

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

2004/2005



NEW ENERGY OF LIGHT

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

Turnover for the nine months ended 31st December, 2004 was approximately HK\$238.47 million, representing an increase of approximately 12.41% as compared with the corresponding period in 2003.

Net profit from ordinary activities attributable to shareholders amounted to approximately HK\$65.78 million for the period under review.

The Board does not recommend the payment of a dividend for the nine months ended 31st December, 2004 (nine months ended 31st December, 2003: HK\$2,131,000).

QUARTERLY 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 nine months and three months ended 31st December, 2004 together with the unaudited comparative figures for the corresponding periods in 2003, as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		For the nine months ended 31st December,		For the three months ended 31st December,	
		2004	2003	2004	2003
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	3	238,467	212,137	70,926	78,398
Cost of sales		(145,407)	(131,362)	(44,038)	(48,115)
Gross profit		93,060	80,775	26,888	30,283
Other operating income		814	506	302	188
Selling expenses		(3,389)	(6,167)	(790)	(2,918)
Administrative expenses		(21,017)	(13,156)	(8,165)	(5,560)
Research and development expenses		(556)	(5,255)	–	(2,883)
Profit from operations		68,912	56,703	18,235	19,110
Finance costs	4	(188)	(5)	(85)	–
Profit before taxation		68,724	56,698	18,150	19,110
Taxation	5	(2,940)	(2,818)	(515)	(244)
Net profit for the period		65,784	53,880	17,635	18,866
Dividend	6	–	2,131	–	–
Earnings per share	7				
– Basic (HK cents)		5.95	5.64	1.60	1.77
– Diluted (HK cents)		N/A	5.63	N/A	1.77

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>	Accumu- lated 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	–	–	–	–	–	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	<u>10,656</u>	<u>88,040</u>	<u>(2,128)</u>	<u>9</u>	<u>3,524</u>	<u>127,752</u>	<u>–</u>	<u>227,853</u>
At 1st April, 2004	11,056	101,669	(2,128)	9	8,172	143,980	–	262,758
Net profit for the period	–	–	–	–	–	65,784	–	65,784
Exchange difference arising on translation	–	–	–	(12)	–	–	–	(12)
Dividend paid	–	–	–	–	–	(3,759)	–	(3,759)
At 31st December, 2004	<u>11,056</u>	<u>101,669</u>	<u>(2,128)</u>	<u>(3)</u>	<u>8,172</u>	<u>206,005</u>	<u>–</u>	<u>324,771</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 act 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 results 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 results have been prepared under the historical cost convention.

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

The unaudited condensed consolidated results 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 three months and nine months ended 31st December, 2004.

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

	(Unaudited) For the nine months ended 31st December, 2004 <i>HK\$'000</i>		(Unaudited) For the three months ended 31st December, 2004 <i>HK\$'000</i>	
		2003 <i>HK\$'000</i>		2003 <i>HK\$'000</i>
House brand light source products	114,624	100,897	31,142	38,304
Agency brand light source products	123,843	111,240	39,784	40,094
	238,467	212,137	70,926	78,398

4. Finance costs

	(Unaudited) For the nine months ended 31st December, 2004		(Unaudited) For the three months ended 31st December, 2004	
	HK\$'000	2003 HK\$'000	HK\$'000	2003 HK\$'000
Reimbursement of interest paid by ultimate holding company on behalf of the Group	–	5	–	–
Bank charges and overdraft interests	171	–	77	–
Interest on a finance lease	17	–	8	–
	<u>188</u>	<u>5</u>	<u>85</u>	<u>–</u>

5. Taxation

	(Unaudited) For the nine months ended 31st December, 2004		(Unaudited) For the three months ended 31st December, 2004	
	HK\$'000	2003 HK\$'000	HK\$'000	2003 HK\$'000
Hong Kong Profits Tax	2,868	1,980	443	242
People's Republic of China ("PRC") Enterprise Income Tax	72	838	72	2
	<u>2,940</u>	<u>2,818</u>	<u>515</u>	<u>244</u>

The charge for Hong Kong Profits Tax is calculated at the rate of 17.5% (for the nine months and three months ended 31st December, 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.

6. Dividend

The Board does not recommend the payment of a dividend for the nine months and three months ended 31st December, 2004 (for the nine months and three months ended 31st December, 2003: HK\$2,131,000 and nil respectively).

On 11th November, 2004, a final dividend for the year ended 31st March, 2004 of HK\$0.0034 per share amounting to approximately HK\$3,759,000 was approved by the shareholders at annual general meeting and the dividend was paid during the period.

7. Earnings per share

The calculation of the basic and diluted earnings per share for the nine and three months ended 31st December, 2004 and 31st December, 2003 is based on the following data:

	(Unaudited) For the nine months ended 31st December, 2004		(Unaudited) For the three months ended 31st December, 2004	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net profit for the period for the purposes of basic and diluted earnings per share	<u>65,784</u>	<u>53,880</u>	<u>17,635</u>	<u>18,866</u>
Weighted average number of shares for the purpose of calculation of basic earnings per share	<u>1,105,600,000</u>	955,811,000	<u>1,105,600,000</u>	1,065,600,000
Effect of dilutive potential shares on share options	<u>N/A</u>	<u>794,000</u>	<u>N/A</u>	<u>2,374,000</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u>N/A</u>	<u>956,605,000</u>	<u>N/A</u>	<u>1,067,974,000</u>

For the period under review, no diluted earnings per share was presented as there was no potential dilutive ordinary shares in issue.

8. Capital and other commitments

		(Unaudited) As at 31st December, 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 31st December, 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.

9. Lease commitments

Operating lease

At 31st December, 2004, 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 31st December, 2004 HK\$'000	(Audited) As at 31st March, 2004 HK\$'000
Within one year	1,249	605
Within second to fifth years	1,400	—
	<u>2,649</u>	<u>605</u>

Finance lease

At 31st December, 2004, the Group and the Company had commitments for future minimum lease payments under a non-cancellable finance lease in respect of motor vehicle which falls due as follows:

	(Unaudited) As at 31st December, 2004 HK\$'000	(Audited) As at 31st March, 2004 HK\$'000
Within one year	125	—
Within second to fifth years	351	—
	<u>476</u>	<u>—</u>

10. Related party transactions

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

	(Unaudited) For the nine months ended 31st December, 2004 HK\$'000		(Unaudited) For the three months ended 31st December, 2004 HK\$'000	
	2003	2003	2003	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Rental paid to Tungda Industrial Limited	81	81	27	27

Tungda Industrial Limited 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 DISCUSSION AND ANALYSIS

Turnover

For the nine months ended 31st December, 2004 (“Period”), the Group’s turnover was approximately HK\$238.47 million, representing an increase of approximately 12.41% over the amount approximately HK\$212.14 million in the same period in 2003. This increase in turnover was mainly contributed by the increased demand for the Group’s 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 39.02% as compared to 38.08% 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\$0.77 million compared to approximately HK\$0.51 million 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\$3.39 million as compared to approximately HK\$6.17 million in the corresponding period in the previous year, which primarily comprised of advertising and business promotion expenses and sales staff salaries expenses.

Administrative expenses comprised primarily of directors’ and staff remuneration, business trip expenses, entertainment expenses, rental expenses, legal fee and a non-recurrent special audit review expense, which increased to approximately HK\$21.02 million as compared to approximately HK\$13.16 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\$5.26 million in the corresponding period in the previous year.

Net profit

As a result of the factors mentioned above, net profit attributable to shareholders for the nine months ended 31st December, 2004 increased to approximately HK\$65.78 million from HK\$53.88 million for the same period in 2003.

Liquidity, financial resources and capital structure

As at 31st December, 2004, the Group's shareholders' funds amounted to approximately HK\$324.77 million. Cash and bank balances was approximately HK\$198.11 million, as compared to HK\$128.20 million as at 31st December, 2003. Increases in cash was primarily due to income generated from operations.

As at 31st December, 2004, the Group had no bank facilities in place and no outstanding bank borrowing. The Group's gearing ratio, defined as the Group's total borrowings to the shareholders' funds, was zero.

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

Material acquisition and disposals

There were neither significant investment held by the Group nor material acquisitions and disposals of subsidiaries and affiliated companies for the periods ended 31st December, 2004 and 2003.

Charges on group assets

	(Unaudited) As at 31st December, 2004 HK\$'000	(Audited) As at 31st March, 2004 HK\$'000
The amounts represent the bank deposits pledged to a bank to secure a rental guarantee granted to the Group	—	305

Details of future plans for material investment or capital assets

As at 31st December, 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 operation.

Contingent liabilities

The Group had no contingent liabilities as at 31st December, 2004 and 2003.

Employee information

As at 31st December, 2004, the Group has about 200 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.

Prospect

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 year ahead.

BUSINESS OBJECTIVES REVIEW

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

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 shareholders has approved 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 an extraordinary general meeting held on 19th November, 2004.

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

At 31st December, 2004, the interests of the directors and the chief executives of the Company and their associates in the shares, underlying shares or debenture 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	Interest of a controlled corporation (Note)	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 option 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 31st December, 2004.

SUBSTANTIAL SHAREHOLDERS

At 31st December, 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:

				Number of share options			
	Date of grant	Exercise price price HK\$	Close price at the date of grant HK\$	At 1st April, 2004	Granted during the period	Exercised during the period	At 31st December, 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, the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

SPONSOR'S INTEREST

The Company's sponsor, China Everbright Capital Limited (the "Sponsor") has terminated its appointment with effect from 30th November, 2004. As updated and notified by 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 up to the date of 29th November, 2004 pursuant to Rule 6.35 of the GEM Listing Rules. The Company is in the course of identifying a replacement sponsor.

In the meantime, the Company has on 7th January, 2005 appointed Baron Capital Limited and Baron Asia Limited (together "Baron") as the Company's joint financial advisers to advise the Company, among other things, on matters relating to improving the corporate governance of the Company and the resumption of trading of the Company's shares.

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 Mr. Wong Tik Tung. The Group's unaudited third quarterly results for the nine months ended 31st December, 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 Period.

By Order of the Board
Chu Chien Tung
Chairman

Hong Kong, 4th February, 2005

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

Mr. Wong Tik Tung