

# Tungda Innovative Lighting Holdings Limited 東大新材料照明控股有限公司

(Incorporated in Cayman Islands with limited liability)  
(Stock Code: 8229)



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Interim Report 2006/07

New Energy of LIGHT

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

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**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

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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.*

## CORPORATE INFORMATION

### Executive directors

CHU Chien Tung  
CHU Chick Kei  
CHU Sen Hei

### Non-executive director

FUNG Shiu Lun, Anthony

### Independent non-executive directors

ZHU Lei Bo  
HONG Yong Hwan

### Registered office

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

### Head office and principal place of business

Room 1007-8, 10th Floor  
Harcourt House  
39 Gloucester Road  
Wanchai  
Hong Kong

### Company website

<http://www.tungdalighting.com.hk>  
<http://www.tungdalighting.com>

### Company secretary

WONG Yiu Hung (*ACMA, CPA (HKICPA)*)

### Qualified accountant

WONG Yiu Hung (*ACMA, CPA (HKICPA)*)

### Compliance officer

CHU Chien Tung

### Audit committee

HONG Yong Hwan (*Chairman*)  
ZHU Lei Bo

### Authorised representatives (for the purpose of the GEM Listing Rules)

CHU Chien Tung  
CHU Chick Kei

### Principal bankers

DBS Bank (Hong Kong) Limited  
16th Floor  
The Center  
99 Queen's Road Central  
Hong Kong

Nanyang Commercial Bank, Limited  
48 Tsun Yip Street  
Kwun Tong  
Kowloon  
Hong Kong

### Auditors

TING HO KWAN & CHAN  
*Certified Public Accountants (Practising)*  
9th Floor  
Tung Ning Building  
249-253 Des Voeux Road C.  
Hong Kong

### Principal share registrar and transfer office

Bank of Butterfield  
International (Cayman) Limited  
Butterfield House  
68 Fort Street  
P. O. Box 705  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

### Hong Kong branch share registrar and transfer office

Standard Registrars Limited  
26/F., Tesbury Centre  
28 Queen's Road East  
Hong Kong  
(Opposite Three Pacific Place)

## INTERIM RESULTS

The board of directors (the “Board”) of Tungda Innovative Lighting Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months and three months ended 30th September, 2006 together with the unaudited comparative figures for the corresponding periods in 2005 as follows:

## UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	For the six months ended 30th September,		For the three months ended 30th September,	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	3	<b>26,186</b>	21,162	<b>13,334</b>	12,573
Cost of sales		<b>(11,334)</b>	(10,336)	<b>(5,578)</b>	(5,346)
Gross profit		<b>14,852</b>	10,826	<b>7,756</b>	7,227
Other income and gains		<b>1,009</b>	726	<b>566</b>	380
Selling expenses		<b>(620)</b>	(811)	<b>(321)</b>	(302)
Administrative expenses		<b>(11,475)</b>	(6,773)	<b>(7,305)</b>	(3,353)
Profit from operations	5	<b>3,766</b>	3,968	<b>696</b>	3,952
Finance costs	6	<b>(98)</b>	(101)	<b>(71)</b>	(82)
Profit before taxation		<b>3,668</b>	3,867	<b>625</b>	3,870
Taxation	7	<b>(904)</b>	(1,168)	<b>(80)</b>	(801)
Profit for the period		<b>2,764</b>	2,699	<b>545</b>	3,069
Dividend	8	-	-	-	-
Earnings per share	9	<b>0.25 HK cents</b>	0.24 HK cents	<b>0.05 HK cents</b>	0.28 HK cents

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	<b>As at 30th September, 2006 HK\$'000</b>	<b>As at 31st March, 2006 HK\$'000</b>
<b>Non-current assets</b>			
Property, plant and equipment	<i>10</i>	<b>51,854</b>	53,792
Leasehold land and land use rights		<b>6,937</b>	7,013
Deposits paid for acquisition of property, plant and equipment	<i>11</i>	<b>9,366</b>	10,323
		<b>68,157</b>	71,128
<b>Current assets</b>			
Current portion of leasehold land and land use rights		<b>152</b>	152
Inventories		<b>8,053</b>	8,894
Trade and other receivables	<i>12</i>	<b>11,300</b>	4,548
Tax refundable		<b>–</b>	3,131
Bank balances and cash		<b>245,765</b>	242,985
		<b>265,270</b>	259,710
<b>Current liabilities</b>			
Trade and other payables	<i>13</i>	<b>19,196</b>	18,084
Obligation under a finance lease	<i>15</i>	<b>111</b>	136
Tax payable		<b>1,614</b>	6,504
		<b>20,921</b>	24,724
<b>Net current assets</b>		<b>244,349</b>	234,986
<b>Total assets less current liabilities</b>		<b>312,506</b>	306,114
<b>Non-current liability</b>			
Obligation under a finance lease	<i>15</i>	<b>141</b>	183
<b>Net assets</b>		<b>312,365</b>	305,931
<b>Equity</b>			
Share capital	<i>14</i>	<b>11,056</b>	11,056
Reserves		<b>301,309</b>	294,875
<b>Total equity</b>		<b>312,365</b>	305,931

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	General reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st April, 2005	11,056	101,669	(2,128)	1	16,692	204,131	331,421
Currency translation differences	-	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	2,699	2,699
At 30th September, 2005	11,056	101,669	(2,128)	1	16,692	206,830	334,120
At 1st April, 2006	11,056	101,669	(2,128)	5,989	17,332	172,013	305,931
Currency translation differences	-	-	-	3,670	-	-	3,670
Profit for the period	-	-	-	-	-	2,764	2,764
At 30th September, 2006	11,056	101,669	(2,128)	9,659	17,332	174,777	312,365

## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>For the</b>	
	<b>six months ended</b>	
	<b>30th September,</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Net cash generated from operating activities	<b>3,267</b>	5,750
Net cash (used in)/generated from investing activities	<b>(411)</b>	492
Net cash used in financing activities	<b>(76)</b>	(163)
Net increase in cash and cash equivalents	<b>2,780</b>	6,079
Cash and cash equivalents at beginning of the period	<b>242,985</b>	214,787
Cash and cash equivalents at end of the period	<b>245,765</b>	220,866

## 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

This interim financial statements is unaudited and has been prepared under historical cost convention and in accordance with "Hong Kong Accounting Standard ("HKAS") 34 Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and applicable GEM Listing Rules.

This interim financial statements has been prepared in consistent with the accounting policies and basis of preparation adopted for the preparation of the Group's annual financial statements for the year ended 31st March, 2006.

The preparation of an interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial statements contains unaudited condensed consolidated financial statements and selected explanatory notes. The explanatory notes include an explanation of events and transactions that are considered significant to the understanding of the changes in the financial position and performance of the Group since 31st March, 2006. The unaudited condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and should be read in conjunction with the Group's annual financial statements for the year ended 31st March, 2006.

### 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, 2006.

## 4. Segmental information

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

*Business segments*

	(Unaudited) For the six months ended 30th September, 2006		(Unaudited) For the three months ended 30th September, 2006	
	HK\$'000	2005 HK\$'000	HK\$'000	2005 HK\$'000
<b>Segment turnover</b>				
House brand light source products	20,636	15,199	10,853	9,705
Agency brand light source products	5,550	5,963	2,481	2,868
	<b>26,186</b>	21,162	<b>13,334</b>	12,573
<b>Segment results</b>				
House brand light source products	14,286	9,448	7,315	6,552
Agency brand light source products	566	1,378	441	675
	<b>14,852</b>	10,826	<b>7,756</b>	7,227
Unallocated net corporate expenses	(11,086)	(6,858)	(7,060)	(3,275)
Profit from operations	3,766	3,968	696	3,952
Finance costs	(98)	(101)	(71)	(82)
Profit before taxation	3,668	3,867	625	3,870
Taxation	(904)	(1,168)	(80)	(801)
Profit for the period	2,764	2,699	545	3,069

*Geographical segments*

The Group's operations are located in the People's Republic of China ("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:

	<b>(Unaudited) For the six months ended 30th September, 2006</b>		<b>(Unaudited) For the three months ended 30th September, 2006</b>	
	<b>HK\$'000</b>	2005 HK\$'000	<b>HK\$'000</b>	2005 HK\$'000
The PRC	<b>8</b>	36	<b>5</b>	8
Hong Kong	<b>5,551</b>	5,963	<b>2,860</b>	2,867
Asia	<b>759</b>	–	<b>381</b>	–
Europe	<b>9,934</b>	10,314	<b>5,044</b>	4,849
U.S.A.	<b>9,934</b>	4,849	<b>5,044</b>	4,849
	<b>26,186</b>	21,162	<b>13,334</b>	12,573

**5. Profit from operations**

	<b>(Unaudited) For the six months ended 30th September, 2006</b>		<b>(Unaudited) For the three months ended 30th September, 2006</b>	
	<b>HK\$'000</b>	2005 HK\$'000	<b>HK\$'000</b>	2005 HK\$'000
Profit from operations has been arrived at after charging:				
Auditors' remuneration	<b>180</b>	250	<b>90</b>	125
Depreciation				
– owned assets	<b>3,101</b>	3,186	<b>1,609</b>	1,590
– leased asset	<b>54</b>	54	<b>27</b>	27
Amortisation of leasehold land and land use rights	<b>76</b>	74	<b>38</b>	37
Cost of inventories recognised as an expense	<b>11,334</b>	10,336	<b>5,578</b>	5,346
Operating lease rentals in respect of land and buildings	<b>641</b>	625	<b>296</b>	313
Staff costs:				
Directors' remuneration	<b>2,220</b>	2,220	<b>1,182</b>	1,110
Other staff costs	<b>1,876</b>	2,118	<b>930</b>	972
and after crediting:				
Interest income	<b>898</b>	726	<b>449</b>	381

## 6. Finance costs

	(Unaudited) For the six months ended 30th September, 2006		(Unaudited) For the three months ended 30th September, 2006	
	HK\$'000	2005 HK\$'000	HK\$'000	2005 HK\$'000
Bank charges and overdraft interests	89	87	68	75
Interests on a finance lease	9	14	3	7
	98	101	71	82

## 7. Taxation

	(Unaudited) For the six months ended 30th September, 2006		(Unaudited) For the three months ended 30th September, 2006	
	HK\$'000	2005 HK\$'000	HK\$'000	2005 HK\$'000
Current tax:				
Hong Kong Profits Tax	–	–	–	–
PRC Enterprise Income Tax	904	1,168	80	801
	904	1,168	80	801

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no estimated assessable profits arising in or derived from Hong Kong for the respective six months and three months ended 30th September, 2006 and 2005.

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, 2006 (six months ended 30th September, 2005: Nil).

## 9. Earnings per share

The calculation of the basic and diluted earnings per share for the six and three months ended 30th September, 2006 and 2005 is based on the following data:

	(Unaudited) For the six months ended 30th September, 2006		(Unaudited) For the three months ended 30th September, 2006	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Profit for the period for the purpose of calculation of basic earnings per share	2,764	2,699	545	3,069
Weighted average number of shares for the purpose of calculation of basic earnings per share	1,105,600,000	1,105,600,000	1,105,600,000	1,105,600,000

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, 2006, the Group spent approximately HK\$2,270,000 for road paving of the Fujian factory.

As set out in the Company's announcement dated 27th September, 2004, the Group had entered into four contracts for the purchases of machinery and equipment of aggregate amount approximately HK\$102,483,000. The contract for induction lamp machinery of aggregate amount approximately HK\$21,000,000 was completed in the financial year ended 31st March, 2005. Details of the three outstanding contracts were set out in the Company's annual report for the year ended 31st March, 2006.

At 30th September, 2006, a motor vehicle with net book value about HK\$330,000 is held under a finance lease arrangement as mentioned in note 15.

## 11. Deposits paid for acquisition of property, plant and equipment

*The Group*

		(Unaudited) As at 30th September, 2006 HK\$'000	(Audited) As at 31st March, 2006 HK\$'000
Balance brought forward	<i>Note</i>	10,323	56,710
Recognised as fixed assets		-	(3,500)
Refunded		(957)	-
		9,366	53,210
Impairment		-	(42,887)
Balance carried forward		9,366	10,323

*Note:* The balances at 31st March, 2006 represented outstanding deposits paid for three outstanding contracts for purchases of machinery and equipment as mentioned in note 10.

## 12. Trade and other receivables

The following is an aged analysis of the Group's trade receivables which are included in trade and other receivables:

	(Unaudited) As at 30th September, 2006 HK\$'000	(Audited) As at 31st March, 2006 HK\$'000
Within three months	1,967	1,349
Four to six months	116	293
Seven to twelve months	-	58
More than one year	18	9
	2,101	1,709

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

## 13. Trade and other payables

The following is an aged analysis of the Group's trade payables which are included in trade and other payables:

	(Unaudited) As at 30th September, 2006 HK\$'000	(Audited) As at 31st March, 2006 HK\$'000
Within three months	1,725	1,243
Four to six months	12	829
Seven to twelve months	4	22
More than one year	610	1,174
	<b>2,351</b>	<b>3,268</b>

## 14. Share capital

	Number of shares	Amount HK\$'000
Shares of HK\$0.01 each		
Authorised:		
At 31st March, 2006 and 30th September, 2006	5,000,000,000	50,000
Issued and fully paid:		
At 31st March, 2006 and 30th September, 2006	1,105,600,000	11,056

## 15. Obligation under a finance lease

At the balance sheet date, the Group's total minimum lease payments under a finance lease arrangement and its present value are as follows:

	(Unaudited) As at 30th September, 2006 HK\$'000	(Audited) As at 31st March, 2006 HK\$'000
Within one year	121	152
In the second to fifth year inclusive	146	191
Total minimum lease payment	267	343
Future finance lease charges	(15)	(24)
Present value of total minimum lease payments	252	319
The present value of finance lease obligations is due as follows:		
Within one year	111	136
In the second to fifth year inclusive	141	183
Falling due within one year included in current liabilities	252 (111)	319 (136)
	141	183

The Group leases a motor vehicle under a finance lease arrangement expiring initially in four years. At the end of the lease term the Group has the option to purchase the motor vehicle at a price deemed to be a bargain purchase option. The leased motor vehicle secures the above lease obligation.

## 16. Operating lease commitments

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

	<b>(Unaudited)</b> <b>As at 30th</b> <b>September,</b> <b>2006</b> <b>HK\$'000</b>	<b>(Audited)</b> <b>As at 31st</b> <b>March,</b> <b>2006</b> <b>HK\$'000</b>
Within one year	857	1,014
Within second to fifth year	22	171
	<b>879</b>	<b>1,185</b>

## 17. Capital and other commitments

	<b>(Unaudited)</b> <b>As at 30th</b> <b>September,</b> <b>2006</b> <b>HK\$'000</b>	<b>(Audited)</b> <b>As at 31st</b> <b>March,</b> <b>2006</b> <b>HK\$'000</b>
Capital expenditure contracted for but not provided in financial statements, in respect of:		
Acquisition of machinery and equipment	14,473	24,773
Advertising expenditure	880	880
Research and development expenditure	200	200
	<b>15,553</b>	<b>25,853</b>

18. Related party transactions

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

	<b>(Unaudited)</b> <b>For the</b> <b>six months ended</b> <b>30th September,</b> <b>2006</b>		<b>(Unaudited)</b> <b>For the</b> <b>three months ended</b> <b>30th September,</b> <b>2006</b>	
	<b>HK\$'000</b>	2005 HK\$'000	<b>HK\$'000</b>	2005 HK\$'000
Rental paid to Tungda Industrial Limited	<b>54</b>	54	<b>27</b>	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.

## REVIEW

### Operating results

For the six months ended 30th September, 2006 (“Period”), the Group’s turnover was approximately HK\$26.17 million, representing an increase of approximately 23.67% as compared to approximately HK\$21.16 million of last corresponding period.

The gross profit margin for the Period was 56.72% compared to 51.16% for the same period in 2005 as house brand products, which generally had higher margin, accounted for higher proportion of the total turnover during the Period.

Trading in the shares of the Company has been suspended on the Stock Exchange since 29th July, 2004 and officers of the Commercial Crime Bureau of the Hong Kong Police Force have executed a warrant for search and seizure against the premises of the Group in March, 2005. Certain customers, to whom the Group has offered five years general product guarantee for the Group’s products, are hesitating if the Group will be able to honor the guarantee should the product fail to operate. Order from these customers had significantly declined and has not yet recovered.

### Other income and gains

The major component of other income and gains approximately HK\$1.01 million was interest income for the Period as compared to approximately HK\$0.73 million for the same period in 2005.

### Selling and administrative expenses

The selling expenses for the Period primarily comprised of salaries and delivery expenses. The amount decreased because of decrease in advertisement expenses and transitional decrease in marketing staff during the Period.

The administrative expenses comprised primarily of directors’ and staff remuneration, entertainment, professional fees, rental expenses and adhoc repair expenses for typhoon damages to the Fujian factory building and infrastructure. The administrative expenses increased to approximately HK\$11.48 million due to general increase in administrative expenses and the adhoc repair for factory building and infrastructure, as compared to approximately HK\$6.77 million in the corresponding period in 2005.

### Profit for the period

As a result of the factors discussed above, the profit for the six months ended 30th September, 2006 was approximately HK\$2.76 million as compared to the profit approximately HK\$2.70 million for the same period in 2005.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 30th September, 2006, the Group's shareholders' funds amounted to approximately HK\$312.37 million. Cash and bank balances was approximately HK\$245.77 million as at 30th September, 2006, compared to HK\$220.87 million as at 30th September, 2005. Increases in cash stemmed primarily from income generated from operations.

There was no material change in the capital structure of the Group for the six months ended 30th September, 2006.

## **SIGNIFICANT INVESTMENT HELD AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES**

There were neither significant investment incurred by the Group nor material acquisitions and disposals of subsidiaries and affiliated companies during the six months periods ended 30th September, 2006.

## **CHARGE ON GROUP ASSETS**

The Group had no significant charge on assets as at 30th September, 2006.

## **FOREIGN EXCHANGE EXPOSURE**

The Board believes that the exchange rate risks of the Group is minimal because the Group's operations are denominated in United States dollars, Hong Kong dollars and Renminbi which were relatively stable. However, fluctuation of the Renminbi against the Hong Kong dollar would adversely affect the Group's performance when measured in Hong Kong dollar.

## **CONTINGENT LIABILITIES**

The Group had no contingent liabilities as at both 30th September, 2006.

## **EMPLOYEE INFORMATION**

As at 30th September, 2006, the Group had about 55 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.

## **PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30th September, 2006, the Group spent approximately HK\$2.27 million for road paving of the Fujian factory.

As set out in the Company's announcement dated 27th September, 2004, the Group had entered into four contracts for the purchases of machinery and equipment of aggregate amount approximately HK\$102,483,000. The contract for induction lamp machinery of aggregate amount approximately HK\$21,000,000 was completed in the financial year ended 31st March, 2005. Details of the three outstanding contracts were set out in the Company's annual report for the year ended 31st March, 2006.

#### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30th September, 2006, 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 (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 directors	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

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, 2006.

### SHARE OPTIONS

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, 2006	Granted during the period	Exercised during the period	At 30th September, 2006	
<b>Directors</b>							
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
Sub-total				12,659,328	-	-	12,659,328
<b>Employees</b>							
	3rd October, 2003	0.345	0.345	33,140,672	-	-	33,140,672
Total				45,800,000	-	-	45,800,000

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.

## SUBSTANTIAL SHAREHOLDERS

At 30th September, 2006, the following substantial shareholders (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

*Ordinary shares of HK\$0.01 each of the Company*

Name of shareholders	Number of issued ordinary shares held	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:

- 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.
- 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 meetings 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.
- 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.

### **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.

### **PURCHASE, SALE 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.

### **AUDIT COMMITTEE**

The Company established an audit committee on 8th July, 2002 with written terms of reference in accordance with Rule 5.28 and Rule 5.29 of the GEM Listing Rules except that the audit committee currently comprises only two members (independent non-executive directors, Mr. Zhu Lei Bo and Mr. Hong Yong Hwan) and is not in compliance with Rule 5.28 of the GEM Listing Rules which requires, among others, the audit committee must comprise a minimum of three members. The Group's unaudited consolidated interim results for the six months ended 30th September, 2006 have been reviewed by the audit committee.

### **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors have complied with the required standard of dealings and the relevant code of conduct regarding securities transactions by directors during the period under review.

## CORPORATE GOVERNANCE

According to Rule 5.05 and Rule 5.28 of the GEM Listing Rules, every board of directors of an issuer must include at least three independent non-executive directors and the audit committee must comprise a minimum of three members. However, the Board has only two independent non-executive directors and the audit committee comprises only two members. Therefore, the Company has been unable to strictly comply with the relevant requirements of the GEM Listing Rules. The Company will arrange to appoint suitable candidate(s) for taking up the vacancies.

The Company has, during the six months ended 30th September, 2006, complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules with deviation as mentioned below.

- (1) Code Provision A.2.1 requires the separation of the roles of Chairman and Chief Executive Officer.

The Company does not have an officer with the title of “Chief Executive Officer”. Mr. CHU Chien Tung is responsible for the management of the Board and strategic development of the Company. Mr. CHU Chick Kei and Mr. CHU Sen Hei respectively are responsible for the day to day management of the Group. Mr. CHU Chien Tung is also responsible for the overall management of and decision of the Group. This constitutes a deviation of the Code Provision of A.2.1. As Mr. CHU Chien Tung has extensive experience in the industry, the Board considers that the arrangement is beneficial to the Group as a whole. Despite the aforesaid, the Board will review such arrangement from time to time and consider the appointment of a Chief Executive Officer in the best interest of the Company and its shareholders.

- (2) Code Provision A.4.1 requires that non-executive directors should be appointed for specific term, subject to re-election.

The Company has deviated from this provision in that all non-executive director and independent non-executive directors are not appointed for specific term. They are, however subject to retirement by rotation at each annual general meeting of the Company and being eligible for re-election according to the Company’s Articles of Association.

- (3) Code Provision B.1.1 requires the establishment of a remuneration committee with specific written terms of reference.

The Company has not established a remuneration committee, the board of directors is authorized by the shareholders at annual general meeting to fix the remuneration of the directors whereas a director shall abstain from voting in respect of any remuneration and fees paid to his interest.

By Order of the Board  
**Chu Chien Tung**  
*Chairman*

Hong Kong, 3rd November, 2006

*Executive directors:*

Mr. Chu Chien Tung

Mr. Chu Chick Kei

Mr. Chu Sen Hei

*Non-executive director:*

Dr. Fung Shiu Lun, Anthony

*Independent non-executive directors:*

Mr. Zhu Lei Bo

Mr. Hong Yong Hwan