



**世纪阳光**

**CENTURY SUNSHINE ECOLOGICAL TECHNOLOGY HOLDINGS LIMITED**

**世紀陽光生態科技控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8276)**

**2006**

**THIRD QUARTERLY REPORT**

**FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2006**

## **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 Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**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.**

*This report, for which the directors (the “Directors” and individually a “Director”) of Century Sunshine Ecological Technology Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirmed 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.*

## **HIGHLIGHT**

**Turnover of the Group for the nine months ended 30 September 2006 amounted to RMB217,766,000, representing an increase of 85% over the corresponding period of 2005.**

**Profit for the period under review increased by 89% to RMB76,049,000 as compared to the corresponding period of 2005.**

**The construction of the first phase of our new production plant with a capacity of 200,000 tons organic fertilizers in Yunxiao, Fujian province is expected to commence production in the first quarter of 2007.**

**CONSOLIDATED RESULTS (UNAUDITED)**

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together, the "Group") for the three months and nine months ended 30 September 2006, together with the unaudited comparative figures for the corresponding period of 2005 as follows:

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)
Sales	3	217,766	117,878	84,847	54,944
Cost of sales		(111,343)	(56,204)	(44,249)	(26,742)
Gross profit		106,423	61,674	40,598	28,202
Other gain – net		2,959	510	892	85
Selling and marketing costs		(8,252)	(5,019)	(5,699)	(2,244)
Administrative expenses		(15,598)	(12,030)	(4,684)	(4,993)
Operating profit		85,532	45,135	31,107	21,050
Finance costs		(251)	(968)	(4)	(431)
Profit before taxation		85,281	44,167	31,103	20,619
Income tax expenses	4	(9,232)	(3,988)	(3,416)	(920)
Profit for the period		76,049	40,179	27,687	19,699
Attributable to:					
Equity holder of the Company		76,049	40,179	27,687	19,699
Minority interests		–	–	–	–
Earnings per share: (expressed in RMB per share)					
Basic	5	RMB19.0 cents	RMB12.4 cents	RMB6.9 cents	RMB6.1 cents
Diluted	5	RMB18.2 cents	RMB11.9 cents	RMB6.6 cents	RMB5.9 cents
Dividend	6	8,479	5,088	–	–

Notes:

### 1. General information

The Company was incorporated in the Cayman Islands on 21 January 2003 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Group is principally engaged in the research and development ("R&D"), production and sale of organic fertilizers and bio-pesticides.

The Company has its primary listing on the GEM of the Stock Exchange since 17 February 2004 (the "Listing Date").

### 2. Basis of preparation and accounting policies

The unaudited condensed consolidated accounts have been prepared to comply with the disclosure requirements of the GEM Listing Rules.

Principal accounting policies adopted by the Group in arriving at the financial information set out in this report are consistent with those adopted in preparing the 2005 annual accounts except the adoption of revised Hong Kong Financial Reporting Standards ("HKFRS") which are effective for accounting periods commencing on or after 1 January 2006. The effect of the newly adopted standard of HKAS 21 Amendment "The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation" is insignificant to the Group's results.

The consolidated results are unaudited but have been reviewed by the audit committee of the Board (the "Audit Committee").

### 3. Sales

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue recognized during the three months and nine months ended 30 September 2006 with the comparative figures for the corresponding period of 2005 are as follows:

	Nine months ended 30 September		Three months ended 30 September	
	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)
Sales of:				
– Microbial compound fertilizers	54,360	33,247	19,621	12,561
– Organic tea fertilizers	22,288	18,826	7,591	5,637
– Eucalypt tree organic fertilizers	67,932	21,645	26,863	16,039
– Premium organic fertilizers	31,698	19,406	13,054	10,654
– Organic compound fertilizers	31,252	19,381	13,480	7,714
	<b>207,530</b>	112,505	<b>80,609</b>	52,605
– Bio-pesticides	10,236	5,373	4,238	2,339
Total revenues	<b>217,766</b>	117,878	<b>84,847</b>	54,944

No business segment information is presented for the period ended 30 September 2005 and 2006 as the total revenue, segment results and segment assets of the bio-pesticides segment is less than 10 per cent of the Group's revenue, profit for the period and total assets. Accordingly, the bio-pesticides segment is not identified as a reportable segment in accordance with HKAS14.

No geographical segment information is presented as the Group's business is carried out in the PRC.

#### 4. Taxation

The amount of taxation charged to the unaudited consolidated income statement represents:

	Nine months ended 30 September		Three months ended 30 September	
	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)
Current income tax				
– Hong Kong profits tax	–	–	–	–
– Mainland China enterprises income tax	9,232	3,988	3,416	920
	9,232	3,988	3,416	920

(a) *Hong Kong profits tax*

No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising in or derived from Hong Kong during the period (2005: Nil).

(b) *Mainland China enterprise income tax ("Mainland China EIT")*

The subsidiaries established in Mainland China are subject to Mainland China EIT at rates ranging from 27% to 33%. Green Land Bio-Products Co. Ltd. ("Green Land"), Century Sunshine (Nan Ping) Biology Engineering Co. Ltd. ("Nan Ping"), Century Sunshine (Jiangxi) Ecological Technology Limited ("Jiangxi") and Excellent Pesticide (Nanchang) Limited are wholly owned foreign enterprises with operating periods of more than ten years, and in accordance with the relevant income tax regulations of Mainland China, are fully exempted from Mainland China EIT for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a 50% reduction in Mainland China EIT for the next three years. The first profitable year after offsetting prior year losses of Green Land, Nan Ping and Jiangxi were 31 December 2003, 31 December 2004, and 31 December 2005 respectively. 世紀陽光(福建)農業科技發展有限公司 and Century Sunshine (Zhangzhou) Ecological Technology Limited were loss making during the period.

(c) *Overseas income tax*

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from the Cayman Islands income tax. The Company's subsidiaries established in the British Virgin Islands were incorporated under the International Business Companies Act of the British Virgin Islands and accordingly, are exempted from the British Virgin Islands income tax.

## 5. Earnings per share

### Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Nine months ended 30 September		Three months ended 30 September	
	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)
Profit attributable to equity holders of the Company	<b>76,049</b>	40,179	<b>27,687</b>	19,699
Weighted average number of ordinary share in issue (thousand)	<b>399,959</b>	322,840	<b>403,018</b>	322,840
Basic earnings per share (RMB per share)	<b>19.0 cents</b>	12.4 cents	<b>6.9 cents</b>	6.1 cents

### Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary share outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options.

	Nine months ended 30 September		Three months ended 30 September	
	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)
Profit attributable to equity holders of the Company	<b>76,049</b>	40,179	<b>27,687</b>	19,699
Weighted average number of ordinary share in issue (thousand)	<b>399,959</b>	322,840	<b>403,018</b>	322,840
Adjustment for share options (thousand)	<b>19,032</b>	14,741	<b>17,936</b>	13,457
Weighted average number of ordinary shares for diluted earnings per share (thousand)	<b>418,991</b>	337,581	<b>420,954</b>	336,297
Diluted earnings per share (RMB per share)	<b>18.2 cents</b>	11.9 cents	<b>6.6 cents</b>	5.9 cents

## 6. Dividend

The Board does not recommend a payment of third-quarter dividend for the year ending 31 December 2006 (2005: Nil).

At the meeting held on 14 August 2006, the Board recommended a payment of interim dividend of HK\$0.02 per share for the year ending 31 December 2006 (2005: HK\$0.015 per share) and was subsequently paid on 15 September 2006 and has been reflected as an appropriation of retained earnings for the nine months ended 30 September 2006.

## 7. Share capital and reserves

Movement in share capital and reserves during the nine months ended 30 September 2006 is as follows:

	Attributable to equity holders of the Company							Total RMB'000 (unaudited)
	Share capital and premium RMB'000 (unaudited)	Employee Capital reserves RMB'000 (unaudited)	Employee compensation reserves RMB'000 (unaudited)	Statutory reserves RMB'000 (unaudited)	Currency translation reserves RMB'000 (unaudited)	Retained earnings RMB'000 (unaudited)	Minority interest RMB'000 (unaudited)	
Balance at 1 January 2005, as restated	37,291	11,965	624	7,324	29	54,447	3	111,683
Issuance of shares upon exercise of option	14,628							14,628
Profit for the period						40,179		40,179
Share option scheme								
– value of employee services			3,177					3,177
– Reserve transfer upon exercise of option			(1,654)			1,654		–
Payment of final dividend of year 2004						(10,176)		(10,176)
Payment of interim dividend of year 2005						(5,088)		(5,088)
Exchange difference					(3)			(3)
Balance at 30 September 2005	51,919	11,965	2,147	7,324	26	81,016	3	154,400
<b>Balance at 1 January 2006</b>	<b>179,713</b>	<b>11,965</b>	<b>2,733</b>	<b>15,237</b>	<b>37</b>	<b>102,401</b>	<b>3</b>	<b>312,089</b>
Issuance of shares upon exercise of option	14,103							14,103
Profit for the period						76,049		76,049
Share option scheme								
– value of employee services			3,582					3,582
Payment of final dividend of year 2005						(14,502)		(14,502)
Payment of interim dividend of year 2006						(8,479)		(8,479)
Disposal of subsidiaries							(3)	(3)
Exchange difference					(11)			(11)
<b>Balance at 30 September 2006</b>	<b>193,816</b>	<b>11,965</b>	<b>6,315</b>	<b>15,237</b>	<b>26</b>	<b>155,469</b>	<b>–</b>	<b>382,828</b>



## FINANCIAL AND BUSINESS REVIEW

Total turnover of the Group for the nine months ended 30 September 2006 amounted to 217,766,000, representing an increase of 85% from the corresponding period in 2005. Our turnover mainly came from the sale of organic fertilizers, which accounted for 95% of the total. Each of our turnover and sales volume of organic fertilizer increased by 84% and 68% respectively to RMB207,530,000 and 123,000 tons. The increase in turnover was principally attributable to the substantial increase in production capacity as compared to the same period last year as well as an increase in our average selling price by approximately 10% during the period.

Each of our five major products, being microbial compound fertilizer, organic tea fertilizer, eucalypt tree organic fertilizer, premium organic fertilizer and organic compound fertilizer recorded an increase in turnover of 64%, 18%, 214%, 63% and 61% respectively. The significant increase in the sales of eucalypt tree organic fertilizer was mainly attributable to the big demand arisen from the peak fertilizing season for eucalypt trees in this summer. It accounted for one third of the total sales of organic fertilizers during the period.

Gross profit of the Group was about RMB106,423,000, representing an increase of 73% from the same period of last year. Gross profit margin was about 49%, a slight decrease of 1% compared to the second quarter of 2006. The decrease was mainly attributable to the increase in the sales of eucalypt tree organic fertilizer which had a lower profit margin than those of our other products. The profit margins for the other products remained steady.

For the nine-month period, total operating expenses amounted to RMB23,850,000, representing an increase of 40% from last year. Detailed analysis is as follows:

### *Selling and marketing cost*

Selling and marketing cost increased by 64% to RMB8,252,000 from the same period last year. The increase is mainly attributable to the recruitment of new sales personnel and increased marketing activities. Advertising costs and salary expenses increased by 140% and 53% respectively, accounting for 51% and 45% of the total selling and marketing cost.

### ***Administrative expenses***

Administrative expenses amounted to RMB15,598,000, representing an increase of 30% from last year. The increase was mainly attributable to the increase in R&D expenses on new projects for both bio-pesticides and organic fertilizers. During the period, R&D expenses recorded an increase of 258% to RMB3,521,000. Salary expenses recorded a slight increase of 5% to RMB5,543,000. The R&D expenses and salary accounted for 23% and 36% of the total administrative expenses respectively.

The Group's profit attributable to the equity holders of the Company for the nine months period was approximately RMB76,049,000, representing an increase of 89% from the corresponding period in 2005. The fourth quarter of the year is traditionally our peak season in terms of production and sales. We expect the prospects of the fourth quarter and the full year results will be very promising.

## **BUSINESS OUTLOOK**

### ***Short delays on the completion of the new plant***

The construction of our new plant in Yunxiao (first phase with a 200,000 tons capacity) is a little behind schedule due to the bad weather conditions. The southern Fujian province was struck by a number of typhoons in this summer. In order to minimize the delay, we have accelerated the construction pace since the typhoon struck. We expect the production at the plant to commence in the first quarter of 2007. The second phase of the plant with another 200,000 tons capacity will be completed by the end of 2007.

### ***Further capacity expansion through acquisition***

We believe the demand for organic fertilizers will continue to grow in China. In order to meet the future demands, we plan to increase our capacities further by way of acquisition in the future. We are actively seeking suitable acquisition targets by gathering information from potential candidates. However, these activities are in preliminary stages right now and no terms and conditions have been concluded and no agreements whatsoever have been entered into between the Company and any of the potential candidates.

### ***Penetration to neighboring agricultural provinces***

To couple with our capacities expansion, we will continue to increase our market shares by penetrating into our neighboring agricultural provinces such as Guangdong and Zhejiang. We expect our market shares to continue to grow steadily in the future.

## SHARE OPTION SCHEME

On 31 January 2004, a share option scheme (the "Scheme") was approved by a written resolution of the shareholders of the Company. Under the Scheme, the Company may grant options to the Directors or employees of the Group to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. The Scheme, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The share options are exercisable only if the Directors or employees remain in service to the Group from the grant date of the share options up to the designated exercisable period.

As at 30 September 2006, options to subscribe for a total of 19,730,000 shares were still outstanding under the Scheme, which represents approximately 4.8% of the issued ordinary shares of the Company.

Details of the share options outstanding as at 30 September 2006 are as follows:

### (A) Share options granted on 11 October 2004

	Held at 1 January 2006	Options exercised during the period	Options lapsed/ cancelled during the period	Held at 30 September 2006	Exercise price HK\$	Exercisable in December 2007	Exercisable in January 2009
(A) Employee							
	300,000	-	-	300,000	0.63	300,000	-
	6,505,000	-	-	6,505,000	0.63	-	6,505,000
	1,250,000	-	-	1,250,000	0.63	-	1,250,000
(B) Director							
Zhou Xing Dun	1,400,000	-	-	1,400,000	0.63	-	1,400,000
	<b>9,455,000</b>	<b>-</b>	<b>-</b>	<b>9,455,000</b>		<b>300,000</b>	<b>9,155,000</b>

**(B) Share options granted on 17 June 2005**

	Held at 1 January 2006	Options exercised during the period	Options lapsed/ cancelled during the 30 period	Held at 30 September 2006	Exercise price HK\$	Exercisable between July and December 2006	Exercisable between July and December 2007	Exercisable between July 2008 and March 2009
(A) Employee	6,000,000	(4,800,000)	-	1,200,000	1.47	1,200,000	-	-
	6,200,000	(2,100,000)	-	4,100,000	1.47	500,000	3,600,000	-
	5,300,000	(1,525,000)	-	3,775,000	1.47	75,000	1,600,000	2,100,000
(B) Directors								
Wu Wen Jing, Benjamin	1,000,000	(500,000)	-	500,000	1.47	-	500,000	-
Cheung Sound Poon	500,000	(150,000)	-	350,000	1.47	-	150,000	200,000
Kwong Ping Man	500,000	(150,000)	-	350,000	1.47	-	150,000	200,000
	<b>19,500,000</b>	<b>(9,225,000)</b>	<b>-</b>	<b>10,275,000</b>		<b>1,775,000</b>	<b>6,000,000</b>	<b>2,500,000</b>

**Notes:**

1. During the period under review, no options were granted.
2. During the period under review, 9,225,000 options, which were granted on 17 June 2005, were exercised. Accordingly, 9,225,000 ordinary shares of HK\$0.10 each were issued at HK\$1.47 each pursuant to the Scheme.

## DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ANY ASSOCIATED CORPORATION

As at 30 September 2006, the relevant interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which are required (a) to be 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); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange, were as follows:

### 1. Long positions in the shares of the Company

Name of Director	Number of ordinary shares held			Type of interest	Percentage of issued share capital of the Company
	Personal interests	Corporate interests	Total		
Chi Wen Fu	1,210,000	193,696,970 (Note 1)	194,906,970	Beneficial owner	47.81%
Zhou Xing Dun	1,400,000	–	1,400,000	Beneficial owner	0.34%
Wu Wen Jing, Benjamin	4,460,000	–	4,460,000	Beneficial owner	1.1%
Kwong Ping Man	235,000	–	235,000	Beneficial owner	0.06%
Cheung Sound Poon	210,000	–	210,000	Beneficial owner	0.05%

Note:

- These shares are held by Alpha Sino International Limited ("Alpha Sino") which is 90% beneficially owned by Chi Wen Fu.

### 2. Directors' interests in associated corporations

Name of Director	Name of associated corporation	Number of shares held	Type of interest	Percentage of interest
Chi Wen Fu	Alpha Sino	9	Beneficial owner	90%
Shum Sai Chit	Alpha Sino	1	Beneficial owner	10%

Save as disclosed above, as at 30 September 2006, none of the Directors or chief executive of the Company or their respective associates had interests and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which are required (a) to be 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); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

### **DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed above, at no time during the period under review were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

### **INTERESTS AND SHORT POSITION OF SUBSTANTIAL SHAREHOLDERS**

So far as is known to any Director or chief executive of the Company, as at 30 September 2006, persons who had interests or short positions in the shares or underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

<b>Name of shareholder</b>	<b>Nature</b>	<b>Number of shares</b>	<b>Percentage of issued share capital of the Company</b>
Chi Wen Fu	Long position	194,906,970 <i>(Note 1)</i>	47.81%
Alpha Sino	Long position	193,696,970 <i>(Note 2)</i>	47.52%

*Notes:*

1. Chi Wen Fu has interest in an aggregate of 194,906,970 shares of the Company of which (a) 1,210,000 shares of the Company are beneficially owned by him and registered in his name; and (b) 193,696,970 shares of the Company are deemed corporate interests by virtue of his holding of 90% of the issued share capital of Alpha Sino which entitled him to exercise or control the exercise of one-third or more of the voting power at general meeting of Alpha Sino.
2. The entire issued share capital of Alpha Sino is beneficially owned as to 90% and 10% by Chi Wen Fu and Shum Sai Chit respectively.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

During the period under review, none of the Directors nor the management shareholders of the Company nor their respective associates (as defined in the GEM Listing Rules) had any interest in a business that competed or might compete with the business of the Group.

## **SPONSOR'S INTEREST**

In accordance with the sponsor's agreement dated 4 February 2004 entered between the Company and CSC Asia Limited (the "Sponsor"), the Sponsor has received and shall receive an annual fee for acting as the Company's retained sponsor for the period from the Listing date to 31 December 2006.

To the best knowledge of the Sponsor, none of the Sponsor, its directors, employee or associates (as defined in the GEM Listing Rules) had any interest in the shares of the Company or any right to subscribe for or to nominate persons to subscribe for any shares of the Company as at 30 September 2006.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Save for disclosed, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the period under review.

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

During the period under review, the Company had 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. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transaction by Directors.

## AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted in accordance with the GEM Listing Rules.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of both the internal and external audit and of internal controls and risk evaluation. The Audit Committee has three members comprising all the independent non-executive Directors, namely Messrs. Shen Yi Min, Cheung Sound Poon and Kwong Ping Man. Mr. Cheung Sound Poon is the chairman of the Audit Committee.

During the nine months ended 30 September 2006, the Audit Committee held three meetings for the purpose of reviewing the Company's reports and accounts, and providing advice and recommendations to the Board.

The Group's unaudited consolidated results for the nine months ended 30 September 2006 has been reviewed by the Audit Committee, which was of the opinion that the preparation of such results was complied with the applicable accounting standard.

By order of the Board  
**Chi Wen Fu**  
*Chairman*

Hong Kong, 7 November 2006