



**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)**

**2008**

**FIRST QUARTERLY REPORT**

**FOR THE THREE MONTHS ENDED 31 MARCH 2008**

## **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.*

## HIGHLIGHTS

Turnover for the three months ended 31 March 2008 amounted to RMB95,101,000, representing an increase of 64% over the corresponding period of 2007.

The profit margin of all products was hit by the surge of raw material cost leading significant increase in cost of sales in the first quarter of 2008.

Profit attributable to equity holders for the three months ended 31 March 2008 decreased by approximately 90% to RMB1,952,000 as compared with the corresponding period 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 ended 31 March 2008, together with the unaudited comparative figures for the corresponding periods in 2007 as follows:

	Notes	Three months ended 31 March	
		2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
Turnover	2	<b>95,101</b>	58,097
Cost of sales		<b>(76,625)</b>	(29,361)
Gross profit		<b>18,476</b>	28,736
Selling and marketing costs		<b>(1,540)</b>	(1,048)
Administrative expenses		<b>(11,847)</b>	(5,461)
Operating profit		<b>5,089</b>	22,227
Finance income		<b>3,212</b>	3,128
Finance costs		<b>(2,753)</b>	(950)
Profit before income tax		<b>5,548</b>	24,405
Income tax expense	3	<b>(3,445)</b>	(4,921)
Profit for the period		<b>2,103</b>	19,484
Attributable to:			
Equity holders of the Company		<b>1,952</b>	19,484
Minority interests		<b>151</b>	–
Earnings per share for profit attributable to equity holders of the Company during the period (expressed in RMB per share)			
Basic	4	<b>0.088 cents</b>	0.91 cents
Diluted	4	<b>0.087 cents</b>	0.87 cents
Dividend	5	<b>–</b>	–

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.

The accounting policies used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31 December 2007. The Group has adopted new/revised standards and interpretations of Hong Kong Financial Reporting Standards which are effective for accounting periods commencing on or after 1 January 2008. The adoption of such new/revised standards and interpretations does not have material impact on the accounts and does not result in substantial changes to the Group's accounting policies.

The consolidated results for the three months ended 31 March 2008 are unaudited but have been reviewed by the audit committee of the Board (the "Audit Committee").

## 2. Sales

### (a) Turnover

The Group is principally engaged in research and development, production and sale of organic fertilizers, compound fertilizers and biological pesticides:

	Three months ended	
	31 March	
	2008	2007
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Sales of organic fertilizers	37,883	55,488
Sales of compound fertilizers	57,218	–
Sales of biological pesticides	–	2,609
	<b>95,101</b>	58,097

### (b) Segment information

*Primary reporting format – business segments*

As at 31 March 2008, the Group has three main business segments:

- (1) Manufacturing and sales of organic fertilizers;
- (2) Manufacturing and sales of compound fertilizers and
- (3) Manufacturing and sales of biological pesticides

The segment results for the period ended 31 March 2008 are as follows:

	<b>Organic fertilizers</b> <i>RMB'000</i> (unaudited)	<b>Compound fertilizers</b> <i>RMB'000</i> (unaudited)	<b>Biological pesticides</b> <i>RMB'000</i> (unaudited)	<b>Unallocated</b> <i>RMB'000</i> (unaudited)	<b>Group</b> <i>RMB'000</i> (unaudited)
Total segment revenue	38,180	64,646	–	–	102,826
Inter-segment revenue	(297)	(7,428)	–	–	(7,725)
<b>Revenue</b>	<b>37,883</b>	<b>57,218</b>	<b>–</b>	<b>–</b>	<b>95,101</b>
<b>Segment results</b>	<b>11,888</b>	<b>1,482</b>	<b>(901)</b>	<b>(7,380)</b>	<b>5,089</b>
Finance income					3,212
Finance costs					(2,753)
<b>Profit before income tax</b>					<b>5,548</b>
Income tax expense					(3,445)
<b>Profit for the period</b>					<b>2,103</b>

The segment results for the period ended 31 March 2007 are as follows:

	<b>Organic fertilizers</b> <i>RMB'000</i> (unaudited)	<b>Compound fertilizers</b> <i>RMB'000</i> (unaudited)	<b>Biological pesticides</b> <i>RMB'000</i> (unaudited)	<b>Unallocated</b> <i>RMB'000</i> (unaudited)	<b>Group</b> <i>RMB'000</i> (unaudited)
Total segment revenue	55,748	–	2,609	–	58,357
Inter-segment revenue	(260)	–	–	–	(260)
<b>Revenue</b>	<b>55,488</b>	<b>–</b>	<b>2,609</b>	<b>–</b>	<b>58,097</b>
<b>Segment results</b>	<b>26,202</b>	<b>–</b>	<b>(1,378)</b>	<b>(2,597)</b>	<b>22,227</b>
Finance income					3,128
Finance costs					(950)
<b>Profit before income tax</b>					<b>24,405</b>
Income tax expense					(4,921)
<b>Profit for the period</b>					<b>19,484</b>

*Secondary reporting format – geographical segments*

No geographical segment information is presented as all of the Group's business is carried out in Mainland China/Hong Kong.

### 3. Income tax expense

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

	Three months ended 31 March	
	2008	2007
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current income tax:		
– Hong Kong profits tax	–	–
– Mainland China enterprises income tax	3,445	4,921
	<b>3,445</b>	<b>4,921</b>

(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 (2007: 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 福州美地國際貿易有限公司 are foreign enterprises engaged in the production and sale of organic fertilizers and compound fertilizers 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, Century Sunshine (Shanghai) Management Co., Limited, Excellent Pesticide (Nanchang) Limited and Century Sunshine (Zhangzhou) Ecological Technology Limited were loss making during the period.

On 16 March 2007, the National People's Congress approved the Enterprise Income Tax Law of the People's Republic of China (the "new CIT Law"), which is effective from 1 January 2008. Under the new CIT Law, the enterprise income tax rate applicable to the Group's subsidiaries located in mainland China 1 January 2008 will be 25%, replacing the previous applicable tax rate of 33%. Companies eligible for the Tax Concession but have not yet commence the relevant tax holiday will be deemed to commence the tax holiday starting in 2008.

(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 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.

	<b>Three months ended 31 March</b>	
	<b>2008 (unaudited)</b>	2007 (unaudited)
Profit attributable to equity holders of the Company (RMB'000)	<b>1,952</b>	19,484
Weighted average number of ordinary shares in issue (thousand)	<b>2,219,420</b>	2,149,803
Basic earnings per share (RMB per share)	<b>0.088 cents</b>	0.91 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.

	<b>Three months ended 31 March</b>	
	<b>2008 (unaudited)</b>	2007 (unaudited)
Profit attributable to equity holders of the Company (RMB'000)	<b>1,952</b>	19,484
Weighted average number of ordinary share in issue (thousand)	<b>2,219,420</b>	2,149,803
Adjustment for share options (thousand)	<b>33,674</b>	78,961
Weighted average number of ordinary share for diluted earnings per share (thousand)	<b>2,253,094</b>	2,228,764
Diluted earnings per share (RMB per share)	<b>0.087 cents</b>	0.87 cents



## 5. Dividend

The Board does not recommend a payment of first-quarter dividend for the year ending 31 December 2008 (2007: Nil).

## 6. Share capital and reserves

	Attributable to equity holders of the Company								Total RMB'000 (unaudited)
	Share capital and premium RMB'000 (unaudited)	Capital redemption reserves RMB'000 (unaudited)	Capital reserves RMB'000 (unaudited)	Employee compensation reserves RMB'000 (unaudited)	Statutory reserves RMB'000 (unaudited)	Translation reserves RMB'000 (unaudited)	Retained earnings RMB'000 (unaudited)	Minority interest RMB'000 (unaudited)	
Balance at 1 January 2007	199,897	-	11,965	3,292	26,892	26	195,636	-	437,708
Issuance of new shares	446,740								446,740
Employee share option scheme - value of employee services				453					453
Profit for the period							19,484		19,484
Balance at 31 March 2007	646,637	-	11,965	3,745	26,892	26	215,120	-	904,385
<b>Balance at 1 January 2008</b>	<b>603,446</b>	<b>2,282</b>	<b>11,965</b>	<b>2,503</b>	<b>32,772</b>	<b>2,050</b>	<b>220,117</b>	<b>49,062</b>	<b>924,197</b>
Employee share option scheme - value of employee services				189					189
Profit for the period							1,952	151	2,103
<b>Balance at 31 March 2008</b>	<b>603,446</b>	<b>2,282</b>	<b>11,965</b>	<b>2,692</b>	<b>32,772</b>	<b>2,050</b>	<b>222,069</b>	<b>49,213</b>	<b>926,469</b>

## BUSINESS REVIEW

For the three months ended 31 March 2008, the Group's turnover amounted to RMB95,101,000, representing an increase of 64% as compared with the same period of last year. Such increase was primarily due to the new business of compound fertilizers, the sales of which represented 60% of the total sales, the remaining 40% was the sale of organic fertilizer products. During the period, the sales of organic fertilizers decreased by 32%, which was mainly attributable to the longer production cycle and the decrease in production capacity of organic fertilizers caused by the degeneration of production bacteria arising in the third quarter of 2007. In addition, since an extensive and heavy snowstorm hit several provinces of the country in the first quarter and decimated crops, the farmers had no demands for pesticides. Therefore, the bio-pesticides business of the Group ceased production and sale during the period, however, its production and sale came back to normal in April 2008.

Starting from the end of 2007, the price of the raw materials in China has increased significantly. As the Group did not increase the price of the products, the gross profit dropped. Moreover, the gross profit margin of compound fertilizers was lower than that of organic fertilizers, thus directly creating negative impact on the average gross profit margin of the Group. During the period, the average gross profit margin of the Group dropped from 38% at the end of 2007 to 19%.

During the three months' period, the total operating expenses amounted to RMB13,387,000, representing an increase of 106%. It was mainly attributable to the significant increase in net exchange loss of the administrative expenses and the introduction of the new business of compound fertilizers.

### Sales and marketing cost

The sales and marketing cost increased by 47 % to RMB1,540,000, which was mainly attributable to the increased transportation cost of the Group and the sales staff's salaries and commission fees due to the new business of compound fertilizers. During the period, the transportation cost and the sales staff's salaries and commission fees accounted for 11% and 60% of the sales and marketing cost respectively.

## Administrative expenses

Administrative expenses amounted to RMB11,847,000, representing an increase of 117% from last year. During the period, the Group recorded a net exchange loss of RMB5,447,000 due to the continuous appreciation of Renminbi against the Group's assets denominated in foreign currencies. Without taking into account of this exchange loss, administrative expenses only recorded an increase of 17% as compared with the same period of last year, whereas such increase was due to the introduction of the new business of compound fertilizers.

Profit attributable to equity holders of the Group during the three months' period was RMB1,952,000, representing a decrease of 90% as compared with the same period of last year. The net profit margin was approximately 2%.

## BUSINESS OUTLOOK

### Cost increase

The cost of sales of the Group increased significantly in the first quarter, which was expected to continue and have adverse impact on the Group. The cost increase was the primary concern of the Group and posted a challenge to the future results of 2008. The Group will enhance its cost efficiency through various measures including improvement of the production flow, expenses saving and price adjustment.

### Price adjustment

The price of the organic fertilizers of the Group was increased by 8% from 1 April 2008 so as to partially offset the profit loss due to cost increase. The Group will closely monitor the market condition and the continued increase of cost and flexibly adjusts the price of the organic and compound fertilizers, so as to maintain or improve the earnings base of the Group.

### Business expansion

The Group is actively seeking appropriate acquisition targets of compound and organic fertilizers in China and Australia. At the same time, in order to increase the Group's earnings, the Group is considering to expand the business to other fields. However, the related business expansion plan is still in discussion and no plan is finalized at the moment. The Group will inform the shareholders and the investors of the latest development in due course.

## 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 31 March 2008, options to subscribe for a total of 58,275,000 option shares were still outstanding under the Scheme, which represents approximately 2.6% of the issued ordinary shares of the Company.

Details of the share options outstanding as at 31 March 2008 are as follows:

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

	Held at 1 January 2008	Options exercised during the period	Options lapsed/ cancelled during the period	Held at 31 March 2008	Exercise price HK\$	Exercisable in January 2009
(A) Employee	31,275,000	-	-	31,275,000	0.126	31,275,000
(B) Director						
Zhou Xing Dun	7,000,000	-	-	7,000,000	0.126	7,000,000
Chi Bi Fen	7,500,000	-	-	7,500,000	0.126	7,500,000
	<b>45,775,000</b>	<b>-</b>	<b>-</b>	<b>45,775,000</b>		<b>45,775,000</b>

(B) Share options granted on 17 June 2005

	Held at 1 January 2008	Options exercised during the period	Options lapsed/ cancelled during the period	Held at 31 March 2008	Exercise price <i>HK\$</i>	Exercisable between July 2008 and March 2009
(A) Employee	11,500,000	-	-	11,500,000	0.294	11,500,000
(B) Directors Kwong Ping Man	1,000,000	-	-	1,000,000	0.294	1,000,000
	<b>12,500,000</b>	<b>-</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 31 March 2008, 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 Securities and Futures Ordinance (the "SFO")), as recorded in the register to be kept by the Company under Section 352 of Part XV of the SFO were as follows:

### (i) Directors' interests in the Company

*Long positions in 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	41.66%
Zhou Xing Dun	3,000,000	–	3,000,000	Beneficial owner	0.14%
Wu Wen Jing, Benjamin	3,525,000	–	3,525,000	Beneficial owner	0.16%

Notes:

- 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.

(ii) **Directors' interests in associated corporations**

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

Save as disclosed above, as at 31 March 2008, 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), as recorded in the register to be kept by the Company under Section 352 of Part XV of the SFO.

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

Save as disclosed above, at no time during the period 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 31 March 2008, 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	924,534,850 (Note 1)	41.66%
Alpha Sino	Long position	918,484,850 (Note 2)	41.38%

Notes:

1. 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.
2. Pursuant to a share mortgage dated 13 November 2006, Alpha Sino 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**

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. As at 31 March 2008, 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 three months ended 31 March 2008, the Audit Committee held a meeting 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 three months ended 31 March 2008 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

**Shum Sai Chit**

*Executive Director*

Hong Kong, 9 May 2008