	111,240	118,717	40,094	39,887
	<u>212,137</u>	<u>197,115</u>	<u>78,398</u>	<u>63,183</u>

4. Taxation

	(Unaudited)		(Unaudited)	
	For the nine months ended 31st December, 2003		For the three months ended 31st December, 2003	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong Profits Tax	1,980	3,300	242	455
People's Republic of China ("PRC") Enterprise Income Tax	838	–	2	–
	<u>2,818</u>	<u>3,300</u>	<u>244</u>	<u>455</u>

The charge for Hong Kong Profits Tax is calculated at the rate of 17.5% on the estimated assessable profit arising in Hong Kong for the three and nine months ended 31st December, 2003, and 16% for the three and nine months ended 31st December, 2002.

Pursuant to the relevant laws and regulations in the PRC, Light Power (Shenzhen) Co., Ltd ("Light Power"), a wholly-owned subsidiary of the Group established in Shenzhen, PRC, and Tungda Lighting (Fujian) Co., Ltd. ("Tungda Fujian"), a wholly-owned subsidiary of the Group established in Fujian, the PRC are entitled to exemption from PRC Enterprise Income Tax for two years commencing from their first profit-making year of operation and thereafter, they are entitled to 50% relief from PRC Enterprise Income Tax for the following three years. The first profit-making year of Light Power commenced on 1st January, 2001 while Tungda Fujian was established on 9th January, 2003.

There is no significant unprovided deferred taxation for the periods.

5. Dividend

On 12th November, 2003, an interim dividend of HK\$0.002 per share amounting to approximately HK\$2,131,000 was declared by the Company for the six months ended 30th September, 2003.

The Board does not recommend the payment of a dividend for the three months ended 31st December, 2003 (three months ended 31st December, 2002: nil).

6. Earnings per share

The calculation of the basic and diluted earnings per share for the three and nine months ended 31st December, 2003 and 31st December, 2002 is based on the following data:

	(Unaudited) For the nine months ended 31st December, 2003		(Unaudited) For the three months ended 31st December, 2003	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net profit for the period and earnings for the purposes of basic and diluted earnings per share	<u>53,880</u>	<u>45,587</u>	<u>18,866</u>	<u>10,716</u>
Weighted average number of shares for the purpose of calculation of basic earnings per share	955,811,000	794,356,364	1,065,600,000	888,000,000
Effect of dilutive potential shares on share options	<u>794,000</u>	<u>-</u>	<u>2,374,000</u>	<u>-</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u>956,605,000</u>	<u>-</u>	<u>1,067,974,000</u>	<u>-</u>

The calculation of basic earnings per share for the three and nine months ended 31st December, 2003 is based on the assumption that the Group Reorganisation as described in note 1 had been completed on 1st April, 2002.

7. Capital commitments

	(Unaudited) 31st December, 2003 <i>HK\$'000</i>	(Audited) 31st March, 2003 <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements	<u>2,830</u>	<u>26,035</u>

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, which was subsequently extended according to a supplemental agreement with Shanghai Fudan University in May 2002. Up to 31st December, 2003, the Group has not yet established this new joint venture company and did not contribute for any registered capital in this regard.

Pursuant to the joint venture agreement, the Group will be required to contribute the registered capital of approximately HK\$2,830,000 (equivalent to RMB3,000,000) in exchange for 80% equity interests in the joint venture company, whereas Shanghai Fudan University will provide necessary technical expertise and know-how in exchange for its 20% equity interest.

8. 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, 2003 <i>HK\$'000</i>	(Audited) 31st March, 2003 <i>HK\$'000</i>
Within one year	1,056	1,409
In the second to fifth years inclusive	<u>–</u>	<u>558</u>
	<u>1,056</u>	<u>1,967</u>

9. Related party transactions

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

	(Unaudited) For the nine months ended 31st December, 2003		(Unaudited) For the three months ended 31st December, 2003	
	<i>HK\$'000</i>	<i>2002</i> <i>HK\$'000</i>	<i>HK\$'000</i>	<i>2002</i> <i>HK\$'000</i>
Rental paid to Tungda Industrial Limited ("Tungda Industrial")	81	54	27	27
Purchases of finished goods from Tungda Industrial	-	3,110	-	-
Purchases of materials for production from Tungda Industrial	-	2,897	-	-
Reimbursement of interest paid by Tungda Industrial on behalf of Tungda Electrical & Lighting Limited	-	161	-	-

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.

During the three months period ended 31st December, 2003, Standard Exceed Limited ("Standard Exceed"), the Company's immediate holding company, negotiated a potential business opportunity on behalf of the Company and advanced HK\$5,500,000 from the Company due to commercial arrangement. The amount was returned to the Company in full as at 31st December, 2003 immediately after the negotiation of such business opportunity lapsed.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Turnover

For the three months ended 31st December, 2003, the Group's turnover is approximately HK\$78.4 million, representing an increase of approximately 24.1% compared with the corresponding period in 2002. Turnover for the nine months ended 31st December, 2003 is approximately HK\$212.1 million representing approximately an increase of approximately 7.6% as compared with the corresponding period in 2002.

This increase in turnover was mainly contributed by the increased demand for the Group's house brand light source products, as resulted from the Group's successful marketing efforts to enhance its brand awareness and market recognition, and its quality assurance standards to deliver high quality products to customers. For the nine months ended 31st December, 2003, house brand light source products accounted for approximately 47.6% of total turnover, or approximately HK\$100.9 million, as compared to approximately 39.8% of total turnover, or HK\$78.4 million for the corresponding period in 2002.

Gross profit margin

The gross profit margin for the nine months ended 31st December, 2003 was 38.1% as compared to 35.5% for the corresponding period in 2002. The improvement is attributable by the increased contribution from house brand light source products that give higher gross profit margin as compared to agency brand light source products.

Other operating income

The major component of other operating income is interest income which is approximately HK\$505,000 for the nine months ended 31st December, 2003, compared to HK\$180,000 for the corresponding period in 2002. The increase was accounted by higher cash and bank balances for the Group.

Selling and administrative expenses

The selling expense amounted to approximately HK\$6.2 million for the nine months ended 31st December, 2003, as compared to approximately HK\$7.6 million for the corresponding period in 2002, which were primarily comprised of advertising and business promotion expenses and travelling expenses.

The administrative expenses comprised primarily of directors' and staff remuneration, business trip expenses, entertainment and rental expenses, which increased to approximately HK\$13.2 million for the nine months ended 31st December, 2003 due to increased business activities, as compared to approximately HK\$8.6 million for the corresponding period in 2002.

Research and development expenses

The research and development expenses amounted to approximately HK\$5.3 million for the nine months ended 31st December, 2003, which comprised of the cost of development of new products. The Group recorded approximately HK\$5.0 million for the corresponding period in 2002.

Net profit

As a result of the factors discussed above, the net profit attributable to shareholders for the nine months ended 31st December, 2003 increased to approximately HK\$53.9 million from HK\$45.6 million for the corresponding period in 2002.

Liquidity, financial resources and capital structure

As at 31st December, 2003, the Group's shareholders' funds amounted to approximately HK\$227.9 million. Cash and bank balances was approximately HK\$128.2 million, compared to HK\$84 million as at 31st December, 2002. Increases in cash was due to net proceeds of HK\$50.4 million received from the placing of shares of the Company in September 2003 and income generated from operations. The Board believes that the Group has adequate funds to support its operations and capital expenditures.

As at 31st December, 2003, the Group and the Company had no outstanding bank borrowing. The Group's gearing ratio, defined as the Group's total borrowings to the shareholders' funds, was zero.

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, 2003 and 2002.

Charges on group assets

As at 31st December, 2003, the Group pledged a bank deposit of approximately HK\$304,000 to secure general banking facilities. As at 31st December, 2002, the time deposit of HK\$2,000,000 was 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. This general banking facilities were subsequently released on 29th April, 2003.

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, 2003 and 2002.

Employee information

The salary and benefit levels of the Group's employees are kept at market competitive level and employees are rewarded on a performance related basis. Staff benefits, including retirement scheme, share options and training programme are also provided.

The Group has adopted a share option scheme whereby selected employees of the Group may be granted share options to subscribe for shares of the Company for the purpose of recognizing the contribution made by such employees and retaining the services of the employees who will continue to make valuable contribution to the Group.

Net 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 were approximately HK\$44.2 million and HK\$50.4 million, respectively.

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.

Given the increasing awareness in environmental protection in the lighting industry, the Group is confident that customers will continue to replace the traditional light source product with the Group's products owing to longer life hours and higher energy efficiency.

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

The Group had made an application to 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 light source products.

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

Save as disclosed below, as at 31st December, 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.

Long position of the 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	570,000,000	53.49%

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 31st December, 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 & 5</i>)	570,000,000	53.49%
Standard Exceed Limited (<i>Note 2 & 5</i>)	570,000,000	53.49%
Mr. Chu Chien Tung (<i>Note 3 & 5</i>)	570,000,000	53.49%
Ms. Chan Pik Kam (<i>Note 4 & 5</i>)	570,000,000	53.49%

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.
5. Subsequent to the balance sheet date, the substantial shareholder; Standard Exceed Limited disposed 10,000,000 shares of Company on 5th January, 2004. The number of shares after disposal held by the Standard Exceed Limited is 560,000,000 with 52.55% of shareholding.

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.

Details of the share options granted and outstanding at 31st December, 2003 were as follows:

Name of Director	Date of Grant	Number of Options Granted	Exercise/		Exercise Price
			Lapsed	Outstanding	
Chu Chien Tung	29th November, 2003	1,054,944	-	1,054,944	0.452
Chu Chick Kei	29th November, 2003	1,054,944	-	1,054,944	0.452
Chu Sen Hei	29th November, 2003	10,549,440	-	10,549,440	0.452
Chow Sau Fong, Fiona	29th November, 2003	3,000,000	-	3,000,000	0.452
1 employee	29th November, 2003	10,549,440	-	10,549,440	0.452
8 employees	31st December, 2003	62,591,232	-	62,591,232	0.345

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, 2003.

SPONSOR'S INTEREST

As updated and notified by the Company's sponsor, China Everbright 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, 2003.

Pursuant to the sponsor agreement dated 10th October, 2003 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 10th October, 2003 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 Mr. Zhu Lei Bo and Mr. Hong Yong Hwan, and an executive Director, Mr. Chu Chien Tung. The Group's unaudited third quarterly results for the nine months ended 31st December, 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, 13th February, 2004