



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

FIRST QUARTERLY REPORT

FOR THE THREE MONTHS ENDED 31 MARCH 2004

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This report, for which the directors of Century Sunshine Ecological Technology Holdings Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to Century Sunshine Ecological Technology Holdings Limited. 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 achieved satisfactory performance with the turnover of approximately RMB17,610,000 for the three months ended 31 March 2004, representing an increase of 61% over the corresponding period of 2003.

Profit attributable to shareholders for the three months ended 31 March 2004 increased by approximately 35% to RMB6,623,000 as compared to the corresponding period of 2003.

CONSOLIDATED RESULTS (UNAUDITED)

The board of Directors (the “Board”) of Century Sunshine Ecological Technology Holdings Limited (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 2004, together with the comparative figures for the corresponding period in 2003 as follows:

	Notes	Three months ended 31 March	
		2004 RMB'000	2003 RMB'000
Turnover	2	17,610	10,912
Cost of Sales		(7,972)	(4,915)
Gross Profit		9,638	5,997
Distribution and selling expenses		(599)	(273)
General and administrative expenses		(1,237)	(715)
Research and development costs		(1,086)	(19)
Operating profit		6,716	4,990
Finance costs		(117)	(70)
Profit before taxation		6,599	4,920
Taxation	3	(1)	(1)
Profit after taxation		6,598	4,919
Minority interests		25	(1)
Profit attributable to shareholders		6,623	4,918
Dividend	4	–	–
Earnings per share	5	RMB2.1 cents	RMB1.5 cents

1. GROUP REORGANIZATION AND BASIS OF PREPARATION

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 “Group Reorganization”) in preparation for the listing of the Company’s shares on the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of its subsidiaries. Details of the Group Reorganization were set out in the prospectus of the Company dated 5 February 2004 (the “Prospectus”).

The shares of the Company were successfully listed on the GEM of the Stock Exchange on 17 February 2004 (the “Listing Date”).

The unaudited results of the Group comprise the results of the Company and its subsidiaries using the merger accounting basis 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, which conform with accounting principles generally accepted in Hong Kong and have been prepared under historical cost convention.

2. Turnover

The Group is engaged in the manufacturing and trading of agricultural organic fertilizers. Revenues recognized during the three months ended 31 March 2004 are as follows:

	Three months ended 31 March	
	2004 RMB'000	2003 RMB'000
Sales of		
– Microbial compound fertilizers	7,288	4,891
– Organic tea fertilizers	4,983	2,532
– Premium organic fertilizers	786	452
– Organic compound fertilizers	4,553	3,037
Total revenues	17,610	10,912

No segmental information is presented as the Group is principally engaged in the manufacturing and trading 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 31 March	
	2004 RMB'000	2003 RMB'000
The charge comprises:		
Hong Kong profits tax	–	–
PRC income tax	1	1
	1	1

(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 for the three months ended 31 March 2004 (2003: Nil).



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

Green Land Bio-Product Co., Ltd. (“Greenland”), a subsidiary engaged in the manufacture and sales of agricultural organic fertilizers, is exempted from Mainland China EIT of a rate of 33% according to a written approval from relevant Mainland China tax bureaus for the one-year period ended 31 December 2002.

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 three months ended 31 March 2004. (2003: Nil).

For the three months ended 31 March 2003 and 2004, 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”) which was provided for at a rate of 27%.

(c) Mainland China value-added tax

The Group’s sales 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 profits tax was provided for the Company and its subsidiaries operating outside Hong Kong and Mainland China as they were not subjected to taxation in their respective jurisdiction of incorporation/operation.

(e) Deferred taxation

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

4. Dividend

No dividend has been paid or declared by the Group for the three months ended 31 March 2004 (2003: Nil).

5. Earnings per share

The calculation of the basic earnings per share for the three months ended 31 March 2004 is based on the net profit attributable to shareholders of approximately RMB6,623,000 (2003: RMB4,918,000) and on weighted average of 320,000,000 (2003: 320,000,000) ordinary shares that have been in issue throughout the period on the assumption that the Group 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 31 March 2004 (2003: Nil).

6. Share capital and reserves

For the purpose of the presentation of the accounts, the balance of the share capital shown in the unaudited consolidated balance sheets as at 31 March 2004 and 2003 respectively represented the share capital of the Company as if the Group Reorganization and capitalization issue had been completed as at the respective dates.

	<i>Notes</i>	Number of shares	Par value per share	Paid up amount
Share allotted and issued on 11 March 2003	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 shares on listing	e	80,000,000	HK\$0.10	HK\$8,000,000
Share capital as at 31 March 2004 and 2003		320,000,000	HK\$0.10	HK\$32,000,000

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 ordinary 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 which ranked 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, and all 999,999 unpaid shares held by Alpha Sino credited as fully paid at par (see Note (a)).
- (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 ordinary 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 premium	Capital reserve	Exchange reserve	Statutory reserve fund	Statutory welfare fund	Share issuance cost	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2004	-	8,699	-	2,958	1,479	(3,343)	21,873	31,666
Capitalisation of amount due to shareholders	-	3,266	-	-	-	-	-	3,266
Exchange translation differences	-	-	28	-	-	-	-	28
Profit for the period	-	-	-	-	-	-	6,623	6,623
Appropriation of retained earnings	-	-	-	1,049	525	-	(1,574)	-
Issuance of shares on listing	38,160	-	-	-	-	-	-	38,160
Amount utilized upon capitalization issue	(23,638)	-	-	-	-	-	-	(23,638)
Share issuance cost	(10,171)	-	-	-	-	3,343	-	(6,828)
As at 31 March 2004	4,351	11,965	28	4,007	2,004	-	26,922	49,277

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover of the Group for the three months ended 31 March 2004 amounted to RMB17,610,000, representing an increase of 61% from the corresponding period in 2003. The increase was mainly attributable to the increased demand for the Group's products by farmers in Fujian province, the PRC. As the result, turnover of microbial compound fertilizer, organic tea fertilizer, premium organic fertilizer and organic compound fertilizer increased by approximately 49%, 97%, 74% and 50% respectively.

Gross profit of the Group for the three months ended 31 March 2004 amounted to approximately RMB9,638,000, representing a gross profit margin of 55%. The gross profit margin remained the same as that of the corresponding period in 2003 due to the Group's constant structure of cost of sales.

For the three months ended 31 March 2004, the total operating expenses of the Group amounted to approximately RMB 2,922,000, representing a significant increase over the corresponding period of 2003.

Distribution and selling expenses

Distribution and selling expenses amounted to approximately RMB 599,000, representing an increase of RMB 326,000. Such increase was mainly due to strengthened marketing efforts of the Group in order to capture more market share and enhance the customer base.

General and administrative expenses

General and administrative expenses amounted to approximately RMB 1,237,000, representing an increase of RMB 522,000 from the corresponding period in 2003. Such increase was mainly due to increased administrative expenses for the Group's Hong Kong office such as staff cost and fees payable to professional parties.

Research and development ("R&D") costs

R&D costs of the Group increased from approximately RMB19,000 in the first quarter of 2003 to approximately RMB1,086,000 in the first quarter of 2004. The significant increase was mainly due to commencement of 8 new R&D projects in the beginning of 2004.

The Group's profit attributable to shareholders for the three months ended 31 March 2004 was approximately RMB6,623,000, representing an increase of 35% from the corresponding period in 2003.



BUSINESS REVIEW AND OUTLOOK

The overall business growth was satisfactory for the three months ended 31 March 2004. There was strong demand for our organic fertilizer products that exceeded our current production capacity. In order to meet such demand, the Group followed the original plan as stated in the Prospectus to build a new factory in Jianou of Fujian province, the PRC, with an annual production capacity of 20,000 tonnes of organic fertilizer products. The construction is now progressing as scheduled and is expected to complete in June 2004. In addition, Century Sunshine (Jiangxi) Ecological Technology Limited, an indirect wholly-owned subsidiary of the Group, was established in Jiangxi province, the PRC in February 2004 as a wholly foreign-owned enterprise. The Group plans to build a new organic fertilizer factory in Jiangxi province, the PRC in the second half of 2004. The Group expects to capture more market share of organic fertilizers in Jiangxi province through the new subsidiary.

The Group has always emphasized on research and development of new products in order to maintain a sustainable growth. The Group has activated 8 research and development projects since the beginning of 2004. These include organic fertilizer for grapes, organic fertilizer for Chinese herbs and organic fertilizer for eucalypts etc. The length of each research and development project varies from one to two years.

The Directors believe that the Group's results in the first quarter of 2004 was encouraging. The Directors expect the Group's business to continue to grow following the completion and commencement of operation of the new factory in Jianou in the second half of the year.

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

As at 31 March 2004, the interests of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance, Chapter 571 of the Laws of the Hong Kong Special Administrative Region (the "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 31 March 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 31 March 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 31 March 2004. The interests of Wong May Yuk are accordingly "corporate interests" as described in Section 344 of the SFO.

(b) Long positions 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%



SUBSTANTIAL SHAREHOLDERS

As at 31 March 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
Alpha Sino (<i>Note 1</i>)	193,696,970	60.53%
Go Modern Limited (<i>Note 2</i>)	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 or the management shareholders of the Company 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 31 March 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 receive an annual fee for acting as the Company's retained 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 of the Company (the "Audit Committee") were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

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 assessment. The Audit Committee has three members comprising the two independent non-executive Directors, namely Mr. Shen Yi Min and Mr. Cheung Sound Poon, and an executive Director, Mr. Shum Sai Chit. Mr. Cheung Sound Poon will serve as the chairman of the Audit Committee.

By order of the Board
Chi Wen Fu
Chairman

Hong Kong, 13 May 2004

As at the date hereof, the executive Directors are Mr. Chi Wen Fu, Mr. Shum Sai Chit and Mr. Zhou Xing Dun; the non-executive Directors are Ms. Zou Li and Ms. Wong May Yuk and the independent non-executive Directors are Mr. Shen Yi Min and Mr. Cheung Sound Poon.