



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)

2004

THIRD QUARTERLY REPORT

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2004

CHARACTERISTIC 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.

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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

The Group recorded a strong performance for the nine months ended 30 September 2004.

Turnover of the Group for the nine-month period amounted to RMB62,720,000, representing an increase of 87% over the corresponding period in 2003.

Profit attributable to shareholders for the nine-month period increased by 85% to RMB22,829,000 as compared to the corresponding period in 2003.

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 2004, together with the unaudited comparative figures for the corresponding periods in 2003 as follows:

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2004 RMB'000 (unaudited)	2003 RMB'000 (unaudited)	2004 RMB'000 (unaudited)	2003 RMB'000 (unaudited)
Turnover	2	28,154	15,392	62,720	33,534
Cost of sales		(11,972)	(7,144)	(27,340)	(15,682)
Gross profit		16,182	8,248	35,380	17,852
Other revenue		124	–	125	–
Distribution and selling expenses		(1,126)	(1,148)	(2,429)	(2,248)
General and administrative expenses		(1,754)	(711)	(4,197)	(2,228)
Research and development costs		(1,498)	(744)	(5,957)	(787)
Operating profit		11,928	5,645	22,922	12,589
Finance costs		(8)	(134)	(128)	(214)
Profit before taxation		11,920	5,511	22,794	12,375
Taxation	3	–	(23)	–	(28)
Profit after taxation		11,920	5,488	22,794	12,347
Minority interests		6	(13)	35	(14)
Profit attributable to shareholders		11,926	5,475	22,829	12,333
Dividend	4	–	–	–	–
Earnings per share	5	RMB3.7 cents	RMB1.7 cents	RMB7.1 cents	RMB3.9 cents



Notes:

1. Group reorganization and basis of preparation of the accounts

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.

Pursuant to a group reorganization completed on 30 January 2004 (the "Reorganization") in preparation for the listing of the Company's share on GEM, the Company became the holding company of the subsidiaries. Details of the Reorganization were set out in the prospectus issued by the Company dated 5 February 2004 (the "Prospectus"). The shares of the Company were listed on GEM on 17 February 2004 (the "Listing Date").

The unaudited consolidated results have been prepared on the basis of merger accounting as if the current group structure has been in existence since 1 January 2003.

The principal accounting policies adopted by the Group in arriving at the financial information set out in this report conform with accounting principles generally accepted in Hong Kong and are the same as those adopted in preparing the 2003 annual financial statements.

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

2. Turnover

The Group is engaged in the production and sale of agricultural organic fertilizers. Revenues recognized for the three months and nine months ended 30 September 2004 with the comparative figures for the corresponding periods in 2003 are as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2004 RMB'000 (unaudited)	2003 RMB'000 (unaudited)	2004 RMB'000 (unaudited)	2003 RMB'000 (unaudited)
Sales of				
– Microbial compound fertilizers	13,005	5,828	27,963	12,957
– Organic tea fertilizers	7,441	5,854	16,670	11,239
– Premium organic fertilizers	1,230	549	2,821	1,348
– Organic compound fertilizers	6,478	3,161	15,266	7,990
Total revenues	28,154	15,392	62,720	33,534

Other revenue mainly represented the interest income of the Group.

No segmental information is presented as the Group is principally engaged in the production and sale of agricultural organic fertilizers to customers in Mainland China. Accordingly, the Directors consider that there is only one business segment and one geographical segment.

3. Taxation

	Three months ended 30 September		Nine months ended 30 September	
	2004 RMB'000 (unaudited)	2003 RMB'000 (unaudited)	2004 RMB'000 (unaudited)	2003 RMB'000 (unaudited)
The charge comprises:				
Hong Kong profits tax	–	–	–	–
Mainland China Enterprise income tax	–	23	–	28

(a) Hong Kong profits tax

No provision for Hong Kong profit tax has been made as the Group had no assessable profit arising in or derived from Hong Kong for the nine months ended 30 September 2004 (2003: Nil)

(b) Mainland China enterprise income tax (“Mainland China EIT”)

福建省尤溪縣綠地生物製品有限公司(Green Land Bio-Products Co., Ltd.) (“Greenland”) is a principal subsidiary of the Company engaged in the production and sale of agricultural organic fertilizers in Youxi, Fujian Province, the PRC.

In October 2002, Greenland became a wholly-foreign-owned enterprise and is entitled to full exemption from Mainland China EIT for two years starting from the year ended 31 December 2003 followed by 50% reduction for the following three consecutive years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China. Accordingly, no Mainland China EIT was provided for the nine months ended 30 September 2004. (2003: Nil)

For the nine months ended 30 September 2003, taxation represented the Mainland China EIT of 三明市世紀陽光農業科技開發有限公司(Sanming Municipality Century Sunshine Agricultural Technological Development Company Limited) (“Sanming”) which was provided for at a rate of 27%. For the nine months ended 30 September 2004, Sanming had no assessable profit. Accordingly, no Mainland China EIT was provided for Sanming.

(c) Mainland China value-added tax

The Group’s sale of agricultural organic fertilizers were carried out by Greenland and Sanming, which are exempted from Mainland China value-added tax according to relevant Mainland China tax regulations.

(d) Others

No profit tax was provided for the Company and its subsidiaries operating outside Hong Kong and Mainland China as they were not subject to taxation in their respective jurisdiction of incorporation/operation.

(e) Deferred taxation

The Group had no material unprovided deferred tax. (2003: Nil)

4. Dividend

The Directors do not recommend the payment of a dividend for the nine months ended 30 September 2004. (2003: Nil)

5. Earnings per share

The calculation of the basic earnings per share for the three months and nine months ended 30 September 2004 is based on the respective unaudited consolidated profit attributable to shareholders of approximately RMB11,926,000 and RMB22,829,000 respectively (three months and nine months ended 30 September 2003: approximately RMB5,475,000 and RMB12,333,000) and on weighted average of 320,000,000 ordinary shares that have been in issue throughout the period on the assumption that the Group's Reorganization had been completed on 1 January 2003.

Diluted earnings per share is not presented as the Company has no dilutive potential ordinary shares as at 30 September 2004 (2003: Nil).

6. Share capital and reserves

	Notes	Number of shares	Par value per share	Paid up amount
Share allotted and issued upon incorporation	a,c	1,000,000	HK\$0.10	HK\$100,000
Share allotted and issued for acquisition of Subsidiaries	b,c	16,000,000	HK\$0.10	HK\$1,600,000
Capitalization issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the placing and public offer of the Company's shares	f	223,000,000	HK\$0.10	HK\$22,300,000
Issuance of the Company's shares on listing	e	80,000,000	HK\$0.10	HK\$8,000,000
Share capital as at 30 September 2004		320,000,000	HK\$0.10	HK\$32,000,000
				RMB33,920,000

Notes:

- (a) The Company was incorporated in the Cayman Islands on 21 January 2003 with an authorized share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each. On 11 March 2003, one share was issued at par and fully paid. At the same day, 999,999 shares were issued at par, nil paid (see Note (c)).
- (b) On 30 January 2004, the authorized share capital of the Company was increased from HK\$100,000 to HK\$1,700,000 by the creation of an additional 16,000,000 shares of HK\$0.10 each to rank pari passu with the existing shares in all respects, all such shares were allotted and issued, credited as fully paid, as described in Note (c) below.

- (c) On 30 January 2004, Alpha Sino International Limited ("Alpha Sino") transferred 20 shares of US\$1 each in the capital of New Bright Group Limited to the Company in consideration of, and in exchange for, the allotment and issue of 16,000,000 shares, credited as fully paid, to Alpha Sino (see Note (b)), and all 999,999 unpaid shares held by Alpha Sino (see Note (a)) were credited as fully paid at par.
- (d) On 31 January 2004, the authorized share capital of the Company were increased from HK\$1,700,000 to HK\$100,000,000 by the creation of an additional 983,000,000 shares of HK\$0.10 each.
- (e) On 17 February 2004, 80,000,000 shares of HK\$0.10 each were issued at HK\$0.55 each by way of placing and public offer, generating net cash proceeds of approximately HK\$33,000,000. The premium over the par value of the shares was credited to the share premium account.
- (f) Immediately after the placing and public offer mentioned in Note (e) above, share premium of HK\$22,300,000 was capitalized for the issuance of 223,000,000 shares of HK\$0.10 each on a pro-rata basis to shareholders of the Company at the close of business on 5 February 2004.

Reserves	Share	Share	Capital	Exchange	Statutory	Statutory	Share	Retained	Total
	capital	premium	reserve	reserve	reserve	welfare	issuance		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2003	1,802	-	3,199	-	1,861	931	(636)	7,651	14,808
Profit for the year	-	-	-	-	-	-	-	21,367	21,367
Appropriation of retained earnings	-	-	-	-	1,097	548	-	(1,645)	-
Capitalisation of retained Earnings of a subsidiary	-	-	5,500	-	-	-	-	(5,500)	-
Share Issuance cost	-	-	-	-	-	-	(2,707)	-	(2,707)
As at 31 December 2003 and 1 January 2004	1,802	-	8,699	-	2,958	1,479	(3,343)	21,873	33,468
Capitalisation of amount due to shareholders	-	-	3,266	-	-	-	-	-	3,266
Exchange translation differences	-	-	-	28	-	-	-	-	28
Profit for the period	-	-	-	-	-	-	-	22,829	22,829
Appropriation of retained earnings	-	-	-	-	1,049	525	-	(1,574)	-
Issuance of shares on listing	8,480	38,160	-	-	-	-	-	-	46,640
Amount utilized upon capitalization issue	23,638	(23,638)	-	-	-	-	-	-	-
Share issuance cost	-	(11,151)	-	-	-	-	3,343	-	(7,808)
As at 30 September 2004	33,920	3,371	11,965	28	4,007	2,004	-	43,128	98,423



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover of the Group for the nine months ended 30 September 2004 amounted to RMB62,720,000, representing an increase of 87% from the same period last year. This significant increase was primarily attributable to the continued rise in demand for the Group's products from farmers in Fujian province, the PRC, coupled with the increased production capacity by the Group's new production facility in Jianou, Fujian province, the PRC. The Group's Jianou plant commenced operation in August 2004 and produced approximately 2,400 tonnes of organic fertilizers for the two months ended 30 September 2004. For the nine-month period, the Group's total sales volume reached around 36,000 tonnes of organic fertilizers, representing an increase of 75% from the same period last year. The selling price of each of the Group's major products during the nine-month period remained constant from last year. Turnover of each of the Group's four major products, being microbial compound fertilizer, organic tea fertilizer, premium organic fertilizer, and organic compound fertilizer, recorded an increase of 116%, 48%, 109% and 91% respectively from the same period last year, and represented 45%, 27%, 4%, and 24% respectively of the Group's total turnover.

For the nine months ended 30 September 2004, the total operating expenses of the Group amounted to approximately RMB12,711,000. The detailed analysis were as follows:

Distribution and selling expenses

Distribution and selling expenses amounted to approximately RMB2,429,000, representing a slight increase of RMB181,000 or 8% from the same period last year. Such increase was primarily due to strengthened sales and marketing activities such as recruitment of new personnel and participation in product exhibitions.

General and administrative expenses

General and administrative expenses amounted to approximately RMB4,197,000, representing an increase of RMB1,969,000 or 88% from the same period last year. Such increase was mainly due to increase in administrative and professional expenses at the Group's Hong Kong office following the listing of the Company's shares on GEM and the recruitment of administrative staff in the PRC office in order to enhance the Group's corporate governance procedures and carry out additional administrative work following the listing.

Research and development (“R&D”) costs

R&D costs increased from RMB787,000 to RMB5,957,000. The significant increase was mainly attributable to a number of new R&D projects including organic fertilizers for grapes, chinese herbs, peanuts and encalypt trees.

The Group’s profit attributable to shareholders for the nine months ended 30 September 2004 was RMB22,829,000, representing an increase of 85% from the same period last year. The net profit margin increased by 4% to 36% from the first six-month period this year due to cost control. The Group’s accounts receivables were also improved significantly. As at 30 September 2004, the Group’s accounts receivables amounted to approximately RMB10,500,000, with average aging less than 90 days.

BUSINESS REVIEW AND OUTLOOK

Corporate Governance

Following the listing in February 2004, the Group put considerable efforts to enhance corporate governance with an aim to improve management efficiency and control operational risks. As the result, a new Corporate Code of Conduct was completed and implemented which sets out principals, values and standards of conduct expected of management and staff throughout the Group, and underpins group operating procedures and policies. A total of 39 new staff have been recruited since the Listing Date of which nine are for management and general administration.

Sales and After-sales Services

The Group conducts sales through both its sales team and appointed distributors. During the nine-month period, the Group’s sales team and appointed distributors accounted for about 30% and 70% of the Group’s total sales respectively. During the period, the Group expanded its sales network through the appointment of new distributors. In addition, the Group established five new after-sales service team, each with two team members. Each team is equipped with a state-of-art soil-nutrients-testing machines. The machine is easy to carry and able to provide on-site testing of soil nutrients and produce a results report in just 30 minutes. The machine served as a powerful tool to provide technical services to the Group’s customers for examination of the soil nutrients before and after application of the Group’s fertilizers. The Directors believe the Group can through such services provide customers with tailor-made organic fertilizers for different kinds of agricultures and soil conditions. As a results, it would significantly enhance the relationships between the Group and its end-customers, as well as help to develop new customers.



Production

The Group followed its original plan stated in the Prospectus to build a new factory in Jianou (建甌) of Fujian province, the PRC, with a maximum annual production capacity of 30,000 tonnes of organic fertilizer products. The construction was completed in late June 2004 and commenced operation in August 2004. The total output volume of the Jianou factory between August and September this year was approximately 2,400 tonnes, comprising principally organic tea fertilizer and premium organic fertilizer. It is expected that the output volume of the Jianou factory will increase gradually in the following months. The Group is also planning to build another plant in Jiangxi provinces, the PRC. The Directors expect this new plant to commence operation in mid 2005.

R&D

During the period, we have activated eight R&D projects including the organic fertilizer for eucalypt trees. The development of eucalypt trees fertilizer is currently at the end of the field-testing stage. Eucalypt trees are principal raw materials for paper productions. Due to the high economic benefits generated from the eucalypt trees, there has been an rapid increase in the plantation areas of eucalypt trees in the PRC in recent years especially in Guangdong province and Fujian province. Such trend will create ample demand for organic fertilizers. The Directors expect that encalypts tree fertilizer to become another driving force of the Group's future growth.

Outlook

The Group announced to raise prices of its premium organic fertilizer and humic acid organic fertilizer by 21% and 15% respectively starting from 1 October 2004. The increase in selling price of the Group's fertilizers will have positive impact on turnover of the Group and its effect will be reflected in the financial statement for the next quarter. Along with the continued rise in demand of the Group's products and the expanded production capacity, the Directors are confident that the overall performance of the Group for the year of 2004 will be encouraging.

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

As at 30 September 2004, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of the Hong Kong Special Administrative Region ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or required to be notified to the Company and the Stock Exchange in accordance with Rule 5.46 of the GEM Listing Rules were as follows:

(a) Long positions in the shares of the Company

Name	Number of shares of the Company of HK\$0.10 each				Percentage of holding
	Personal interests	Family interests	Corporate interests	Other interests	
Chi Wen Fu	–	–	193,696,970 (Note 1)	–	60.53%
Shum Sai Chit	–	–	30,303,030 (Note 2)	–	9.47%
Wong May Yuk	–	–	30,303,030 (Note 3)	–	9.47%

Notes:

- Chi Wen Fu is beneficially interested in 80% of the entire issued share capital of Alpha Sino, which in turn holds 193,696,970 shares of the Company as at 30 September 2004. The interests of Chi Wen Fu are accordingly "corporate interests" as described in Section 344 of the SFO.
- Shum Sai Chit is beneficially interested in 50% of the entire issued share capital of Go Modern Limited, which in turns holds 30,303,030 shares of the Company as at 30 September 2004. The interests of Shum Sai Chit are accordingly "corporate interests" as described in Section 344 of the SFO.
- Wong May Yuk is beneficially interested in 50% of the entire issued share capital of Go Modern Limited, which in turns holds 30,303,030 shares of the Company as at 30 September 2004. The interests of Wong May Yuk are accordingly "corporate interests" as described in Section 344 of the SFO.

(b) *Long position in the shares of Alpha Sino, an associated corporation of the Company*

Name	Number of shares of Alpha Sino of US\$1 each				Percentage of holding
	Personal interests	Family interests	Corporate interests	Other interests	
Chi Wen Fu	8	–	–	–	80%
Zou Li	2	–	–	–	20%

Save as disclosed above, as at 30 September 2004, none of the Directors and chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be recorded pursuant to section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2004, the register of substantial shareholders maintained by the Company under Section 336 of the SFO shows that the following companies had interests or long position in the shares of the Company:

	Number of shares of the Company of HK\$0.10 each	Percentage of holding of shares of the Company
Alpha Sino (Note 1)	193,696,970	60.53%
Go Modern Limited (Note 2)	30,303,030	9.47%
Qi Yuan Asset Management (H.K.) Ltd.	19,295,000	6.03%

Notes:

1. The entire issued share capital of Alpha Sino is beneficially owned as to 80% and 20% by Chi Wen Fu, executive Director and Zou Li, non-executive Director respectively.
2. The entire issued share capital of Go Modern Limited is beneficially owned as to 50% each by Shum Sai Chit, executive Director and Wong May Yuk, non-executive Director.

COMPETING INTERESTS

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 INTERESTS

To the best knowledge of the Company's sponsor, CSC Asia Limited, its directors, employees or associates (as referred to in Note 3 Rule 6.35 of the GEM Listing Rules) did not have any interest in the securities of the Company as at 30 September 2004.

Pursuant to the sponsor's agreement dated 4 February 2004 entered into between the Company and the sponsor, the sponsor has received and shall continue to receive an annual fee for acting as the Company's sponsor for the period from the Listing Date to 31 December 2006.

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

During the period under review, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

BOARD PRACTICES AND PROCEDURES

The Company had complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the period under review.

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 Soung Poon and Kwong Ping Man. Mr. Cheung Sound Poon is the chairman of the Audit Committee.

By order of the Board
Chi Wen Fu
Chairman

Hong Kong, 12 November 2004