

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

2004/2005



NEW ENERGY OF LIGHT

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This report, for which the directors of Tungda Innovative Lighting Holdings Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. 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, 2004		For the three months ended 30th September, 2004	
	2003	2004	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	133,739	167,541	75,130	82,381
Net profit for the period	35,014	48,149	24,387	23,250
Earnings per share	3.89 cents	4.36 cents	2.67 cents	2.10 cents

Assets and Liabilities

	(Unaudited) As at 30th September, 2004	(Audited) As at 31st March, 2004
	HK\$'000	HK\$'000
Total assets	327,126	275,146
Total liabilities	16,230	12,388
Shareholders' fund	310,896	262,758

Turnover for the six months ended 30th September, 2004 was approximately HK\$167.54 million, representing an increase of approximately 25.27% to the corresponding period in 2003.

Net profit attributable to shareholders amounted to approximately HK\$48.15 million for the period under review.

The Board does not recommend the payment of an interim dividend (2003: HK\$2,131,000) for the six months ended 30th September, 2004.

INTERIM RESULTS

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 six months and three months ended 30th September, 2004 together with the unaudited comparative figures for the corresponding periods in 2003, as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30th September, 2004		For the three months ended 30th September, 2004	
		2003		2003	
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	3	167,541	133,739	82,381	75,130
Cost of sales		(101,369)	(83,247)	(50,023)	(44,898)
Gross profit		66,172	50,492	32,358	30,232
Other operating income		512	318	298	170
Selling expenses		(2,599)	(3,249)	(729)	(585)
Administrative expenses		(12,852)	(7,596)	(7,263)	(4,092)
Research and development expenses		(556)	(2,372)	–	–
Profit from operations	5	50,677	37,593	24,664	25,725
Finance costs	6	(103)	(5)	(72)	–
Profit before taxation		50,574	37,588	24,592	25,725
Taxation	7	(2,425)	(2,574)	(1,342)	(1,338)
Net profit for the period		48,149	35,014	23,250	24,387
Dividend	8	–	2,131	–	2,131
Earnings per share	9	4.36 cents	3.89 cents	2.10 cents	2.67 cents

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 30th September, 2004 <i>HK\$'000</i>	(Audited) As at 31st March, 2004 <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	10	53,472	44,978
Deposits paid for acquisition of property, plant and equipment		66,070	67,105
		<u>119,542</u>	<u>112,083</u>
Current assets			
Inventories		9,068	9,043
Debtors, deposits and prepayments	11	25,069	14,223
Pledged bank deposits		–	305
Bank balances and cash		173,447	139,492
		<u>207,584</u>	<u>163,063</u>
Current liabilities			
Creditors and accrued charges	12	14,107	11,819
Taxation payable		2,123	569
		<u>16,230</u>	<u>12,388</u>
Net current assets		<u>191,354</u>	<u>150,675</u>
Total net assets		<u>310,896</u>	<u>262,758</u>
Capital and reserves			
Share capital	13	11,056	11,056
Reserves		299,840	251,702
		<u>310,896</u>	<u>262,758</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, 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>
At 1st April, 2004	11,056	101,669	(2,128)	9	8,172	143,980	–	262,758
Net profit for the period	–	–	–	–	–	48,149	–	48,149
Exchange difference arising on translation	–	–	–	(11)	–	–	–	(11)
At 30th September, 2004	<u>11,056</u>	<u>101,669</u>	<u>(2,128)</u>	<u>(2)</u>	<u>8,172</u>	<u>192,129</u>	<u>–</u>	<u>310,896</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30th September,	
	2004	2003
	HK\$'000	HK\$'000
Net cash generated from operating activities	29,014	11,547
Net cash (used in) generated from investing activities	9,271	(12,195)
Net cash generated from financing activities	–	50,417
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Net increase in cash and cash equivalents	38,285	49,769
Cash and cash equivalents at beginning of the period	135,162	85,393
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Cash and cash equivalents at end of the period	<u>173,447</u>	<u>135,162</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. General

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. The Company's shares are listed on GEM of the Stock Exchange on 26th July, 2002.

The Company acts as an investment holding company and the principal activities of the Group are trading and manufacturing of light source products.

2. Basic of preparation

The unaudited condensed consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in Hong Kong, the disclosure requirements of Hong Kong Companies Ordinance and the applicable GEM Listing Rules.

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

The accounting policies adopted for the presentation of the unaudited condensed consolidated financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31st March, 2004.

The unaudited condensed consolidated financial statements have neither been audited nor reviewed by the Company's auditors, but have been reviewed by the Company's audit committee.

3. Turnover

Turnover represents 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, 2004.

4. Segmental information

An analysis of the Group's turnover is as follow:

Business segments

	(Unaudited) For the six months ended 30th September, 2004 HK\$'000		(Unaudited) For the three months ended 30th September, 2004 HK\$'000	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment turnover				
House brand light source products	83,482	62,593	40,441	38,172
Agency brand light source products	84,059	71,146	41,940	36,958
	167,541	133,739	82,381	75,130
Segment results				
House brand light source products	59,426	45,321	28,674	27,399
Agency brand light source products	6,746	5,171	3,684	2,833
	66,172	50,492	32,358	30,232
Unallocated net corporate expenses	(15,495)	(12,899)	(7,694)	(4,507)
	50,677	37,593	24,664	25,725
Finance costs	(103)	(5)	(72)	–
	50,574	37,588	24,592	25,725
Taxation	(2,425)	(2,574)	(1,342)	(1,338)
	48,149	35,014	23,250	24,387

Geographical segments

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

	(Unaudited)		(Unaudited)	
	For the six months		For the three months	
	ended 30th September,		ended 30th September,	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The PRC	77,134	66,701	38,303	34,435
Hong Kong	7,057	4,593	3,752	2,594
Asia	16,000	–	11,086	–
Europe	44,418	62,445	17,773	38,101
U.S.A.	22,932	–	11,467	–
	<u>167,541</u>	<u>133,739</u>	<u>82,381</u>	<u>75,130</u>

5. Profit from operations

	(Unaudited)		(Unaudited)	
	For the six months		For the three months	
	ended 30th September,		ended 30th September,	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:				
Auditors remuneration	300	340	120	170
Depreciation	2,326	1,177	1,236	653
Cost of inventories recognized as an expense	101,369	83,247	50,023	44,898
Operating lease rentals in respect of land and buildings	865	637	288	275
Staff costs:				
Directors' remuneration	2,282	1,450	1,230	735
Other staff costs	2,645	1,939	1,354	983
and after crediting:				
Interest income	<u>467</u>	<u>316</u>	<u>267</u>	<u>169</u>

6. Finance costs

	(Unaudited)		(Unaudited)	
	For the six months		For the three months	
	ended 30th September,		ended 30th September,	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reimbursement of interest paid by ultimate holding company on behalf of the Group	–	5	–	–
Bank charges and overdraft interests	73	–	69	–
Interest on a finance lease	30	–	3	–
	<u>103</u>	<u>5</u>	<u>72</u>	<u>–</u>

7. Taxation

	(Unaudited)		(Unaudited)	
	For the six months		For the three months	
	ended 30th September,		ended 30th September,	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong Profits Tax	2,425	1,738	1,342	1,338
PRC Enterprise Income Tax	–	836	–	–
	<u>2,425</u>	<u>2,574</u>	<u>1,342</u>	<u>1,338</u>

The charge for Hong Kong Profits Tax is calculated at the rate of 17.5% (for the six months and three months ended 30th September, 2003: 17.5%) on the estimated assessable profit arising in Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, the two subsidiaries of the Company 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 the respective subsidiary commenced on 1st January, 2001 and 1st January, 2003 respectively.

No provision for deferred taxation for the periods has been made as the amount involved is insignificant.

8. Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30th September, 2004 (six months ended 30th September, 2003: HK\$2,131,000).

9. Earnings per share

The calculation of the basic and diluted earnings per share for the six and three months ended 30th September, 2004 and 2003 is based on the following data:

	(Unaudited) For the six months ended 30th September,		(Unaudited) For the three months ended 30th September,	
	2004	2003	2004	2003
	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	48,149	35,014	23,250	24,387
Weighted average number of shares for the purpose of calculation of basic earnings per share	1,105,600,000	900,616,393	1,105,600,000	913,095,652

No diluted earnings per share was presented as there was no potential dilutive ordinary shares in issue for both periods.

10. Property, plant and equipment

During the six months ended 30th September, 2004, the Group spent approximately HK\$1,286,000 (six months ended 30th September, 2003: HK\$14,526,000) for the acquisition of property, plant and equipment.

The Group had entered into four contracts for the purchases of production machinery and equipment of aggregate amount approximately HK\$102,483,000 of which approximately HK\$67,105,000 was paid during the year ended 31st March, 2004 and approximately HK\$7,965,000 was paid during the period under review. Three sets of machinery of aggregate amount approximately HK\$9,000,000 were delivered to the Group's production site at Fujian, the PRC during the period under review. Details of these four contracts are set out in the Company's announcement dated 27th September, 2004.

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, 2004 <i>HK\$'000</i>	(Audited) As at 31st March, 2004 <i>HK\$'000</i>
Within three months	8,208	1,640
Four to six months	295	236
Seven to twelve months	34	57
More than one year	92	12
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	8,629	1,945
	<hr/>	<hr/>

The Group allows an average credit period ranging from 7 days to 90 days to its trade customers.

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, 2004 <i>HK\$'000</i>	(Audited) As at 31st March, 2004 <i>HK\$'000</i>
Within three months	2,671	3,224
Four to six months	677	284
Seven to twelve months	91	24
More than one year	724	6
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	4,163	3,538
	<hr/>	<hr/>

13. Share capital

	Number of shares	Amount HK\$'000
Shares of HK\$0.01 each		
<i>Authorised:</i>		
At 31st March, 2004 and 30th September, 2004	<u>5,000,000,000</u>	<u>50,000</u>
<i>Issued and fully paid:</i>		
As 31st March, 2004 and 30th September, 2004	<u>1,105,600,000</u>	<u>11,056</u>

14. Capital and other commitments

	(Unaudited) As at 30th September, 2004 HK\$'000	(Audited) As at 31st March, 2004 HK\$'000
Capital expenditure contracted for but not provided in the financial statements, in respect of:		
A joint venture agreement <i>Note a.</i>	2,830	2,830
Advertising expenditure	–	1,780
Acquisition of machinery and equipment <i>Note b.</i>	27,413	17,866
Research and development expenditure	–	756
	<u>30,243</u>	<u>23,232</u>

Note a. 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 30th September, 2004, the Group has not yet established this new joint venture company and did not contribute for any registered capital in this regard.

Note b. The Group had entered into four contracts for the purchases of production machinery and equipment of aggregate amount approximately HK\$102,483,000. The Group had paid approximately HK\$75,070,000 with outstanding commitments of approximately HK\$27,413,000 in respect of these four contracts. Details of these four contracts are set out in the Company's announcement dated 27th September, 2004.

15. Lease commitments

Operating lease

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 land and buildings for certain of its offices premises and factories which fall due as follows:

	(Unaudited) As at 30th September, 2004 HK\$'000	(Audited) As at 31st March, 2004 HK\$'000
Within one year	1,123	605
Within second to fifth year	1,133	—
	<u>2,256</u>	<u>605</u>

Finance lease

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, 2004 HK\$'000	(Audited) As at 31st March, 2004 HK\$'000
Within one year	112	—
Within second to fifth year	393	—
	<u>505</u>	<u>—</u>

16. Related party transactions

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

	(Unaudited)		(Unaudited)	
	For the six months		For the three months	
	ended 30th September,		ended 30th September,	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Rental paid to Tungda Industrial	<u>54</u>	<u>54</u>	<u>27</u>	<u>27</u>

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, 2004 ("Period"), the Group's turnover was approximately HK\$167.54 million, representing an increase of approximately 25.27% over the amount approximately HK\$133.74 in the same period in 2003. 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.

Gross profit margin

The gross profit margin for the Period was 39.49% as compared to 37.75% for the same period in 2003. The improvement is attributable by the increased contribution from house brand light source products that generally account for higher gross profit margin as compared to agency brand light source products.

Other operating income

The major component of other income is interest income which was approximately HK\$467,000 compared to HK\$316,000 for the same period in 2003. The increase represented a higher cash and bank balance for the Group.

Selling and administrative expenses

Selling expenses amounted to approximately HK\$2.60 million as compared to approximately HK\$3.25 million in the corresponding period in the previous year, which were primarily comprised of advertising and business promotion expenses and travelling expenses.

Administrative expenses comprised primarily of directors' and staff remuneration, entertainment and rental expenses and a non-recurrent special audit review expense, which increased to approximately HK\$12.85 million as compared to approximately HK\$7.60 million in the corresponding period in the previous year.

Research and development expenses

Research and development expenses for the Period amounted to approximately HK\$0.56 million for development of new products including low-wattage induction lamps, microwave sulphur lamps, ceramic metal halide lamps and xenon lamps for automobile. The Group has completed the development of induction lamps and proceeded to final development stage for its automobile xenon lamps and microwave sulphur lamps. The Group recorded approximately HK\$2.37 million in the corresponding period in the previous year.

Net profit

As a results of the factors mentioned above, net profit attributable to shareholders for the six months ended 30th September, 2004 increased to approximately HK\$48.15 million from HK\$35.01 million for the same period in 2003.

Liquidity, financial resources and capital structure

As at 30th September, 2004, the Group's shareholders' funds amounted to approximately HK\$310.90 million. Cash and bank balances was approximately HK\$173.45 million, as compared to HK\$135.16 million as at 30th September, 2003. Increases in cash was primarily due to income generated from operations.

As at 30th September, 2004, 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.

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, 2004 and 2003.

Charges on group assets

(Unaudited)	(Audited)
As at	As at
30th September,	31st March,
2004	2004
<i>HK\$'000</i>	<i>HK\$'000</i>

The amounts represent the bank deposits
pledged to a bank to secure the general
banking facilities (a rental guarantee)
granted to the Group

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Details of future plans for material investment or capital assets

As at 30th September, 2004, 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, and, in particular, details of four contracts for the purchases of production machinery and equipment as set out in the Company’s announcement dated 27th September, 2004.

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 United States dollars, Hong Kong dollars and Renminbi. In this aspect, the directors consider there is no currency mismatch in its operational cashflow and the Group is not exposed to any foreign currency exchange risk in its operations.

Contingent liabilities

The Group had no contingent liabilities as at both 30th September, 2004 and 2003.

Employee information

As at 30th September, 2004, 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 GEM on 26th July, 2002 and private placing on 18th September, 2003 were approximately HK\$44.3 million and HK\$49.5 million respectively. The Company issued and allotted shares to certain employees pursuant to its share option scheme and raised a net proceeds approximately HK\$14.9 million on 26th February, 2004.

During the period from 26th July, 2002 to 30th September, 2004, 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, 2004	Actual amount used up to 30th September, 2004
	<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	13.0	11.8
Expansion of manufacturing capacity and capability (machinery and equipment)	2	18.0	97.3
Establishment and expansion of sales and distribution network in the PRC and the overseas market		10.0	10.4
Enhancement of brand recognition and public awareness	3	10.0	3.8
		51.0	123.3

Notes:

1. Owing to the re-organisation of Fudan University, the incorporation of the joint venture had been delayed.
2. The excess of use of proceeds was attributed by the additional acquisition of plant and machinery and was financed by net proceeds raised from the private placement on 18th September, 2003 and internal funding.
3. It was due to the deferral of executing the plan for enhancement of brand recognition and public awareness.

Prospects

The board remains positive about its business outlook. Sales of the Group's products are expected to continue growing in the years ahead attributable to the Group's dedication to develop and supply the market with innovative and high quality energy-saving light source products, its commitment in research and development and strategic cooperation to enable the Group to expand its product offerings.

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 Group will continue to pursue and focus on its core business of being a manufacturer and provider of high quality light source products.

The Group will use its best endeavor to maximize return to its shareholders in the years ahead.

BUSINESS OBJECTIVES REVIEW

Details of an analysis comparing the business objectives as stated in the Prospectus with the Group's actual business progress ended 31st March, 2004 is set in the Company's annual report dated 15th October, 2004 for its year.

RETIREMENT OF EXISTING AND APPOINTMENT OF NEW AUDITORS

The term of office of the Company's auditors, Messrs. Deloitte Touche Tohmatsu, Certified Public Accountants, ("Auditors") expired at the close of the Annual General Meeting. The Auditors has informed the Company that they will not be seeking re-appointment. The directors proposed to appoint Messrs. HLB Hodgson Impey Cheng, Certified Public Accountants, (國衛會計師事務所) to fill the vacancy of the Auditors at a forthcoming extraordinary general meeting to be held on 19th November, 2004.

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

At 30th September, 2004, the interests of the directors and the chief executives of the Company and their associates in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules relating to securities transactions by directors, were as follows:

Long positions

(a) Ordinary shares of HK\$0.01 each of the Company and underlying shares

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Chu Chien Tung	Held by controlled corporation (<i>Note</i>)	560,000,000	50.65%

Note: These shares were held indirectly by Tungda Industrial Limited (“Tungda Industrial”) through its beneficial interest in the entire issued share capital of Standard Exceed Limited. Messrs. Chu Chien Tung, Chu Chick Kei and Chu Siu Chun (father of Messrs. Chu Chien Tung and Chu Chick Kei) jointly hold the entire issued share capital of Tungda Industrial.

(b) Share options

Name of director	Capacity	Number of options held	Number of underlying shares
Mr. Chu Chien Tung	Beneficial owner	1,054,944	1,054,944
Mr. Chu Chick Kei	Beneficial owner	1,054,944	1,054,944
Mr. Chu Sen Hei	Beneficial owner	10,549,440	10,549,440
Ms. Chow Sau Fong, Fiona	Beneficial owner	3,000,000	3,000,000

Other than as disclosed above, none of the directors and chief executives of the Company and their associates has any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations at 30th September, 2004.

SUBSTANTIAL SHAREHOLDERS

At 30th September, 2004, the following substantial shareholder (other than a director or chief executive of the Company) who have interests or short positions in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares of the Company

Name of shareholder	Number of issued ordinary shares held in the Company	Approximate percentage of shareholding
Standard Exceed Limited (<i>Note 1</i>)	560,000,000	50.65%
Tungda Industrial Limited (<i>Note 1</i>)	560,000,000	50.65%
Mr. Chu Chien Tung (<i>Note 2</i>)	560,000,000	50.65%
Ms. Chan Pik Kam (<i>Note 3</i>)	560,000,000	50.65%

Notes:

1. Standard Exceed Limited is wholly and beneficially-owned by Tungda Industrial which in turn is beneficially-owned as to 33.33334% by Mr. Chu Chien Tung, 33.33333% by Mr. Chu Chick Kei and 33.33333% by Mr. Chu Siu Chun. Mr. Chu Siu Chun has no management role in the Group.
2. Under Section 336 of the SFO, Mr. Chu Chien Tung is deemed to have interests in all the shares of the Company which Tungda Industrial has interests as he is entitled to exercise more than one-third of the voting power at general meeting of Tungda Industrial. The other two shareholders of Tungda Industrial, namely Messrs. Chu Chick Kei and Chu Siu Chun, are not so deemed as they are not entitled to exercise more than one-third of the voting power at general meetings of Tungda Industrial.
3. Ms. Chan Pik Kam is the wife of Mr. Chu Chien Tung. Under Section 336 of the SFO, she is deemed to have interest in all the shares in which Mr. Chu Chien Tung is interested.

Save as disclosed above, no other person (other than a director or chief executive of the Company) has an interest or a short position in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

Pursuant to the Company's share option scheme adopted on 12th July, 2002, the board of directors may grant share options to any directors, full time and part time employees of the Group and the consultant or adviser of the Group.

A summary of the movements in the Company's share options during the period is as follows:

	Date of grant	Exercise price HK\$	Close price at the date of grant HK\$	Number of share options			
				At 1st April, 2004	Granted during the period	Exercised during the period	At 30th September 2004
Directors							
Mr. Chu Chien Tung	21st November, 2003	0.452	0.440	1,054,944	–	–	1,054,944
Mr. Chu Chick Kei	21st November, 2003	0.452	0.440	1,054,944	–	–	1,054,944
Mr. Chu Sen Hei	21st November, 2003	0.452	0.440	10,549,440	–	–	10,549,440
Ms. Chow Sau Fong, Fiona	21st November, 2003	0.452	0.440	3,000,000	–	–	3,000,000
Sub-total				15,659,328	–	–	15,659,328
Employees							
	3rd October, 2003	0.345	0.345	33,140,672	–	–	33,140,672
Total				48,800,000	–	–	48,800,000

Save as disclosed herein, none of the directors and chief executives and their associates has any interests or short positions in any shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of the SFO) as recorded in the register to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the Period was the Company, its holding companies, fellow subsidiaries or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. None of the directors of the Company, or their spouses or children under 18 years of age, had any rights to subscribe for the shares of the Company, or had exercised any such right during the Period.

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

During the Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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 had any interests in the share capital of the Company or any member of the Group as at 30th September, 2004 pursuant to Rule 6.35 of the GEM Listing Rules.

Pursuant to the 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 sponsor for the period from 10th October, 2003 to 31st March, 2005 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

COMPETING INTERESTS

During the Period, the board of directors is not aware of any business or interest of each director, management shareholder of the Company and their respective associates that 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 the GEM Listing Rules. The audit committee currently comprises three independent non-executive Directors, namely Mr. Zhu Lei Bo, Mr. Hong Yong Hwan, and Ms. Wu King Yin. The Group's unaudited interim results for the six months ended 30th September, 2004 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.

CORPORATE GOVERNANCE

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 six months ended 30th September, 2004 except that certain independent non-executive directors of the Company are not appointed for specific terms and are subject to re-election at the annual general meeting of the Company in accordance with the provision of the Company's Articles of Association.

By Order of the Board
Chu Chien Tung
Chairman

Hong Kong, 15th November, 2004

Executive directors:

Mr. Chu Chien Tung
Mr. Chu Chick Kei
Mr. Chu Sen Hei
Ms. Chow Sau Fong, Fiona

Non-executive director:

Dr. Fung Shiu Lun, Anthony

Independent non-executive directors:

Mr. Zhu Lei Bo
Mr. Hong Yong Hwan
Ms. Wu King Yin