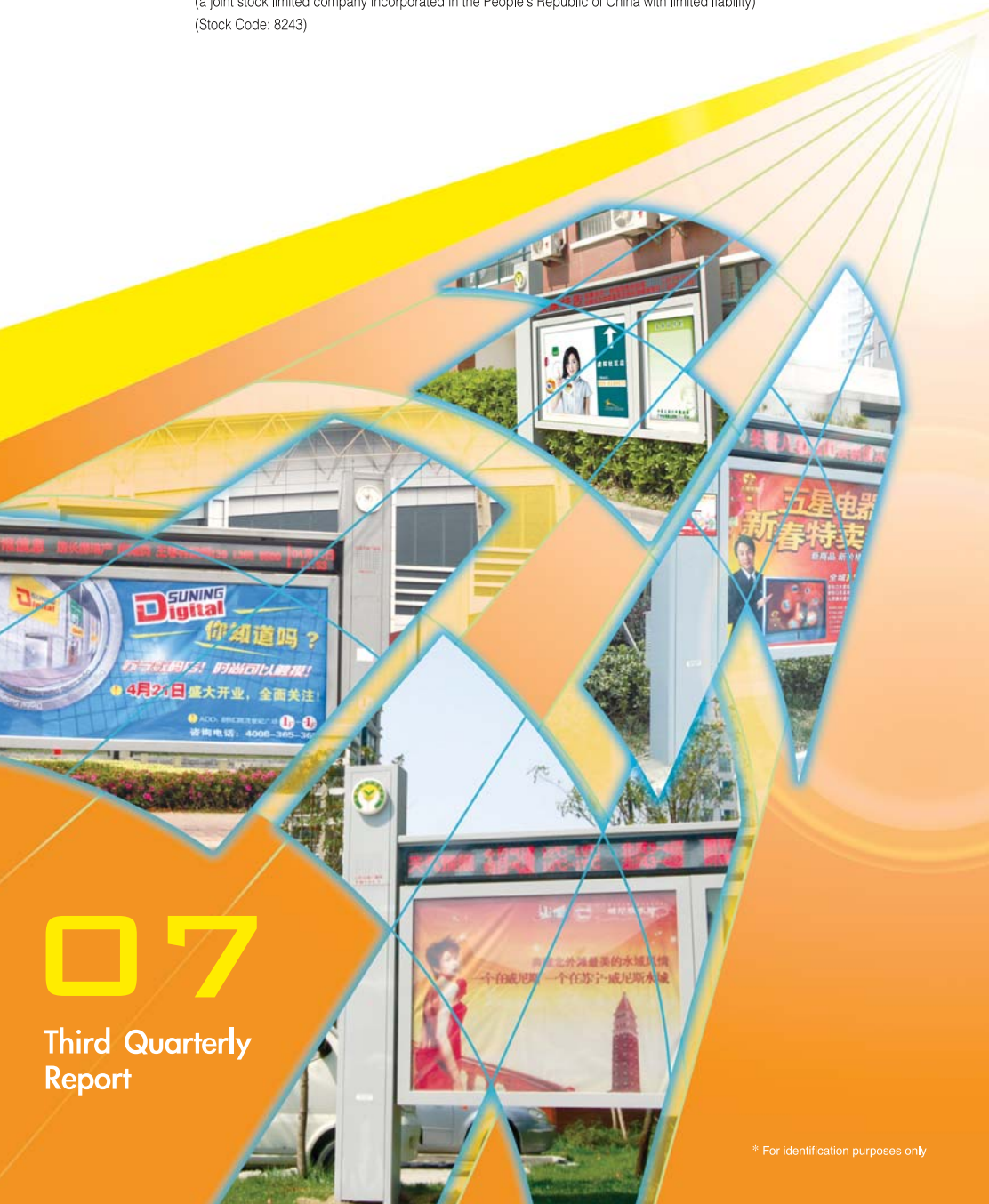




# 大賀傳媒股份有限公司 DAHE MEDIA CO., LTD.\*

(formerly known as "南京大賀戶外傳媒股份有限公司" "NANJING DAHE OUTDOOR MEDIA CO., LTD."\*)  
(a joint stock limited company incorporated in the People's Republic of China with limited liability)  
(Stock Code: 8243)



# 07

## Third Quarterly Report

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sector or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of the companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

*The Stock Exchange of Hong Kong Limited 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.*

*The directors of Dahe Media Co., Ltd. collectively and individually accept full responsibility of this report. This report includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to Dahe Media Co., Ltd. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) 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

For the three months ended 30th September, 2007, the Group achieved a turnover of approximately RMB88,152,000, representing a decrease of approximately 14% over the same period last year.

For the three months ended 30th September, 2007, the Group recorded a net profit attributable to the equity holders of the Company of approximately RMB6,875,000 representing a decrease of approximately 17% over the same period last year.

Earnings per share for the three months ended 30th September, 2007 were approximately RMB0.83 cents, representing a decrease of approximately 17% over the same period last year.

On 2nd May, 2007, the board of directors have recommended the payment of special dividend of approximately RMB2,242,000 for the year ended 31st December, 2006. Save as disclosed, the board of directors have not recommended any payment of dividend. During the three months ended 30th September, 2006, the board of directors did not recommend any payment of dividend.

As Chongqing Dahe Basu Media Co., Ltd., a subsidiary of the Group, was under liquidation, it was therefore not included in the financial data in this report.

## CONSOLIDATED INCOME STATEMENT

The Board of Directors (“Board”) of Dahe Media Co., Ltd. (the “Company”) is pleased to announce herewith the unaudited consolidated results of the Company and its subsidiaries (collectively as the “Group”) (excluding Chongqing Dahe Basu Media Co., Ltd.) for the nine months ended 30th September, 2007, together with the comparative figures of the corresponding period of 2006 as follows (These financial statements have not been audited, but have been reviewed by the audit committee of the Company):

	Note	Unaudited For the nine months ended 30th September,		Unaudited For the three months ended 30th September,	
		2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Turnover	2	<b>236,661</b>	295,528	<b>88,152</b>	102,951
Cost of sales		<b>(164,690)</b>	(223,386)	<b>(61,841)</b>	(76,728)
Gross profit		<b>71,971</b>	72,142	<b>26,311</b>	26,223
Other revenue and gain		<b>695</b>	938	<b>732</b>	954
Distribution costs		<b>(23,142)</b>	(21,561)	<b>(7,799)</b>	(7,348)
Administrative expenses		<b>(24,662)</b>	(23,597)	<b>(8,178)</b>	(7,437)
Profit from operations		<b>24,862</b>	27,922	<b>11,066</b>	12,392
Finance costs		<b>(6,283)</b>	(6,550)	<b>(2,829)</b>	(2,552)
Profit before taxation		<b>18,579</b>	21,372	<b>8,237</b>	9,840
Income tax	3	<b>(2,330)</b>	(3,407)	<b>(1,189)</b>	(1,476)
Profit for the period		<b>16,249</b>	17,965	<b>7,048</b>	8,364
Attributable to:					
Equity holders of the Company		<b>16,234</b>	19,493	<b>6,875</b>	8,284
Minority interests		<b>15</b>	(1,528)	<b>173</b>	80
		<b>16,249</b>	17,965	<b>7,048</b>	8,364
Dividends	4	<b>2,491</b>	—	<b>2,242</b>	—
Earnings per share					
— Basic (RMB)	5	<b>1.96 cents</b>	2.35 cents	<b>0.83 cent</b>	1.00 cent

## NOTES TO THE FINANCIAL STATEMENTS:

### 1. BASIS OF PREPARATION

Except for failure to consolidate the financial statements of Chongqing Dahe Basu Media Co., Ltd. ("Dahe Basu") for the period from 1st January, 2007 to 15th May, 2007 which is the date on which the Company loses control on Dahe Basu, and failure to properly account for the Group's interest in Dahe Basu as an available-for-sale investment from 15th May, 2007 to 30th September, 2007, these unaudited condensed consolidated financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and Chapter 18 of the GEM Listing Rules.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements of the Group for the year ended 31st December, 2006. Except for the Group's accounting treatments on Dahe Basu as mentioned above, the accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the audited financial statements of the Group for the year ended 31st December, 2006.

As Dahe Basu, a 60%-owned subsidiary of the Company up to 15th May, 2007, was put into liquidation and a liquidation committee was appointed on 15th May, 2007, the directors of the Company consider that the Company ceased control over financial and operating activities of Dahe Basu since 15th May, 2007. Accordingly the financial position and the results of Dahe Basu for the period from 1st January, 2007 to 15th May, 2007 should have been consolidated into the financial statements of the Group. After 15th May, 2007, Dahe Basu is no longer a subsidiary of the Company in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretations) issued by the HKICPA and Dahe Basu's financial position and results subsequent to 15th May, 2007 should not be consolidated into the financial statements of the Group. According to HKFRSs, the carrying amount of the Company's interest in Dahe Basu (the net assets of Dahe Basu net of attributable 40% minority interest) at the date that Dahe Basu ceases to be a subsidiary, i.e. on 15th May, 2007, shall be regarded as an available-for-sale investment, which should have been stated at cost less any impairment losses. As the directors of the Company were unable to obtain sufficient reliable financial information of Dahe Basu throughout the period from 1st January, 2007 to 30th September, 2007, the Group failed to consolidate the financial statements of Dahe Basu for the period from 1st January, 2007 to 15th May, 2007 and failed to properly account for the Group's interest in Dahe Basu as an available-for-sale investment from 15th May, 2007 to 30th September, 2007, as mentioned above.

As the outcome of the liquidation of Dahe Basu is subject to significant uncertainty, no estimate on the decrease in the recoverable amount of the Company's interest in Dahe Basu nor provision for any loss arising from the liquidation can be reliably made. Accordingly no provision, impairment nor write-down of assets has been made in these unaudited condensed consolidated financial statements with respect to the Group's interest in Dahe Basu.

Further details of the liquidation of Dahe Basu are disclosed in announcements of the Company dated 26th July, 2007, 21st September, 2007 and 27th September, 2007.

## 2. TURNOVER

Turnover comprises the invoiced amount of production and advertising services provided to outside customers after allowances for returns and discounts, and is analysed as follows:-

	Unaudited For the nine months ended 30th September,		Unaudited For the three months ended 30th September,	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Income from the business of outdoor advertising media production	<b>100,638</b>	102,489	<b>35,985</b>	36,707
Income from the dissemination of outdoor advertisements	<b>136,023</b>	193,039	<b>52,167</b>	66,244
	<b><u>236,661</u></b>	<u>295,528</u>	<b><u>88,152</u></b>	<u>102,951</u>

The turnover and operating profit of the Group are entirely derived from one business and geographical segment which is the provision of outdoor advertising services in the People's Republic of China (the "PRC"). Accordingly, no analysis by business or geographical segment is presented.

### 3. INCOME TAX

The provision for PRC Enterprise Income Tax ("EIT") is based on the estimated taxable income for PRC taxation purposes at the rate of taxation applicable for the year.

Pursuant to the relevant laws and regulations in the PRC, the Company, having qualified as a new and high technology enterprise and registered in a high technology zone, is exempted from PRC EIT for the two years ended 31st December, 2001 and 2002. Thereafter, the Company is eligible for a preferential EIT rate of 15% for subsequent years. Accordingly, the Company is subject to EIT rate of 15% for the nine months ended 30th September, 2007.

However, based upon the local income tax regulations, profits of the Company's branches at Shanghai, Wuhan, Guangzhou and Shenzhen are subject to a separate assessment. Taxation on these branches is levied based on EIT rate of 33%, except for Shenzhen branch which is levied based on EIT rate of 15%, on the respective estimated taxable income.

The Company's subsidiaries are subject to standard EIT rate of 33%.

The Group's did not have any significant unprovided deferred taxation.

### 4. DIVIDENDS

	Nine months ended 30th September,	
	2007	2006
	RMB'000	RMB'000
Final 2006 dividend – RMB0.0003 (2006: RMB nil) per ordinary share	249	—
Special 2006 dividend – RMB0.0027 (2006: RMB nil) per ordinary share	2,242	—
	2,491	—

### 5. EARNINGS PER SHARE

The calculation of basic earnings per share for the nine months ended 30th September, 2007 is based on the net profit attributable to equity holders of the Company of RMB16,234,000 for the nine months ended 30th September, 2007 and the weighted average number of shares in issue.

A diluted earnings per share amount for the three months and nine months ended 30th September, 2006 and 2007 has not been disclosed as no diluting events existed during those periods.

## 6. RESERVES

	Capital surplus reserve RMB'000	Statutory surplus reserve RMB'000	Staff welfare reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1st January, 2006	95,914	10,814	5,407	63,506	175,641
Net profit for the period	—	—	—	19,493	19,493
Dividends declared and paid	—	—	—	—	—
At 30th September, 2006	95,914	10,814	5,407	82,999	195,134
Net profit for the period	—	—	—	(492)	(492)
Appropriations from retained profits	—	2,039	—	(2,039)	—
Dividend declared and paid	—	—	—	(4,797)	(4,797)
Transfer	—	5,407	(5,407)	—	—
At 31st December, 2006	95,914	18,260	—	75,671	189,845
Dividends	—	—	—	(2,491)	(2,491)
Net profit for the period	—	—	—	16,234	16,234
At 30th September, 2007	95,914	18,260	—	89,414	203,588

## 7. MATTERS IN RELATION TO THE 2007 FIRST QUARTERLY REPORT OF THE COMPANY

In preparing the first quarterly report for the three months ended 31st March, 2007 dated 14th May, 2007 (the "First Quarterly Report"), the Company has not consolidated the results of Dahe Basu for the first three months ended 31st March, 2007 (the "First Quarter") into the unaudited condensed consolidated financial statements of the Group. The consolidated net profit of the Group for the First Quarter as disclosed in the First Quarterly Report of RMB2,943,000 has not taken into account the profit or loss, as the case may be, of Dahe Basu in the same quarter.



According to HKAS 27 “Consolidated and Separate Financial Statements” issued by the HKICPA and the accounting policy adopted by the Company, the results of Dahe Basu for the First Quarter should have been consolidated into the unaudited condensed consolidated financial statements of the Group in the First Quarterly Report.

The reason for non-consolidation of the results of Dahe Basu into the unaudited condensed consolidated financial statements of the Group for the First Quarter in the Report was that Dahe Basu has been in liquidation and the affairs of Dahe Basu have been handled by the liquidation team subsequent to the First Quarter. Therefore the Company could not procure the owner of the remaining 40% equity interest of Dahe Basu to produce the necessary financial information concerning Dahe Basu when preparing the First Quarterly Report.

#### **8. MATTERS IN RELATION TO THE 2007 INTERIM REPORT OF THE COMPANY**

In preparing the interim report for the six months ended 30th June, 2007 dated 13th August, 2007 (the “Interim Report”), the Company has not consolidated the results of Dahe Basu for the period from 1st January, 2007 to 15th May, 2007 into the unaudited condensed consolidated financial statements of the Group in the Interim Report.

According to HKAS 27 “Consolidated and Separate Financial Statements” issued by the HKICPA and the accounting policy adopted by the Company, the results of Dahe Basu for the period from 1st January, 2007 to 15th May, 2007 should have been consolidated into the unaudited condensed consolidated financial statements of the Group in the Interim Report.

Further, according to HKAS 39 “Financial Instruments: Recognition and Measurement”, since the Company ceased control over Dahe Basu on 15th May, 2007, the Company’s investment in Dahe Basu should have been accounted for as an available-for-sale investment using the cost method.

## MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended 30th September, 2007, the Group's turnover was approximately RMB88,152,000, representing a decrease of approximately 14% over the same period last year. During the period, net profit attributable to equity holders of the Company amounted to approximately RMB6,875,000, representing a decrease of approximately 17% over the same period last year, of which revenue from the media dissemination business and revenue from the media production business accounted for approximately 59.18% (2006: 64.35%) and 40.82% (2006: 35.65%) of the total turnover respectively. Earnings per share dropped by 17% to RMB0.83 cents. Decrease in turnover during the period was mainly due to the Company's termination to operate the "Nanjing Zero Distance" TV advertising business on the Jiangsu TV station since 2007, while due to the introduction, reservation and optimisation of expertise during the period, salaries and welfare expenses increased. On the other hand, due to relocation of office site, it has led to the increase in rentals, and net profit dropped as compared with the corresponding period of last year. On 2nd May 2007, the board of directors have recommended the payment of special dividend of approximately RMB2,242,000 for the year ended 31st December, 2006. Save as disclosed, the board of directors have not recommended any payment of dividend. During the three months ended 30th September, 2006, the board of directors did not recommend any payment of dividend.

During the period under review, the Group's turnover from the media dissemination business was approximately RMB52,167,000, representing a decrease of approximately 21.25% over the same period last year. Currently, the Group has owned media resources of approximately 170,000 square metres, and integrated media resources of approximately 40,000 square metres in the PRC. The Group's business continued to expand to achieve a nationwide coverage of 64 cities, which further enhanced the Group's media coverage. During the period, the average launching rate for the Group's outdoor media was approximately 70%.

During the period, in order to perform a branded operation, through extensive solicitations, the Group's "An Kang Advertising Board (安康快告)" was changed to "China Express Advertising Board (中國快告)". The new name fully reflects the basic characteristics of community media, reflects new media characteristics of rapid and extensive coverage, and is of contemporary feeling. During the period, the "China Express Advertising Board" project has been developing steadily, and has currently established approximately 4,000 advertising boards, which are mainly located in the entrances of major residential areas in Beijing, Shanghai, Nanjing, and Guangzhou, and has increased outdoor media dissemination rights to the Group. The customers of "China Express Advertising Board" comprised financial, insurance, real-estate, instant consumer industries, such as Wang Laoji, Pingan Insurance and Suning Electric Appliance. During the period, the project has generated a turnover of approximately RMB5,830,000 for the Group.

During the period under review, the Group cooperated with the Modern Express of Xinhua News Agency to establish a China Express Advertising Board Electronic Reporting Team. Exclusive news provided by the Modern Express of Xinhua News Agency are being displayed on the electronic advertising board of “China Express Advertising Board”, providing real-time renewed information to the residents of the various areas, thereby adding values to the advertising board, and has become a convenient source of information to the residents.

“China Express Advertising Board” also further expanded from residential areas to universities and colleges. During the period, the Group has set up advertising boards in the campuses of some colleges and universities in Nanjing, which are named “Campus Advertising Board”. By leveraging on wireless transmission technology, urgent notices are disseminated and renewed on the advertising boards of the schools and communities within minutes, as well as provision of news which are closely related with the living of the students such as weather forecast, news headlines, daily topics, campus movements, vocational trainings. As a domestic first campus media, the “Campus Advertising Board” has strong development potentials, and it is expected that by 2009, “Campus Advertising Board” will expand to 24 cities in over 1,000 colleges and universities in the whole country.

Currently, as the Group’s customers come from different industries, including consumer products, telecommunication, household appliances, information technology, food and beverages, automobile and oil, which are all domestic and overseas renowned enterprises. During the period under review, the Group has further secured advertisement contracts from the various reputable brands, including the outdoor media dissemination rights of Anli in the six provinces and one city in Huadong early this year, and the subsequent outdoor dissemination contract of that company in Huanan. In addition, the Group continues to cooperate with Midea Electric Appliance on its magic cabinet project, and as at the end of September, the Group has completed renovation of 470 Midea Magic Cabinets, with cooperation amount exceeding RMB5,000,000. The Group has also obtained the “Magnificent roadshow activity for the celebration of Beijing Olympics” and “Xian Terra-Cotta Warrior Bar Business” of Wang Laoji, which has generated approximately RMB10,000,000 revenue to the Group.

During the period, the Group has also entered into contracts with Walmart, Founder and Skyworth. Of these, the Group shall be responsible for the production of the advertising boards and external walls of new Walmart supermarkets. In respect of the cooperation with Skyworth, the Group has entered into a contract worth RMB2,000,000 for the provision of outdoor media dissemination services to Skyworth. The Group also continues to cooperate with Shell, providing packaging services for the various specialty shops and outlets of the company, whereby further enhancing the cooperation between the Group and Shell.

## OUTLOOK

The Beijing Olympics is scheduled to be held in 2008. The various major brands have firmly captured this opportunity, hoping to exhibit their brands in front of billions of audiences so to increase the international awareness of the brandname. The Group has also captured this opportunity to enter into advertisement contracts with different reputable customers, setting down foundation for outdoor media dissemination, so to be prepared for the unlimited opportunities of Shanghai Expo in 2010. The Group has undertaken all the decoration, spray painting, exhibition and presentation business in all the game halls of Olympics Test Tournament – Good Luck Beijing 2007 International Badminton Tournament, Good Luck Beijing 2007 International Athlete Tournament.

Besides continuing to explore cross-regional advertising media network, the Group will continue to strengthen its existing business and proactively explore for new outdoor media business, in particular the Group's "China Express Advertising Board" project. The Group has planned to promote the "China Express Advertising Board" to cover 12 major cities all over the country by 2008, install approximately 10,000 express boards, newly installed covering a total of 10,000 prime communities, which can broadcast advertisements and related information to over 15 million medium to high income families simultaneously, generating remarkable revenue to the Group. Currently, major customers such as Wang Laoji and Guangfa Bank have placed substantial orders for advertisements in "China Express Advertising Board" in 2008. In addition to setting up "Advertising Boards" in the various residential areas in the PRC, the "Campus Advertising Boards" in the colleges and universities are also anticipated to have strong growth driven by the strong consumption power of the students. The Group hopes that the "Campus Advertising Board" can expand to the whole country, thereby enabling the "Campus Advertising Board" become a part of the campus life.

On an outlook to the future, the Group will be focused on "China Express Advertising Board", end production and optimisation, expand high quality outdoor media resources, and proactively identify international strategic cooperation partners, fully capitalise on the existing business network and abundant customer resources to enhance service quality, strengthen corporate governance system, so as to set a solid foundation for the development in 2008.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Group and the Company did not purchase, sell or redeem any of its listed securities during the nine months ended 30th September, 2007.

## DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

None of the directors or supervisors of the Company or any of their respective associates was granted by the Company or its subsidiaries any right to acquire shares or debentures of the Company or any other body corporate in the Group, or had exercised any such right as at 30th September, 2007.

## DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As at 30th September, 2007, the interests and short positions of the directors and the supervisors of the Company (as if the requirements applicable to directors under the Securities and Futures Ordinance ("SFO") had applied to the supervisors) in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Rules 5.46 of the GEM Listing Rules were as follows:

Name of Director/ Supervisor (note 1)	Company/ name of associated corporation	Capacity	Number of class of securities (note 2)	Approximate percentage of shareholding in the relevant class of securities
He Chaobing	Company	Interest of a controlled corporation (note 3)	405,200,000 domestic shares of RMB0.10 each (L)	69.86%
He Lianyi	Company	Beneficial owner	6,400,000 domestic shares of RMB0.10 each (L)	1.10%
Wang Mingmei	Company	Beneficial owner	3,800,000 domestic shares of RMB0.10 each (L)	0.66%
Wang Weijie	Company	Beneficial owner	3,800,000 domestic shares of RMB0.10 each (L)	0.66%

*Notes:*

- All of the persons named above are Directors, except Ms. Wang Mingmei who is a Supervisor.
- The letter "L" denotes the Director's/Supervisor's long positions in such shares.
- The interests in the domestic shares were held through 江蘇大賀國際廣告集團有限公司 (Jiangsu Dahe International Advertising Group, Co., Ltd.) ("Dahe International") which was owned as to 90% by Mr. He Chaobing.

Save as disclosed above, as at 30th September, 2007, none of the directors and the supervisors of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Rules 5.46 of the GEM Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES IN THE COMPANY

### A. SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2007, the following persons/entities had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO and were directly or indirectly interested in 10% or more of the shares of the Company:

Name of shareholder	Capacity	Number and class of securities (note 1)	Approximate percentage of shareholding in the relevant class of securities	Approximate percentage of shareholding in the entire issued share capital of the Company (note 4)
Dahe International	Beneficial owner	405,200,000 domestic shares of RMB0.10 each (L)	69.86%	48.82%
He Chaobing	Interest of a controlled corporation (note 2)	405,200,000 domestic shares of RMB0.10 each (L)	69.86%	48.82%
Yan Fen	Interest of spouse (note 3)	405,200,000 domestic shares of RMB0.10 each (L)	69.86%	48.82%

Notes:

- The letter "L" denotes the person's/entity's long positions in the domestic shares of the Company.
- The interest in the domestic shares were held through Dahe International which was owned as to 90% by Mr. He Chaobing.
- Ms. Yan Fen is the wife of Mr. He Chaobing and is deemed to be interested in the shares in which Mr. He Chaobing is interested under the provision of Divisions 2 and 3 of Part XV of the SFO.
- Domestic shares and H Shares of the Company are treated as the same class of shares for such purpose.

**B. OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO DIVISIONS 2 AND 3 OF PART XV OF THE SFO**

As at 30th September, 2007, save for the persons/entities disclosed in sub-section A above, the following entities/persons had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Capacity	Number and class of securities (note 1)	Approximate percentage of shareholding in the relevant class of securities	Approximate percentage of shareholding in the entire issued share capital of the Company (note 4)
Yan Jian	Beneficial owner	71,800,000 domestic shares of RMB0.10 each (L)	12.37%	8.66%
南京市國有資產投資管理控股(集團)有限公司	Beneficial owner	50,000,000 domestic shares of RMB0.10 each (L)	8.62%	6.02%
南京市生產力促進中心(Nanjing Productivity Enhancement Centre)	Interest of a controlled corporation (note 2)	50,000,000 domestic shares of RMB0.10 each (L)	8.62%	6.02%
南京市浦口區晨威油墨廠	Beneficial owner	30,000,000 domestic shares of RMB0.10 each (L)	5.17%	3.61%

Notes:

1. The letter "L" denotes the person's/entity's long positions in the domestic shares of the Company.
2. The interests in the domestic shares will be held through Nanjing Hi-Tech Venture Capital Co., Ltd., the registered capital of which is owned as to 60% by 南京市國有資產投資管理控股(集團)有限公司.
3. Domestic shares and H Shares of the Company are treated as the same class of shares for such purpose.

Save as disclosed above, no other person/entity had an interest or a short position in the shares and underlying shares of the Company as recorded on 30th September, 2007 in the register required to be kept under section 336 of the SFO.

## COMPETING INTEREST

None of the directors, the management, shareholders of the Company and their respective associates as defined under the GEM Listing Rules had any interest in a business which competes or may compete, either directly or indirectly, with the businesses of the Group nor any conflicts of interest with the Group.

## CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which reasonably indicates that there has been non-compliance with the Code of Practices under Corporate Governance as set out in Appendix XV of the GEM Listing Rules in any time during the accounting period covered under the current or quarterly report for the nine months ended 30th September, 2007.

## AUDIT COMMITTEE

The Company established an audit committee on 23rd October, 2003 with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company. The audit committee comprises three independent non-executive directors, namely, Mr Qiao Jun, Mr Li Yijing and Mr Shen Jin. The audit committee has reviewed and approved the unaudited financial report of the Group for the nine months ended 30th September, 2007 and is of the opinion that except for departure of accounting treatments for Dahe Basu from the requirements of HKFRSs as disclosed in note 1 to the quarterly report such statements comply with the applicable accounting standard and the GEM Listing Rules and legal requirements, and the adequate disclosures have been made.

By Order of the Board

**He Chaobing**

*Chairman and executive director*

Nanjing, the PRC  
13th November, 2007