



SunGreen

First Quarterly Report 2006



SUNGREEN INTERNATIONAL HOLDINGS LIMITED

綠陽國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8306)

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of Sungreen International 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 purposes of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm 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

- Profit for the period attributable to equity holders of the parent for the three months ended 31 March 2006 amounted to approximately RMB2.4 million, representing an increase of approximately 21.3% over the corresponding period in 2005.
- The Directors do not recommend an interim dividend for the three months ended 31 March 2006.

CONSOLIDATED RESULTS (UNAUDITED)

The board of directors of Sungreen International Holdings Limited (the “Board”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March 2006, together with the comparative figures for the corresponding period in 2005 as follows:

		Three months ended 31 March	
	<i>Notes</i>	2006 RMB	2005 <i>RMB</i>
Revenue	2	37,763,564	25,546,693
Cost of sales		(23,303,541)	(15,199,304)
Gross profit		14,460,023	10,347,389
Other operating income		2,291,201	28,053
Selling and distribution costs		(9,024,326)	(3,196,458)
Administrative expenses		(2,600,481)	(3,136,063)
Profit from operations		5,126,417	4,042,921
Finance costs		(501,885)	(619,422)
Profit before tax		4,624,532	3,423,499
Income tax expenses	3	(353,000)	–
Profit for the period		4,271,532	3,423,499
Attributable to:			
Equity holders of the parent		2,423,121	1,998,419
Minority interests		1,848,411	1,425,080
		4,271,532	3,423,499
Dividends	4	Nil	Nil
Earnings per share, basic (cents)	5	3.03	2.50

Notes:

1. GROUP RESTRUCTURING AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company was incorporated in Bermuda on 14 April 2004 as an exempted company under the Companies Act 1981 of Bermuda (as amended) and its shares have been listed on the Growth Enterprises Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 28 February 2005. The Directors consider that the Company’s parent and ultimate holding company is Callaway Group Limited, a company incorporated in British Virgin Islands.

The financial statements are presented in Renminbi (“RMB”), which is the functional currency of the Company.

The Company is an investment holding company. Its principal subsidiary is engaged in the manufacture and distribution of organic potash fertilizers products.

Under a group reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the GEM of the Stock Exchange, the Company became the holding company of the Group on 16 February 2005. Details of the group reorganisation are set out in appendix V of the prospectus of Company dated 21 February 2005.

Prior to 16 February 2005, the entire interests of the Company and the entities now controlled by the Company (the “Subsidiaries”) were separately held by Callaway Group Limited. On 16 February 2005, Callaway Group Limited has transferred the entire interests in the Subsidiaries to the Company. As International Financial Reporting Standards (“IFRS”) does not specify the accounting for business combinations under common control, the Group has elected to apply principles of uniting of interests (merger accounting) in respect of this business combination under common control. Accordingly, the consolidated income statement and relevant notes included in the results of the Group have been prepared as if current group structure had been in existence throughout the year ended 31 December 2005.

The accounting policies adopted in preparing the unaudited consolidated results for the three months ended 31 March 2006 is consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2005. The consolidated results for the three months ended 31 March 2006 are unaudited but have been reviewed by the Company’s audit committee in accordance with Rule 5.30 of the GEM Listing Rules.



2. REVENUE

The Group is engaged in the research and development, manufacture, sale and distribution of organic potash fertilisers. Revenue recognised during the three months ended 31 March 2006 are as follows:

	Three months ended	
	31 March	
	2006	2005
	RMB	<i>RMB</i>
Sales of		
General use fertilisers	11,334,802	6,949,348
Specific use fertilisers		
– for vegetable use	13,536,548	4,994,674
– for fruit use	4,872,310	4,293,695
– for tobacco use	902,642	889,471
– for cotton use	861,335	112,484
– for seeding use	4,924,528	8,106,039
– for garlic use	152,330	63,908
– for golden tree use	488,833	137,074
– for golden vegetable use	14,717	–
– for banana use	64,755	–
– for ramie use	175,094	–
– for golden orange use	258,113	–
– for watermelon use	177,557	–
	37,763,564	25,546,693

No segment information is presented as research and development, manufacture, sale and distribution of organic fertilisers is the only reportable business segment of the Group and the operation are mainly carried out in The People's Republic of China (the "PRC"). Accordingly, the Directors consider that there is only one business segment and one geographical segment.

3. INCOME TAX EXPENSES

The amounts represented provision for the PRC Enterprise Income Tax ("EIT") on the Group's estimated assessable profit for the three months ended 31 March 2006.

Upon the reorganisation of Shaanxi Juchuan Fuwanjia Co., Ltd. ("Juchuan Fuwanjia"), a subsidiary established in the PRC, into a PRC sino-foreign equity joint venture company on 26 March 2004, it was entitled to an exemption from PRC EIT payable of 15% for two years commencing from its first profit-making year of operation, followed by a 50% relief from the PRC EIT for the next three years. Junchuan Fuwanjia has no assessable profits for the period from 1 January 2004 to 26 March 2004.

No provision of Hong Kong Profits Tax had been made for the period as the Company and its subsidiaries have no assessable profits arising in or deriving from Hong Kong.

There was no significant unprovided deferred taxation for the period or at the respective balance sheet dates.

4. DIVIDENDS

No dividend has been paid or declared by the Group for the three months ended 31 March 2006 (2005: Nil).

5. EARNINGS PER SHARE

The calculation of the basic earnings per share for the period is based on the profit attributable to the equity holders of the parent for the period and on weighted average number of 80,000,000 (2005: 80,000,000) ordinary shares of the Company. No diluted earnings per share have been presented because there is no potential ordinary share outstanding during either period.

6. SHARE CAPITAL

	<i>Notes</i>	Number of shares	Per value per share HK\$	Amount HK\$
Authorised:				
As at 1 January 2005	a	1,000,000	0.01	100,000
Effect of sub-division of shares of HK\$0.1 each into 10 shares of HK\$0.01 each	a	9,000,000	0.01	–
Share capital after sub-division		10,000,000	0.01	100,000
Increase on 16 February 2005	b	4,990,000,000	0.01	49,900,000
As at 31 March 2005 and 2006		<u>5,000,000,000</u>	<u>0.01</u>	<u>50,000,000</u>
Issued:				
As at 1 January 2005	a	1,000,000	0.10	–
Effect of sub-division of shares of HK\$0.1 each into 10 shares of HK\$0.01 each on 16 February 2005	a	9,000,000	0.01	–
Shares capital after sub-division		10,000,000	0.01	–
Credit the 10,000,000 ordinary shares issued nil paid as consideration for acquisition of subsidiary	c	–	–	100,000
Shares allotted and issued for acquisition of subsidiary	c	10,000,000	0.01	100,000
Conversion issue	d	17,034,284	0.01	170,343
Issuance of shares on listing	e	20,000,000	0.01	200,000
Capitalisation issue credited as fully paid conditional on share premium amount of the Company as a result of the placing of the Company's share	f	22,965,716	0.01	229,657
As at 31 March 2005 and 2006		<u>80,000,000</u>	<u>0.01</u>	<u>800,000</u>
In RMB equivalent				<u>848,000</u>

6. SHARE CAPITAL (Continued)

Notes:

- (a) The Company was incorporated in Bermuda on 14 April 2004 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.1 each. On 26 April 2004, 1,000,000 shares of HK\$0.1 each were allotted and issued to Callaway Group Limited at par and nil paid. On 16 February 2005, every issued and unissued share of the Company was subdivided into 10 shares of HK\$0.01 each.
- (b) On 16 February 2005, the authorised share capital of the Company was increased from HK\$100,000 to HK\$50,000,000 by creation of additional 4,990,000,000 shares of HK\$0.01 each, which ranked *pari passu* with the existing shares in all respects.
- (c) On 16 February 2005, Callaway Group Limited and Legend Profit Holdings Limited transferred the entire shares of US\$1 each in the capital of Sungreen Investments Limited to the Company in consideration of, and in exchange for, the allotment and issue of 10,000,000 shares, credited as fully paid to Callaway Group Limited and Legend Profit Holdings Limited, and all 10,000,000 unpaid shares held by Callaway Group Limited credited as fully paid at par (see Note (a)).
- (d) On 28 February 2005, 17,034,284 shares were converted by the convertible note holders upon the conversion issue.
- (e) On 28 February 2005, 20,000,000 ordinary shares of HK\$0.01 each were issued at HK\$2.5 each by way of placing offer, generating cash proceeds of approximately RMB53,000,000 (HK\$50,000,000). The premium over the par value of the shares was credited to the share premium account.
- (f) Immediately after the placing and conversion issue mentioned in Note (d) above, share premium of RMB243,436 (HK\$229,657) was capitalised for the issuance of 22,965,716 shares of HK\$0.01 each on a pro-rata basis to shareholders of the Company at the close of the business on 21 February 2005.

7. RESERVES

	Share premium RMB	Capital reserve RMB	Statutory reserve RMB	Translation reserve RMB	Special reserve RMB	Retained profits RMB	Total RMB	Minority interests RMB	Total RMB
As at 1 January 2005	-	-	5,115,227	-	74,420	7,571,979	12,761,626	27,056,297	39,817,923
Arise upon conversion issue	28,418,236	-	-	-	-	-	28,418,236	-	28,418,236
Share issued on listing	52,788,000	-	-	-	-	-	52,788,000	-	52,788,000
Contribution from shareholders	-	6,782,518	-	-	-	-	6,782,518	-	6,782,518
Capitalisation issue of shares	(243,436)	-	-	-	-	-	(243,436)	-	(243,436)
Transaction costs attributable to issue of new shares	(11,950,497)	-	-	-	-	-	(11,950,497)	-	(11,950,497)
Profit for the period	-	-	-	-	-	1,998,419	1,998,419	1,425,080	3,423,499
Arising in reorganisation	-	-	-	-	(203,732)	-	(203,732)	-	(203,732)
As at 31 March 2005	69,012,303	6,782,518	5,115,227	-	(129,312)	9,570,398	90,351,134	28,481,377	118,832,511
Exchange difference arising on translation of foreign operations recognised directly in equity	-	-	-	(885,884)	-	-	(885,884)	-	(885,884)
Transaction costs attributable to issue of new shares	8,188,335	-	-	-	-	-	8,188,335	-	8,188,335
Appropriated from retained profits	-	-	1,752,840	-	-	(1,752,840)	-	-	-
(Loss) Profit for the period	-	-	-	-	-	(1,229,668)	(1,229,668)	5,477,916	4,248,248
As at 31 December 2005 and 1 January 2006	77,200,638	6,782,518	6,868,067	(885,884)	(129,312)	6,587,890	96,423,917	33,959,293	130,383,210
Exchange difference arising on translation of foreign operations recognised directly in equity	-	-	-	(3,581)	-	-	(3,581)	-	(3,581)
Profit for the period	-	-	-	-	-	2,423,121	2,423,121	1,848,411	4,271,532
At 31 March 2006	77,200,638	6,782,518	6,868,067	(889,465)	(129,312)	9,011,011	98,843,457	35,807,704	134,651,161



MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group's unaudited consolidated turnover for the three months ended 31 March 2006 amounted to approximately RMB37.8 million, representing a growth of approximately 47.8% over the corresponding period in 2005.

Gross profit of the Group for the first quarter of 2006 was approximately RMB14.5 million, representing an increase of approximately 39.8% over the first three months in 2005. The Group's gross profit margin for the period was about 38.3%, whilst the Group's gross profit margin was approximately 40.5% for the same period in 2005. The decrease was due to the refundable value added tax of 6% was imposed during the first three months in 2006 but not 2005. Although the valued added tax is refundable and has no effect on the Group's profit, it reduced the growth of turnover of the Group and increased the other operating income of the Group. If no value added tax is imposed during the year, turnover of the Group will be approximately RMB40.0 million, representing a growth of approximately 56.5% over the corresponding period in 2005 whereas gross profit margin for the period will be about 41.7%, which is about 1.2% higher than the same period in 2005.

Profit attributable to the equity holders of the parent for the three months ended 31 March 2006 amount to approximately RMB2.4 million, representing a growth of approximately 21.3% over the corresponding period in 2005. The increase was mainly due to the significant growth in turnover of the Group because of the growing demand for the Group's product but partly offset by the EIT in the year of 2006 after the two years full tax exemption holiday. If no EIT is imposed in 2006, profit attributable to the equity holders of the parent for the first quarter of 2006 will be approximately RMB2.7 million, representing a growth of approximately 32.7% over the corresponding period in 2005.

Business Review

The overall business growth of the Group was satisfactory for the three months ended 31 March 2006. Due to the continuous growth in the PRC sales network and expansion of our product range, the Group recorded significant growth in turnover and profit attributable to the equity holders of the parent during the three months ended 31 March 2006. During the first three months of 2006, the Group sold a total of 12 specific use Organic Potash Fertilizers which is 5 more types of specific use Organic Potash Fertilizers than the corresponding period in 2005.

Prospect

In coming future, the Group will keep expanding its sales network in the PRC and keep developing of different kinds of Organic Potash Fertilizers in order to meet the needs of different customers.

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

As at 31 March 2006, 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 Part XV 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 as notified to the Company or as 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

Name of director	Capacity	Personal interests	Family interests	Corporate interests	Other interests	Total number of shares	Percentage of shareholding
Zhuo Ze Fan	Held by controlled corporation (Note)	-	-	34,905,059	-	34,905,059	43.63%

Note: These shares are held by Callaway Group Limited which is beneficially owned as to 87.07% by Mr. Zhuo Ze Fan, 4.60% by Ms. Cui Yan Wen and 8.33% by True Assist Limited. Callaway Group Limited holds 34,905,059 Shares on the Listing Date and up to the date of this report.

(b) Short positions in the Shares

Nil.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 March 2006, the following persons or companies (other than the Directors or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of SFO:

Name of substantial shareholder	Capacity	Number of shares	Percentage of shareholding (%)
Callaway Group Limited	Beneficial owner	34,905,059	43.63
Mr. Zhuo Ze Fan (Note 1)	Held by controlled corporation	34,905,059	43.63
Ms. Cui Yan Wen (Note 1)	Held by spouse	34,905,059	43.63
Legend Profit Holdings Limited	Beneficial owner	11,948,657	14.94
Wonder Opportunity Limited (Note 2)	Held by controlled corporation	11,948,657	14.94
Mr. Wang Wen Ming (Note 2)	Held by controlled corporation	11,948,657	14.94
Ms. Chen Dong Jin (Note 2)	Held by spouse	11,948,657	14.94
Stichting Shell Pensioenfonds	Investment manager	6,000,000	7.50
Ms. An Yu	Beneficial owner	5,714,285	7.14
SW Kingsway Capital Holdings Limited (Note 3)	Held by controlled corporation	5,199,999	6.50
World Developments Limited (Note 4)	Held by controlled corporation	5,199,999	6.50
Innovative Assets Limited (Note 5)	Held by controlled corporation	5,199,999	6.50
Kingsway International Holdings Limited (Note 6)	Held by controlled corporation	5,199,999	6.50
Mr. Lam Ka Chung William (Note 7)	Held by controlled corporation	5,199,999	6.50
Ms. Lam Wong Yuk Sin Mary (Note 7)	Held by controlled corporation	5,199,999	6.50
Mr. Choi Koon Shum Jonathan (Note 8)	Held by controlled corporation	5,199,999	6.50
Ms. Kwan Wing Kum Janice (Note 9)	Held by spouse	5,199,999	6.50

Notes:

- Callaway Group Limited is beneficially owned as to 87.07% by Mr. Zhuo Ze Fan, 4.60% by Ms. Cui Yan Wen and 8.33% by True Assist Limited. Mr. Zhuo Ze Fan is an executive Director and chairman of the Company and the spouse of Ms. Cui Yan Wen. True Assist Limited is beneficially owned as to 50% by Ms. Chen Dong Jin, 30% by Mr. Wang Wen Ming and 20% by Mr. Wu Jing Jin. Ms. Chen Dong Jin is the spouse of Mr. Wang Wen Ming. Mr. Wu Jing Jin is a non-executive Director of the Company.
- Legend Profit Holdings Limited is beneficially owned by Wonder Opportunity Limited. Wonder Opportunity Limited is beneficially owned as to 59% by Mr. Wang Wen Ming, 30% by Mr. Wu Jing Jin and 11% by Mr. Zhang Xin Li.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (CONTINUED)

Notes (Continued):

3. Bright Process Technology Limited and Kingsway SW Finance Limited are interested in 3,333,333 Shares and 1,866,666 Shares, respectively. Bright Process Technology Limited is owned by Festival Developments Limited, while Kingsway SW Finance Limited is owned by SW Kingsway Capital Group Limited. Both Festival Developments Limited and SW Kingsway Capital Group Limited are owned by SW Kingsway Capital Holdings Limited.
4. World Developments Limited holds 74% of interest in SW Kingsway Capital Holdings Limited.
5. World Developments Limited is owned by Innovative Assets Limited.
6. Innovative Assets Limited is owned by Kingsway International Holdings Limited.
7. Mr. Lam Ka Chung William ("Mr. Lam") and his spouse, Ms. Lam Wong Yuk Sin Mary ("Mrs. Lam"), beneficially own or control 32,432,317 common shares (approximately 41%) of the issued share capital of Kingsway International Holdings Limited ("Kingsway International") and deemed (by virtue of the SFO) to be interested in the shares in, or debenture of, the subsidiaries of Kingsway International.

Of the above 32,432,317 common shares, 9,726,750 common shares are held directly by Mr. Lam, 10,515,060 common shares are held by Dynasty International Holdings Limited, 9,790,507 common shares are held directly by Mrs. Lam and 2,400,000 common shares are held by Abundant World Limited.

Dynasty International Holdings Limited is a wholly owned subsidiary of Global Fame Limited. Global Fame Limited is wholly owned by The WKC Lam Family Trust which is a discretionary trust with Mr. Lam and his two children as the beneficiaries. On 29 June 2004, Mrs. Lam was appointed as a trustee of The WKC Lam Family Trust, By virtue of the SFO, Mrs. Lam is deemed to be interested in the common shares of Kingsway International held by Dynasty International Holdings Limited.

Abundant World Limited is wholly owned by The Mary Lam Family Trust which is a discretionary trust with Mrs. Lam and her two children as the beneficiaries. Mr. Lam is a trustee of The Mary Lam Family Trust. By virtue of the SFO, Mr. Lam is deemed to be interested in the common shares of Kingsway International held by Abundant World Limited.

By virtue of the SFO, Mr. Lam is deemed to be interested in the common shares of Kingsway International which are held, owned, control or deemed to be interested in by Mrs. Lam.



SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (CONTINUED)

Notes (Continued):

8. Mr. Choi Koon Shum Jonathan (“Mr. Choi”) beneficially owns or controls 36,929,651 shares (approximately 46%) of the issued share capital of Kingsway International and was deemed (by virtue of the SFO) to be interested in the shares in, or debenture of the subsidiaries of Kingsway International under the SFO.

Of the above 36,929,651 shares, 10,101,596 common shares of Kingsway International are held by Mr. Choi as personal interest and 12,750,000 and 14,078,055 common shares of Kingsway International are held by Sun Wah Capital Limited and Scarlet Red Limited respectively as corporate interest. In other words, Mr. Choi personally holds approximately 13% of Kingsway International and has corporate interest of approximately 16% and 17% of Kingsway International through Sun Wah Capital Limited and Scarlet Red Limited respectively.

9. Ms. Kwan Wing Kum Janice is the spouse of Mr. Choi.

The Company has not been notified of other interests or short positions of any other person (other than the Directors and chief executive of the Company), in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 31 March 2006.

COMPETING INTERESTS

During the period under review, none of the Directors or the management shareholders of the Company or 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.

COMPLIANCE ADVISER'S INTERESTS

As at 31 March 2006, neither Hantec Capital Limited (the “Compliance Adviser”) nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company, including options or rights to subscribe for such securities.

Pursuant to the agreement dated 21 February 2005 entered into between the Company and the Compliance Adviser, the Compliance Adviser received and shall receive an annual fee for acting as the Company's Compliance Adviser for the period commencing from (and including) the date of commencement of dealings in the shares on GEM (the “Listing Date”) and ending on (and including) the last day of the second full (and not part thereof) financial year after the Listing Date.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

AUDIT COMMITTEE

The Company established an audit committee on 16 February 2005 with written terms of reference in compliance with the GEM Listing Rules. The authority and duties of the audit committee are based on the guidelines set out in "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The audit committee provides a link between the Board of Directors and the Company's auditors in matter coming within the scope of the Group audit. It also reviews and supervises the financial reporting process and internal control procedures of the Group. The audit committee comprises three independent non-executive directors, namely Mr. Zhao Shou Guo, Mr. Yue Kwai Wa, Ken and Mr. Ng Tang.

The Group's unaudited consolidated results for the three months ended 31 March 2006 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards.

On behalf of the Board
Sungreen International Holdings Limited
Zhuo Ze Fan
Chairman

Xi'an City, Shaanxi Province, the People's Republic of China, 15 May 2006