



**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)**

**2007**

**THIRD QUARTERLY REPORT**

**FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2007**

## **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 for the nine months ended 30 September 2007 amounted to RMB202,367,000, representing an decrease of 7% over the corresponding period of 2006.

Profit attributable to equity holders for the nine months ended 30 September 2007 decreased by approximately 20% to RMB60,524,000 as compared to the corresponding period of 2006.

## 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 nine months and three months ended 30 September 2007, together with the unaudited comparative figures for the corresponding periods in 2006 as follows:

	Notes	Nine months ended 30 September 2007		Three months ended 30 September 2007	
		RMB'000 (unaudited)	2006 RMB'000 (unaudited)	RMB'000 (unaudited)	2006 RMB'000 (unaudited)
Turnover	2	<b>202,367</b>	217,766	<b>59,673</b>	84,847
Cost of sales		<b>(105,836)</b>	(111,343)	<b>(33,583)</b>	(44,249)
Gross profit		<b>96,531</b>	106,423	<b>26,090</b>	40,598
Selling and marketing costs		<b>(6,567)</b>	(8,252)	<b>(3,098)</b>	(5,699)
Administrative expenses		<b>(25,189)</b>	(15,598)	<b>(12,912)</b>	(4,684)
Operating profit		<b>64,775</b>	82,573	<b>10,080</b>	30,215
Finance income		<b>12,286</b>	2,959	<b>3,748</b>	892
Finance costs		<b>(3,809)</b>	(251)	<b>(1,891)</b>	(4)
Profit before taxation		<b>73,252</b>	85,281	<b>11,937</b>	31,103
Income tax expenses	3	<b>(13,038)</b>	(9,232)	<b>(2,887)</b>	(3,416)
Profit for the period		<b>60,214</b>	76,049	<b>9,050</b>	27,687
<b>Attributable to:</b>					
Equity holders of the Company		<b>60,524</b>	76,049	<b>9,325</b>	27,687
Minority interests		<b>(310)</b>	-	<b>(275)</b>	-
<b>Earnings per share for profit attributable to equity holders of the Company:</b>					
<b>Basic (RMB per share)</b>	4	<b>2.68 cents</b>	3.80 cents	<b>0.40 cents</b>	1.37 cents
<b>Diluted (RMB per share)</b>	4	<b>2.60 cents</b>	3.63 cents	<b>0.39 cents</b>	1.32 cents
<b>Dividend</b>	5	<b>9,029</b>	8,479	-	-

Notes:

## 1. Basis of preparation and accounting policies

The unaudited condensed consolidated accounts are 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 the annual accounts for the year ended 31 December 2006 except the adoption of revised Hong Kong Financial Reporting Standards (“HKFRS”) which are effective for accounting periods commencing on or after 1 January 2007. The effect of the newly adopted standard of HKFRS 7, Financial Instruments: Disclosures and the Amendment to HKAS1, Presentation of Financial Statements: Capital Disclosures do not have material impact on the Group’s results.

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

## 2. Sales

The Group is principally engaged in research and development (“R&D”), production and sale of fertilizers and bio-pesticides. Revenue recognized during the three months and nine months ended 30 September 2007 with the comparative figures for the corresponding period of 2006 are as follows:

	Nine months ended 30 September		Three months ended 30 September	
	2007 RMB'000 (unaudited)	2006 RMB'000 (unaudited)	2007 RMB'000 (unaudited)	2006 RMB'000 (unaudited)
Sales of				
– Microbial compound fertilizers	49,392	54,360	12,807	19,621
– Organic tea fertilizers	24,404	22,288	5,429	7,591
– Premium organic fertilizers	26,582	31,698	8,244	13,054
– Organic compound fertilizers	19,840	20,185	7,575	8,369
– Humic acid organic fertilizers	68,901	78,999	19,490	31,974
– Compound fertilizers	3,615	–	3,027	–
	<b>192,734</b>	207,530	<b>56,572</b>	80,609
– Bio-pesticides	9,633	10,236	3,101	4,238
Total revenues	<b>202,367</b>	217,766	<b>59,673</b>	84,847

No business segment information was presented for the period ended 30 September 2007 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.

### 3. Taxation

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

	Nine months ended 30 September		Three months ended 30 September	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Current income tax:				
Hong Kong profits tax	-	-	-	-
Mainland China enterprises income tax	<b>13,038</b>	9,232	<b>2,887</b>	3,416
	<b>13,038</b>	9,232	<b>2,887</b>	3,416

(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 (2006: 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., Century Sunshine (Nan Ping) Biology Engineering Co. Ltd., Century Sunshine (Jiangxi) Ecological Technology Limited and Excellent Pesticide (Nanchang) Limited are wholly owned foreign enterprises engaged in the production and sale of organic fertilizers and bio-pesticides 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. 世紀陽光(福建)農業科技發展有限公司, 福州美地國際貿易有限公司, Century Sunshine (Shanghai) Management Co., Ltd, Century Sunshine (Zhangzhou) Ecological Technology Limited and Jiangsu Azureblue Technology Development Company 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. Century Sunshine (Australia) Limited (formerly known as Century Sunshine (Australia) Ecological Technology Limited) was incorporated in Australia and was loss making during the period.

**4. 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	
	2007 (unaudited)	2006 (unaudited)	2007 (unaudited)	2006 (unaudited)
Profit attributable to equity holders of the Company (RMB'000)	<b>60,524</b>	76,049	<b>9,325</b>	27,687
Weighted average number of ordinary shares in issue, adjusted for the effect of the share subdivision (thousand)	<b>2,257,721</b>	1,999,795	<b>2,324,416</b>	2,015,090
Basic earnings per share (RMB per share)	<b>2.68 cents</b>	3.80 cents	<b>0.40 cents</b>	1.37 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	
	2007 (unaudited)	2006 (unaudited)	2007 (unaudited)	2006 (unaudited)
Profit attributable to equity holders of the Company (RMB'000)	<b>60,524</b>	76,049	<b>9,325</b>	27,687
Weighted average number of ordinary share in issue, adjusted for the effect of share subdivision (thousand)	<b>2,257,721</b>	1,999,795	<b>2,324,416</b>	2,015,090
Adjustment for share options (thousand)	<b>71,090</b>	95,160	<b>55,846</b>	89,680
Weighted average number of ordinary share for diluted earnings per share, adjusted for the effect of share subdivision (thousand)	<b>2,328,811</b>	2,094,955	<b>2,380,262</b>	2,104,770
Diluted earnings per share (RMB per share)	<b>2.60 cents</b>	3.63 cents	<b>0.39 cents</b>	1.32 cents

## 5. Dividend

The Board does not recommend a payment of third-quarter dividend for the year ending 31 December 2007.

At the meeting held on 15 August 2007, the Board recommended a payment of interim dividend of HK\$0.004 per share for the year ending 31 December 2007 (2006: HK\$0.004 per share, as adjusted for the effect of share subdivision) and was subsequently paid on 17 September 2007 and has been reflected as an appropriation of retained earnings for the nine month ended 30 September 2007.



## 6. Share capital and reserves

	Attributable to equity holders of the Company								
	Share capital and premium	Employee			Statutory reserves	Translation reserves	Retained earnings	Minority interest	Total
		Capital reserves	compensation reserves	reserves					
		RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)					
Balance at 1 January 2006	179,713	11,965	2,733	15,237	37	102,401	3	312,089	
Issuance of shares upon exercise of options	14,103	-	-	-	-	-	-	14,103	
Disposal of subsidiaries	-	-	-	-	-	-	(3)	(3)	
Employee share option benefit	-	-	3,582	-	-	-	-	3,582	
Exchange difference	-	-	-	-	(11)	-	-	(11)	
Profit for the period	-	-	-	-	-	76,049	-	76,049	
Payment of final dividend of year 2005	-	-	-	-	-	(14,502)	-	(14,502)	
Payment of interim dividend of year 2006	-	-	-	-	-	(8,479)	-	(8,479)	
<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>	
<b>Balance at 1 January 2007</b>	<b>199,897</b>	<b>11,965</b>	<b>3,292</b>	<b>26,892</b>	<b>26</b>	<b>195,636</b>	<b>-</b>	<b>437,708</b>	
Issuance of new shares	446,740	-	-	-	-	-	-	446,740	
Issuance of shares upon exercise of options	8,599	-	-	-	-	-	-	8,599	
Exchange difference	-	-	-	-	28	-	-	28	
Employee share option benefit	-	-	1,592	-	-	-	-	1,592	
Capital injection from a minority shareholder	-	-	-	-	-	-	50,220	50,220	
Profit for the period	-	-	-	-	-	60,524	(310)	60,214	
Payment of final dividend of year 2006	-	-	-	-	-	(22,281)	-	(22,281)	
Payment of interim dividend of year 2007	-	-	-	-	-	(9,029)	-	(9,029)	
<b>Balance at 30 September 2007</b>	<b>655,236</b>	<b>11,965</b>	<b>4,884</b>	<b>26,892</b>	<b>54</b>	<b>224,850</b>	<b>49,910</b>	<b>973,791</b>	

7. The valuation on the Yunxiao Plant has not yet been completed as at 30 September 2007. No revaluation or impairment on the Yunxiao Plant has been made in the unaudited consolidated results for the nine months ended 30 September 2007. The Directors confirm that the valuation on the Yunxiao Plant will be completed in December 2007.

## FINANCIAL REVIEW

The Group's total turnover for the nine months ended 30 September 2007 amounted to RMB202,367,000, representing a decrease of 7% from the same period last year. The decline in turnover was mainly due to the decrease in production output as caused by the problem of bacteria degeneration in the third quarter. The microbial bacteria that used in our production process experienced degeneration and caused the fermentation and decomposition process to take longer time to complete. As a result, our production output in the third quarter decreased significantly. Sale volume of fertilizers decreased by 8% to 113,000 tons for the nine-month period.

Gross profit of the Group was RMB96,531,000, representing a decrease of 9% from the same period last year. The gross margin recorded a slight decrease from 49% to 48%.

For the nine-month period, total operating expenses amounted to RMB31,756,000 representing an increase of 33% from last year. Detailed analysis is as follows:

### Selling and marketing costs

Selling and marketing costs decreased by 20% to RMB6,567,000 mainly due to the significant decrease in advertising cost. Advertising cost and salary expense dropped by 33% and 5% respectively from the same period of last year, accounting for about 43% and 53% of the total selling and marketing costs.

### Administrative expenses

Administrative expenses for the period amounted to RMB25,189,000, representing an increase of 61% from the same period last year. Such increase was mainly attributable to exchange loss incurred during the period due to the appreciation of Renminbi against the Group's assets denominated in foreign currency and the provision made for the termination of two machinery contracts in respect of the Yunxiao Plant. The net exchange loss and the provision made for the machinery contracts were about RMB4,900,000 and RMB4,800,000 respectively. Without taking into account the one-off provision made for the machinery contracts, the administrative expenses recorded an increase of 31%.

## BUSINESS REVIEW

### Jiangsu Plant

The Group acquired a production facility in Jiangsu in June 2007 through a joint venture company in which the Group owned 51% equity interest. The joint venture company completed the assets verification and appraisal in August 2007. The production testing was completed subsequently in September 2007. The Jiangsu Plant commenced production in October 2007 and its existing designed annual production capacity was 200,000 tons of compound fertilizer. The Group plans to expand and convert the existing facility into a plant with 300,000 tons of both compound fertilizers and organic fertilizers by early 2009.

### Declining of production output

In the third-quarter, we encountered the problem of declining production output resulting from a longer than normal production cycle. Immediately after the problem been identified, we engaged a group of experts in the field of microbial bacteria and ecology to work together with our R&D team to find out the cause of the problem. The expert team subsequently reported that it was due to the degeneration of our production bacteria that caused the fermentation process to take a longer time to complete. The degeneration is the result of the environmental changes that have been taking place in the mountain areas in Fujian where we extracted the bacteria. These environmental changes include climate change, soil deterioration and acid rain. To solve the problem and minimize the impacts, we have taken the following steps:

- To extract microbial bacteria from other locations in the country;
- To utilize other types of bacteria for production; and
- To adjust the product-mix by increasing the proportion of organic compound fertilizers and humic-acid organic fertilizers.

We are doing our best to overcome the current difficulties and we expect that the production volume to return to normal in the near future. Given our strong financial resources, we are optimistic about the Group's future.

## SHARE OPTION SCHEME

On 31 January 2004, the 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 2007, options to subscribe for a total of 59,775,000 option shares were still outstanding under the Scheme, which represents approximately 2.57% of the issued ordinary shares of the Company.

Details of the share options outstanding as at 30 September 2007 are as follows:

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

	Held at 1 January 2007	Options exercised during the period	Options lapsed/ cancelled during the period	Held at 30 September 2007	Exercise price HK\$	Exercisable in December 2007	Exercisable in January 2008
(A) Employee	1,500,000	-	-	1,500,000	0.126	1,500,000	-
	32,525,000	-	-	32,525,000	0.126	-	32,525,000
	6,250,000	-	-	6,250,000	0.126	-	6,250,000
(B) Director Zhou Xing Dun	7,000,000	-	-	7,000,000	0.126	-	7,000,000
	<b>47,275,000</b>	-	-	<b>47,275,000</b>		<b>1,500,000</b>	<b>45,775,000</b>

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

	Held at 1 January 2007	Options exercised during the period	Options lapsed/ cancelled during the period	Held at 30 September 2007	Exercise price HK\$	Exercisable between July 2008 and March 2009
(A) Employee	18,000,000	(18,000,000)	-	-	0.294	-
	20,250,000	(8,750,000)	-	11,500,000	0.294	11,500,000
(B) Directors						
Wu Wen Jing, Benjamin	2,500,000	(2,500,000)	-	-	0.294	-
Kwong Ping Man	1,750,000	(750,000)	-	1,000,000	0.294	1,000,000
	<b>42,500,000</b>	<b>(30,000,000)</b>	<b>-</b>	<b>12,500,000</b>		<b>12,500,000</b>

Note:

1. During the period under review, no options were granted.

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

As at 30 September 2007, 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	6,050,000	918,484,850 (Note 1)	924,534,850	Beneficial owner	39.73%
Zhou Xing Dun	3,000,000	-	3,000,000	Beneficial owner	0.13%
Wu Wen Jing, Benjamin	3,525,000	-	3,525,000	Beneficial owner	0.15%

Note:

- These shares are held by Alpha Sino International Limited ("Alpha Sino") and are deemed corporate interests by virtue of Mr. Chi's 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. 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 2007, 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 2007, 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:

Name of shareholder	Nature	Number of shares	Percentage of issued share capital of the Company
Chi Wen Fu	Long position	924,534,850 (Note 1)	39.73%
Alpha Sino	Long position	918,484,850 (Note 2)	39.47%
Och-Ziff GP LLC	Long position	162,895,000	7.00%
INVESCO Hong Kong Limited	Long position	139,825,000	6.01%

Notes:

- Chi Wen Fu has interest in an aggregate of 924,534,850 shares of the Company of which (a) 6,050,000 shares of the Company are beneficially owned by him and registered in his name; and (b) 918,484,850 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.
- Pursuant to a share mortgage dated 13 November 2006, Alpha Sino, being the substantial shareholder of the Company, had mortgaged 244,578,000 shares in the Company (representing approximately 12% of the then issued share capital of the Company on 13 November 2006) to International Finance Corporation ("IFC") to secure repayment of the IFC Loan under a loan agreement dated 13 November 2006 entered into between the IFC as lender and (i) Green Land Bio-Products Company Limited; (ii) Century Sunshine (Nanping) Biology Engineering Company Limited; (iii) Century Sunshine (Jiangxi) Ecological Technology Limited; and (iv) Century Sunshine (Zhangzhou) Ecological Technology Limited, all being the subsidiaries of the Company.



## **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.

## **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.

### *Share placement and subscription*

In February 2007, a share placement of 300 million existing shares of the Company held by Alpha Sino and a subscription of 250 million new shares of the Company by Alpha Sino were completed. The net proceed from the subscription of 250 million new shares of the Company were approximately HK\$456 million and were intended to be used to finance future expansion as well as general working capital.

## **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. As at 30 September 2007, the Audit Committee has three members comprising all the independent non-executive Directors, namely Mr. Shen Yi Min, Mr. Kwong Ping Man and Mr. To Yan Ming, Edmond. Mr. Kwong Ping Man is the chairman of the Audit Committee.

During the nine months ended 30 September 2007, 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 2007 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, 9 November 2007