



SunGreen

Third 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)

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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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

- Achieved a turnover of approximately RMB116.5 million for the nine months ended 30 September 2006, representing an approximately 9.5% increase as compared with that of the corresponding period in 2005.
- Profit of the Group attributable to equity holders of the parent for the nine months ended 30 September 2006 amounted to approximately RMB8.1 million, representing an decrease of approximately 4.3% over the corresponding period in 2005.
- The Directors do not recommend an interim dividend for the nine months ended 30 September 2006.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

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 nine months ended 30 September 2006, together with the comparative figures for the corresponding period in 2005 as follows:

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2006 RMB (unaudited)	2005 RMB (unaudited)	2006 RMB (unaudited)	2005 RMB (unaudited)
Revenue	2	116,477,672	106,353,245	34,436,943	35,981,084
Cost of sales		(68,764,953)	(63,711,003)	(20,076,712)	(22,206,405)
Gross profit		47,712,719	42,642,242	14,360,231	13,774,679
Other operating income		7,241,994	369,207	2,122,519	42,682
Selling and distribution costs		(28,402,127)	(16,920,036)	(9,602,447)	(7,116,635)
Administrative expenses		(9,454,126)	(8,895,542)	(2,529,433)	(2,349,653)
Other operating expenses		-	(60,796)	-	(7,191)
Profit from operations		17,098,460	17,135,075	4,350,870	4,343,882
Finance costs		(1,721,382)	(2,523,786)	(638,236)	(669,726)
Profit before tax		15,377,078	14,611,289	3,712,634	3,674,156
Income tax expenses	3	(1,456,673)	-	(388,731)	-
Profit for the period		13,920,405	14,611,289	3,323,903	3,674,156
Attributable to:					
Equity holders of the parent		8,120,142	8,482,927	1,912,478	2,213,827
Minority interest		5,800,263	6,128,362	1,411,425	1,460,329
		13,920,405	14,611,289	3,323,903	3,674,156
Dividends	4	-	-	-	-
Earnings per share, basic (cents)	5	10.15	10.60	2.39	2.77

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 GEM of 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 research and development, manufacture, sale 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 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 nine months ended 30 September 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 nine months ended 30 September 2006 are unaudited but have been reviewed by the Company's audit committee.

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 and nine months ended 30 September 2006 are as follows:

	Nine months ended 30 September		Three months ended 30 September	
	2006 RMB (unaudited)	2005 RMB (unaudited)	2006 RMB (unaudited)	2005 RMB (unaudited)
Sales of				
General use fertilisers	34,793,086	25,005,189	12,042,560	9,025,263
Specific use fertilisers				
– for vegetable use	36,331,907	32,203,916	11,310,409	15,180,337
– for fruit use	19,907,112	28,633,143	5,186,696	7,753,371
– for tobacco use	5,506,524	5,288,986	1,600,071	1,785,493
– for cotton use	9,105,980	3,642,991	3,617,688	927,994
– for seeding use	8,653,774	10,836,002	543,208	1,139,264
– for garlic use	153,698	124,269	1,368	42,456
– for golden tree use	1,068,884	358,750	85,849	28,200
– for yellow melon use	547	179,863	547	18,570
– for golden vegetable use	25,981	33,177	10,283	33,177
– for banana use	103,019	46,959	38,264	46,959
– for ramie use	175,094	–	–	–
– for golden orange use	430,189	–	–	–
– for watermelon use	221,877	–	–	–
	116,477,672	106,353,245	34,436,943	35,981,084

No segment information is presented as research and development, manufacture, sale and distribution of organic potash fertilisers is the only reportable business segment of the Group and the operations 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 nine months ended 30 September 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 nine months ended 30 September 2006 (2005: Nil).

5. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months and nine months ended 30 September 2006 is based on the profit attributable to equity holders of the parent of RMB1,912,478 and RMB8,120,142 respectively (profit for the three months and nine months ended 30 September 2005: RMB2,213,827 and RMB8,482,927 respectively) and on weighted average of 80,000,000 (2005: 80,000,000) ordinary shares that have been in issue throughout the period on the assumption that the Group Reorganisation had been completed on 1 January 2005.

Diluted earnings per share has not been presented as there is no dilutive potential ordinary share in existence during the period.

6. SHARE CAPITAL

	Notes	Number of shares	Par value per share HK\$	Amount HK\$
Authorised:				
As at 1 January 2005	a	1,000,000	0.10	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 30 September 2005 and 2006		5,000,000,000	0.01	50,000,000
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 30 September 2005 and 2006		80,000,000	0.01	800,000
In RMB equivalent				848,000

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, 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 capital RMB	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	8,268	-	-	5,115,227	-	74,420	7,571,979	12,769,894	27,056,297	39,826,191
Arise upon conversion issue	180,564	28,418,236	-	-	-	-	-	28,598,800	-	28,598,800
Share issued on listing	212,000	52,788,000	-	-	-	-	-	53,000,000	-	53,000,000
Contribution from shareholders	-	-	6,782,518	-	-	-	-	6,782,518	-	6,782,518
Capitalisation issue of shares	243,436	(243,436)	-	-	-	-	-	-	-	-
Transaction costs attributable to issue of new shares	-	(12,056,881)	-	-	-	-	-	(12,056,881)	-	(12,056,881)
Profit for the period	-	-	-	-	-	-	8,482,927	8,482,927	6,128,362	14,611,289
Arising in reorganisation	203,732	-	-	-	-	(203,732)	-	-	-	-
As at 30 September 2005	848,000	68,905,919	6,782,518	5,115,227	-	(129,312)	16,054,906	97,577,258	33,184,659	130,761,917
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	-	8,294,719	-	-	-	-	-	8,294,719	-	8,294,719
Appropriated from retained profits	-	-	-	1,752,840	-	-	(1,752,840)	-	-	-
(Loss)/ profit for the period	-	-	-	-	-	-	(7,714,176)	(7,714,176)	774,634	(6,939,542)
As at 31 December 2005 and 1 January 2006	848,000	77,200,638	6,782,518	6,868,067	(885,884)	(129,312)	6,587,890	97,271,917	33,959,293	131,231,210
Exchange difference arising on translation of foreign operations recognised directly in equity	-	-	-	-	(3,581)	-	-	(3,581)	-	(3,581)
Profit for the period	-	-	-	-	-	-	8,120,142	8,120,142	5,800,263	13,920,405
As at 30 September 2006	848,000	77,200,638	6,782,518	6,868,067	(889,465)	(129,312)	14,708,032	105,388,478	39,759,556	145,148,034

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group's unaudited consolidated turnover for the nine months ended 30 September 2006 amounted to approximately RMB116.5 million, representing a growth of approximately 9.5% over the corresponding period in 2005. The increase was mainly attributable to the continued rise in demand for our Fuwanjia Organic Potash Fertilizers during the period.

Gross profit of the Group for the nine months ended 2006 was approximately RMB47.7 million, representing an increase of approximately 11.9% over the corresponding period in 2005. The Group's gross profit margin for the period was about 41.0%, whilst the Group's gross profit margin was approximately 40.1% for the same period in 2005. The refundable value added tax of 6% was imposed during the period under review, but not in 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 were imposed during the year, turnover of the Group would be approximately RMB123.5 million, representing a growth of approximately 16.2% over the corresponding period in 2005 whereas gross profit margin for the period would be about 44.3%, which would be about 4.2% higher than the same period in 2005.

Profit attributable to the equity holders of the parent for the nine months ended 30 September 2006 amounted to approximately RMB8.1 million, representing a slightly decrease of 4.3% over the corresponding period in 2005. The decrease was mainly due to the impose of income tax expense in the year of 2006 after the two year full tax exemption holiday. Profit before tax for the nine months ended 30 September 2006 amounted to approximately RMB15.4 million, representing an increase of 5.2% over the corresponding period in 2005. The increase was mainly due to the growth in turnover of the Group because of the growing demand for the Group's product.

Business Review

The overall business growth of the Group was satisfactory for the nine months ended 30 September 2006. Due to the continuous growth in the PRC sales network and expansion of our product range, the Group recorded significant growth in turnover.

Prospect

In coming future, the Group will keep expanding its sales network in the PRC and keep developing different kinds of Organic Potash Fertilizers in order to meet the needs from different customers. During the first nine months of 2006, a total of 13 specific use Organic Potash Fertilizers had been launched by the Group, representing 3 more types of specific use Organic Potash Fertilizers over the corresponding period in 2005.

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

As at 30 September 2006, the interests and short positions of each director and chief executive of the Company 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 required to be notified to the Company and the Stock Exchange in accordance with Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in the shares of the Company (the "Shares")

Name of director	Capacity	Number of Shares	Percentage of shareholding (%)
Zhuo Ze Fan	Held by controlled corporation (<i>Note</i>)	34,905,059	43.63
Wu Jing Jin	Beneficial owner	3,544,597	4.43

Note: These Shares were held by Callaway Group Limited which was 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 held 34,905,059 Shares on the Listing Date and up to 30 September 2006. By virtue of the SFO, Mr. Zhuo was deemed to be interested in the Shares held by Callaway Group Limited.

Save as disclosed herein, as at 30 September 2006, none of directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or were required to notify the Company and the Stock Exchange in accordance with Rules 5.46 to 5.67 of the GEM Listing Rules.

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

As at 30 September 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
Ms. Cui Yan Wen (Note 1)	Held by spouse	34,905,059	43.63
Mr. Wang Wen Ming	Beneficial owner	8,404,060	10.51
Ms. Chen Dong Jin (Note 2)	Held by spouse	8,404,060	10.51
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 4)	Held by controlled corporation	5,199,999	6.50
Kingsway International Holdings Limited (Note 4)	Held by controlled corporation	5,199,999	6.50
Mr. Lam Ka Chung William (Note 5)	Held by controlled corporation	5,199,999	6.50
Ms. Lam Wong Yuk Sin Mary (Note 5)	Held by controlled corporation	5,199,999	6.50
Mr. Choi Koon Shum Jonathan (Note 6)	Held by controlled corporation	5,199,999	6.50
Ms. Kwan Wing Kum Janice (Note 7)	Held by spouse	5,199,999	6.50

Notes:

- Callaway Group Limited was 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 was an executive Director and chairman of the Company and the spouse of Ms. Cui Yan Wen. True Assist Limited was 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 was the spouse of Mr. Wang Wen Ming. Mr. Wu Jing Jin was a non-executive Director of the Company. By virtue of the SFO, Ms. Cui was deemed to be interested in the Shares held by Mr. Zhuo.
- Ms. Chen Dong Jin, being the spouse of Mr. Wang Wen Ming ("Mr. Wang") was deemed to have interest in the shares held by Mr. Wang by virtue of the SFO.
- These Shares were held through wholly owned subsidiaries of SW Kingsway Capital Holdings Limited ("SW Kingsway"). By virtue of the SFO, SW Kingsway was deemed to have interest in the Shares held by its wholly owned subsidiaries.
- World Developments Limited held 74% of interest in SW Kingsway and was a wholly owned subsidiary of Innovative Assets Limited which in turn was a wholly owned subsidiary of Kingsway International Holdings Limited ("Kingsway International"). By virtue of the SFO, World Development Limited, Innovative Assets Limited and Kingsway International were deemed to have interest in the Shares held by SW Kingsway.

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

5. Mr. Lam Ka Chung William (“Mr. Lam”) (deceased) and his spouse, Ms. Lam Wong Yuk Sin Mary (“Mrs. Lam”), beneficially owned or controlled 41% of the issued share capital of Kingsway International and were deemed (by virtue of the SFO) to be interested in the Shares held by Kingsway International.
6. Mr. Choi Koon Shum Jonathan (“Mr. Choi”) beneficially owned or controlled 46% of the issued share capital of Kingsway International and was deemed (by virtue of the SFO) to be interested in the Shares held by Kingsway International.
7. Ms. Kwan Wing Kum Janice, being the spouse of Mr. Choi, was deemed to have interest in the Shares held by Mr. Choi by virtue of the SFO.

Save as disclosed herein, so far as known to any director or chief executive of the Company, no other person (other than the directors and chief executive of the Company) had any interest and short positions in the shares and underlying shares of the Company as required to be recorded in the register required to be kept under Section 336 of the SFO as at 30 September 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 30 September 2006, neither Hantec Capital Limited (the “Compliance Adviser”) nor its directors or employees or associates 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 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 members of 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 nine months ended 30 September 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,
10 November 2006