世纪阳光

CENTURY SUNSHINE ECOLOGICAL TECHNOLOGY HOLDINGS LIMITED
世 紀 陽 光 生 態 科 技 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8276)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER 2005

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 sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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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.

This announcement, for which the directors (the "Directors" and individually a "Director") of Century Sunshine Ecological Technology Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirmed that, to the best of their knowledge and belief:- (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CHAIRMAN'S STATEMENT

On behalf of the board of Directors of the Company (the "Board"), I am pleased to present the annual results of the Company and its subsidiaries (together, the "Group") for the year ended 31st December 2005 for your review and consideration.

TURNOVER AND PROFITS

The financial results for this year were very encouraging. For the financial year ended 31st December 2005, the consolidated turnover of the Group was RMB191,003,000 (2004: RMB93,921,000), representing a growth of 103% from last year, and the audited profit attributable to the equity holders of the Company was RMB71,375,000 (2004: RMB35,461,000, as restated), representing an increase of 101% from last year. The Board is pleased to share the profit growth with shareholders by recommending a payment of final dividend of HK3.5 cents per Share. This dividend, together with the interim dividend of HK1.5 cents per Share already paid, will make a total distribution of HK5.0 cents per Share for the full year.

BUSINESS REVIEW

1. Continued capacity expansion

During the year, we continued to expand our production capacity in order to meet the growing market demand. Our third factory in Jiangxi province (the "Nanchang Plant") was completed and commenced operation in May 2005. The Nanchang Plant has an annual capacity of 100,000 tons of organic fertilizers and its actual production for the year was about 50,000 tons. As a result, our total annual capacity (excluding subcontractor) reached 155,000 tons as compared to 55,000 tons in 2004. The total production of the Group was 120,000 tons as compared to 52,000 tons in 2004. We believe that we are now one of the largest producers of organic fertilizers in China.

2. Launch of new product – eucalypt tree organic fertilizer

During the year, all of our major products remained strong sales growth. Although our capacity was already not enough to meet such growth, we strategically allocated a significant amount of capacity to the new product-eucalypt tree organic fertilizer, in order to capture the market share in the fast-growing forestry plantation market.

We launched the eucalypt tree organic fertilizer in April 2005. The product is mainly used for the plantation of eucalypt tree, a type of trees known for the fast growth, short logging cycle and high economic value which in turn are used for timber and paper production. Its plantation currently concentrates in the southern provinces including Fujian, Guangdong, Guangxi and Hainan. Our eucalypt tree organic fertilizer is the first of its kind in China and was well received by the market immediately after its launch. It accounted for 24% of our total sales for the year.

3. **Launch of new business – bio-pesticides**

We commenced our bio-pesticides business in the first half of this year. In the first quarter of 2005, we acquired a pesticide producer in Jiangxi province and subsequently expanded its production facility to 1,800 tons of bio-pesticides products per annum. The new facility commenced operation in December 2005. Our pesticides products are currently sold to 12 provinces in China and have become a new source of income of the Group.

4. **Acquisition of land for future capacity expansion**

In October 2005, we acquired a parcel of land with a site area of 126,700 square meters in Yunxiao, Fujian province. We plan to build on this site a new production plant (the "Yunxiao Plant") with a total annual capacity of 400,000 tons of organic fertilizers. The Yunxiao Plant is to be completed in two phases: phase I is expected to be completed by the end of 2006 with a capacity of 200,000 tons and phase II is expected to be completed by the end of 2007 with a capacity of another 200,000 tons. The Yuanxiao Plant is strategically located in the South-western Fujian province in order to serve the customers in the southern Fujian and Guangdong province.

5. **Share placement**

In December 2005, the Company completed a share placement and raised net proceeds of HK$121 million. All placing shares were subscribed by five independent institutional investors at a price of HK$2.20 per share. The net proceeds will be applied for building the Yunxiao Plant. This was our first share placement after the listing in February 2004. The capital expenditure for building the Yunxiao Plant will be fully satisfied by such net proceeds and our internal resources.

6. **Corporate governance**

During the year, our business experienced rapid expansion. We realized that internal control and corporate governance had become particularly important at this moment. Therefore, we placed considerable efforts on implementing the internal control procedures within the various production plants and departments. It is our objective to improve the production efficiency and management control while the Group is under rapid development and expansion. Thanks to the efforts of all employees, most of the performance targets were met by each of the production plants and departments during the year. We shall continue to implement and modify such internal control procedures in the future in order to maintain good corporate governance within the Group.

BUSINESS OUTLOOK

1. **Chinese Government's favorable agricultural policies**

During the year, the Chinese central government announced a series of new policies in favor of the Chinese farmers and the agricultural industry as a whole. Such policies include a 14% increase of spending on the rural world in 2006 and the promotion of the use of organic fertilizers in China's "11th Five-Year Plan". It is expected that such favorable policies will further stimulate Chinese farmers incentive to use organic fertilizers. As a result, we expect that the market demand for organic fertilizers will continue to grow in the coming years and that the future prospects for our business are promising.

2. Future capacity expansion

Production capacity will remain as a major bottleneck for our development in the foreseeable future. Therefore, we plan to progressively increase our capacity in the next two years. By the end of 2006 and 2007, we plan to increase additional capacity by 200,000 tons in each year. As a result, our total capacity (excluding subcontractors) in 2008 is expected to reach 555,000 tons. It is our objective to maintain our position as a leading producer of organic fertilizers in China.

3. Expansion of sales network

Following the capacity expansion, we also plan to expand our sales network in China. Our primary markets are Fujian and Jiangxi at the present with a secondary network extending to Guangdong, Zhejiang, Anhui, Hubei and Hunan. Our bio-pesticides are already sold to 12 provinces. It is our strategy to progressively increase our penetration into the neighbouring provinces, in particular, Guangdong and Zhejiang in the next two years.

I wish to thank our shareholders for your kind support over the past year. It is our objective to deliver to you a satisfactory return in the coming year.

Chi Wen Fu
Chairman

RESULTS

The Board is pleased to announce the audited results of the Group for the year ended 31st December 2005, together with the comparative figures for the corresponding year ended 31st December 2004 as follows:

	Note	2005 *RMB'000*	2004 *RMB'000* Restated
Sales		191,003	93,921
Cost of sales	*3*	(93,412)	(41,301)
Gross profit		97,591	52,620
Other gains		528	343
Selling and marketing costs	*3*	(6,690)	(3,416)
Administrative expenses	*3*	(14,029)	(13,996)
Operating profit		77,400	35,551
Finance costs		(1,028)	(136)
Profit before income tax		76,372	35,415
Income tax expense	*4*	(4,997)	–
Profit for the year		71,375	35,415
Attributable to:			
Equity holders of the Company		71,375	35,461
Minority interest		–	(46)
		71,375	35,415
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– basic	*5*	21.74 cents	11.45 cents
– diluted	*5*	20.86 cents	11.44 cents
Dividends	*6*	19,590	10,176

CONSOLIDATED BALANCE SHEET

As at 31st December 2005

	Note	2005 RMB'000	2004 RMB'000 Restated
ASSETS			
Non-current assets			
Property, plant and equipment		75,518	16,014
Land use rights		4,365	–
Prepayment for acquisition of land		7,030	–
Intangible assets		5,402	3,634
Investment deposit		–	2,000
		92,315	21,648
Current assets			
Inventories		7,570	3,030
Trade and other receivables	*7*	23,478	21,237
Cash and cash equivalents		218,993	70,474
		250,041	94,741
Total assets		342,356	116,389
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital and premium		179,713	37,291
Other reserves	*8*	29,972	19,942
Retained earnings			
– Proposed final dividend	*6*	14,502	10,176
– Others		87,899	44,271
		312,086	111,680
Minority interest		3	3
Total equity		312,089	111,683

	Note	2005	2004
		RMB'000	*RMB'000*
			Restated
LIABILITIES			
Non-current liabilities			
Borrowings		6,656	–
Current liabilities			
Trade and other payables	*9*	4,291	4,677
Current income tax liabilities		4,664	29
Borrowings		14,656	–
		23,611	4,706
Total liabilities		30,267	4,706
Total equity and liabilities		342,356	116,389
Net current assets		226,430	90,035
Total assets less current liabilities		318,745	111,683

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2005

	Attributable to equity holders of the Company				
	Share capital and premium *RMB'000*	**Other reserves** *RMB'000*	**Retained earnings** *RMB'000*	**Minority interest** *RMB'000*	**Total** *RMB'000*
Balance at 1st January 2004, as previously reported as equity	1,802	9,793	21,873	–	33,468
Balance at 1st January 2004, as previously separately reported as minority interest	–	–	–	905	905
Balance at 1st January 2004, as restated	1,802	9,793	21,873	905	34,373
Currency translation differences	–	29	–	–	29
Net income recognised directly in equity	–	29	–	–	29
Profit/(loss) for the year	–	–	35,461	(46)	35,415
Total recognised income/(expense) for 2004	–	29	35,461	(46)	35,444
Capitalisation of amounts due to shareholders	–	3,266	–	–	3,266
Appropriation of retained earnings	–	2,887	(2,887)	–	–
Issue of shares	46,640	–	–	–	46,640
Share issuance cost	–	(7,808)	–	–	(7,808)
Share issuance cost credited against share premium account	(11,151)	11,151	–	–	–
Contribution from a minority shareholder	–	–	–	3	3
Acquisition of additional interest in a subsidiary	–	–	–	(859)	(859)
	35,489	9,496	(2,887)	(856)	41,242
Balance at 31st December 2004, as previously reported	37,291	19,318	54,447	3	111,059
Employee share option scheme – value of employee services	–	624	–	–	624
Balance at 31st December 2004, as restated	37,291	19,942	54,447	3	111,683

	Attributable to equity holders of the Company				
	Share capital and premium	Other reserves	Retained earnings	Minority interest	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1st January 2005, as restated	37,291	19,942	54,447	3	111,683
Disposal of a subsidiary	–	(244)	–	–	(244)
Currency translation differences	–	8	–	–	8
Net expense recognised directly in equity	–	(236)	–	–	(236)
Profit for the year	–	–	71,375	–	71,375
Total recognised (expense)/income for 2005	–	(236)	71,375	–	71,139
Appropriation of retained earnings	–	8,157	(8,157)	–	–
Transfer of reserves upon exercise of share options	2,171	(2,171)	–	–	–
Share option scheme					
– value of employee services	–	4,280	–	–	4,280
– proceed from shares issued upon exercise of share options	14,352	–	–	–	14,352
Issuance of shares	125,899	–	–	–	125,899
Dividend paid relating to 2004	–	–	(10,176)	–	(10,176)
Dividend paid relating to 2005	–	–	(5,088)	–	(5,088)
	142,422	10,266	(23,421)	–	129,267
Balance at 31st December 2005	179,713	29,972	102,401	3	312,089

Notes:

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates.

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretation of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS-Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 33 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest and other disclosures;

– HKASs 2, 7, 8, 10, 16, 23, 27, 33 and HKAS-Int 15 had no material effect on the Group's policies;

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the group entities have the same functional currency as the presentation currency for respective entity financial statements; and

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the land use rights were accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December 2004, the provision of share options to employees did not result in an expense in the income statements. Effective on 1st January 2005, the group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7th November 2002 and had not yet vested on 1st January 2005 was expensed retrospectively in the income statement of the respective periods.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31st December 2004, goodwill was:

– Amortised on a straight line basis over a period of 5 years; and

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

– The Group ceased amortisation of goodwill from 1st January 2005;

– Accumulated amortisation as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

– From the year ended 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted for at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis;

– HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1st January 2005;

– HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st January 2005; and

– HKFRS 3 – prospectively after 1st January 2005.

The adoption of revised HKAS 17 resulted in:

	2005	**2004**
	RMB'000	*RMB'000*
Decrease in property, plant and equipment	4,365	–
Increase in land use rights	4,365	–

The adoption of HKFRS 2 resulted in:

	2005	**2004**
	RMB'000	*RMB'000*
Decrease in retained earnings	4,280	624
Increase in administrative expenses	4,280	624
Decrease in basic earnings per share (RMB per share)	0.013	0.002
Decrease in diluted earnings per share (RMB per share)	0.012	0.002

The adoption of HKFRS 3 and HKAS 38 resulted in:

	2005
	RMB'000
Decrease in administrative expenses	8
Increase in basic earnings per share	–
Increase in diluted earnings per share	–

2. Segment information

Primary reporting format – business segments

At 31st December 2005, the Group has two main business segments:

(1) Manufacturing and sales of organic fertilizers; and

(2) Manufacturing and sales of biological pesticides.

No business segment information is presented for the year ended 31st December 2005 as the total revenue, segment results and segment assets of the biological pesticides segment is less than 10 per cent of the Group's revenue, profit for the year and total assets. Accordingly, the biological pesticides segment is not identified as a reportable segment in accordance with HKAS 14.

No business segment information is presented for the year ended 31st December 2004 as the Group was engaged in the manufacturing and sales of organic fertilizers only during the year ended 31st December 2004.

Secondary reporting format – geographical segments

No geographical segment information is presented as the Group's business is carried out in Mainland China.

3. Expenses by nature

Expenses included in cost of sales, selling and marketing costs and administrative expenses are analysed as follows:

	2005 *RMB'000*	2004 *RMB'000*
Cost of inventories	83,744	39,558
Employee benefit expense	12,234	4,660
Depreciation and amortisation expense	9,480	2,601
Advertising costs	2,381	1,374
Research and development expense	983	6,125
Transportation	518	412
Auditors' remuneration	742	517
Other expenses	4,049	3,466
Total cost of sales, selling and marketing costs and administrative expenses	114,131	58,713

4. Income tax expense

The amount of taxation charged to the consolidated income statement represents:

	2005 *RMB'000*	2004 *RMB'000*
Current income tax		
– Hong Kong profits tax	–	–
– Mainland China enterprise income tax	4,997	–
	4,997	–

(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 during the year (2004: Nil).

(b) Mainland China enterprise income tax ("Mainland China EIT")

The subsidiaries established in Mainland China are subject to Mainland China EIT at rates ranging from 27% to 33%. Green Land Bio-Products Co., Ltd. ("Green Land"), Century Sunshine (Nan Ping) Biology Engineering Co., Ltd. ("Nan Ping") and Century Sunshine (Jiangxi) Ecological Technology Limited ("Jiangxi") are wholly owned foreign enterprises engaged in the production and sale of organic fertilizers with operating periods of more than ten years, and in accordance with the relevant income tax regulations of Mainland China, are fully exempted from Mainland China EIT for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a 50% reduction in Mainland China EIT for the next three years. The first profitable year after offsetting prior year tax losses of Green Land, Nan Ping and Jiangxi were 31st December 2003, 31st December 2004 and 31st December 2005, respectively. 世紀陽光（福建）農業科技發展有限公司, Century Sunshine (Zhangzhou) Ecological Technology Limited and Excellent Pesticide (Nanchang) Limited were loss making during the year ended 31st December 2005.

(c) Overseas income tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies law of the Cayman Islands and, accordingly, is exempted from the Cayman Islands income tax. The Company's subsidiaries established in the British Virgin Islands were incorporated under the International Business Companies Act of the British Virgin Islands and, accordingly, are exempted from the British Virgin Islands income tax.

(d) Mainland China value-added tax ("VAT")

The Group's sales of organic fertilizers and biological pesticides were carried out by the subsidiaries of the Group in Mainland China, which are exempted from Mainland China value-added tax according to the relevant Mainland China tax regulations.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using a tax rate of 33%, the standard taxation rate of Mainland China enterprises, as follows:

	2005	**2004**
	RMB'000	*RMB'000*
Profit before income tax	76,372	35,415
Calculated at a taxation rate of 33% (2004: 33%)	25,203	11,687
Different taxation rates	(9,701)	(1,939)
Income not subject to tax	(13,512)	(12,740)
Expenses not deductible for tax purposes	1,090	2,239
Tax losses for which no deferred income tax asset was recognised	1,917	753
Income tax expense	4,997	–

As at 31st December 2005, the Group has unrecognised tax losses of approximately RMB15,416,000 (2004: RMB5,401,000), which can be carried forward to offset against future taxable profit. Tax losses of RMB1,645,000 (2004: RMB894,000) will expire in year 2009 while tax losses of RMB13,264,000 (2004: RMB4,507,000) can be carried forward indefinitely. The deferred tax benefit of such tax losses was not recognised as it was not probable that future taxable profit will be available to utilise the unused tax losses.

5. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2005	**2004**
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	71,375	35,461
Weighted average number of ordinary shares in issue (thousand)	328,301	309,699
Basic earnings per share (RMB per share)	21.74 cents	11.45 cents

Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2005	2004
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	71,375	35,461
Weighted average number of ordinary shares in issue (thousand)	328,301	309,699
Adjustment for share options (thousand)	13,933	291
Weighted average number of ordinary shares for diluted earnings per share (thousand)	342,234	309,990
Diluted earnings per share (RMB per share)	20.86 cents	11.44 cents

6. Dividends

Dividend paid during the year ended 31st December 2005 was RMB15,264,000 (HK$0.045 per ordinary share) (2004: Nil). A final dividend in respect of the year ended 31st December 2005 of HK$0.035 per ordinary share, amounting to a total of RMB14,502,000 is to be proposed at the Annual General Meeting on 28th April 2006. These financial statements do not reflect this dividend payable.

	2005	2004
	RMB'000	*RMB'000*
Interim dividend paid of HK$0.015 (2004: Nil) per ordinary share	5,088	–
Proposed final dividend of HK$0.035 (2004: HK$0.03) per ordinary share	14,502	10,176
	19,590	10,176

7. Trade and other receivables

	2005	2004
	RMB'000	*RMB'000*
Trade receivables	20,591	12,652
Less: provision for impairment of receivables	–	(633)
Trade receivables – net	20,591	12,019
Prepayments and deposits	2,811	8,326
Other receivables	76	892
	23,478	21,237

The carrying amounts of trade and other receivables approximate their fair values.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

At 31st December 2005, the ageing analysis of the trade receivables was as follows:

	2005	2004
	RMB'000	*RMB'000*
0 to 30 days	15,464	8,967
31 to 60 days	3,722	3,325
61 to 90 days	941	320
Over 90 days	464	40
	20,591	12,652

The Group has written back a provision for impairment of trade receivables of RMB633,000 (2004: provision of RMB633,000) during the year ended 31st December 2005. Such reversal has been included in administrative expenses.

8. Other reserves

	Capital reserve	Statutory reserves	Employee compensation reserves	Share issuance cost	Currency translation reserves	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1st January 2004	8,699	4,437	–	(3,343)	–	9,793
Capitalisation of amounts due to shareholders	3,266	–	–	–	–	3,266
Appropriation of retained earnings	–	2,887	–	–	–	2,887
Share issuance cost	–	–	–	(7,808)	–	(7,808)
Share issuance cost credited against share premium account	–	–	–	11,151	–	11,151
Currency translation differences	–	–	–	–	29	29
At 31st December 2004, as previously reported	11,965	7,324	–	–	29	19,318
Employee share option scheme – value of employee services	–	–	624	–	–	624
At 31st December 2004, as restated	11,965	7,324	624	–	29	19,942
At 1st January 2005, as per above	11,965	7,324	624	–	29	19,942
Appropriation of retained earnings	–	8,157	–	–	–	8,157
Employee share option scheme – value of employee services	–	–	4,280	–	–	4,280
Transfer of reserves upon exercise of share options	–	–	(2,171)	–	–	(2,171)
Disposal of a subsidiary	–	(244)	–	–	–	(244)
Currency translation differences	–	–	–	–	8	8
At 31st December 2005	11,965	15,237	2,733	–	37	29,972

9. Trade and other payables

	2005	2004
	RMB'000	*RMB'000*
Trade payables	1,823	608
Accrued expenses	2,468	4,069
	4,291	4,677

At 31st December 2005, the ageing analysis of trade payables was as follows:

	2005	2004
	RMB'000	*RMB'000*
0 to 30 days	978	482
31 to 60 days	–	87
61 to 90 days	1	17
Over 90 days	844	22
	1,823	608

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

The Group's turnover for the year increased significantly to RMB191,003,000, representing a growth of 103% from last year. Turnover of microbial compound fertilizer, organic tea fertilizer, premium organic fertilizer and organic compound fertilizer recorded an increase of 23%, 12%, 727% and 5% from last year respectively. New products of eucalypt tree organic fertilizer and bio-pesticide were introduced in 2005, and accounted for 24% and 3% respectively of the total turnover of the year. The overall increase in turnover were mainly attributable to the capacity expansion following the commencement of production of the Nanchang Plant and continued growth in market demand.

New Product

In 2005, the Group introduced a new product – eucalypt tree organic fertilizer. Eucalypt tree organic fertilizer was mainly applied in the plantation of eucalypt tree, which are used for timber and paper production. Plantation of eucalypt trees is getting popular in China especially in the Southern provinces such as Fujian and Guangdong. The new product was well received by the market and became major driver of growth in 2005. The sales of eucalypt tree organic fertilizer amounted to RMB44,923,000, representing 24% of the total sales.

New Business

The Group also launched a new line of business of bio-pesticide in 2005. Bio-pesticide was a supplemental business to the organic fertilizers and created synergy effect in the Group. Our bio-pesticides are currently sold to 12 provinces in China and as a result, help to build up our brand nationwide. The sales of bio-pesticides accounted for RMB5,457,000, representing 3% of the total sales of the Group. It is expected that the sales of bio-pesticides will contribute about 10% to the Group's turnover in the coming years and become a new source of income of the Group.

Production Capacity

In 2005, the total sales volume of organic fertilizer amounted to 120,000 tons. Our production facilities include the Youxi Plant and Jianou Plant in Fujian province and the Nanchang Plant in Jiangxi province. Part of our organic compound fertilizers was outsourced to Luoyuan Plant in Fujian province. The output volume of the Youxi Plant, Jianou Plant and Nanchang Plant were approximately 28,000 tons, 32,000 tons and 50,000 tons respectively, representing about 23%, 27% and 42% respectively of the total sales volume. The capacity utilization rates were about 112%, 107% and 50% for the Youxi Plant, Jianou Plant and Nanchang Plant respectively. Nanchang Plant was put into operation in May 2005 with annual capacity of 100,000 tons. The sales volume produced through Luoyuan Plant was about 10,000 tons, representing about 8% of the total sales volume.

Our current production capacity of 155,000 tons is still not enough to meet the market demand and sales growth. It is our primary objective to expand the production capacity in order to meet the increasing demand and capture more market share.

We acquired a parcel of land of 126,700 square meters in Yunxiao, Fujian Province in October 2005. We plan to build on this site a new production facility with annual capacity of 400,000 tons of organic fertilizer in two phases. The first phase with 200,000 tons of capacity is expected to be completed by December 2006 and the second phase with another 200,000 tons of capacity will be completed by December 2007. Upon completion, the total production capacity of the Group will reach 555,000 tons of organic fertilizers.

Gross Profit

Gross profit amounted to RMB97,591,000 in 2005. Gross profit margin was about 51%, representing a decline of 5% from last year. The decline was mainly attributable to the introduction of eucalypt tree organic fertilizer which has a lower gross margin than the other products. Despite its lower margin, it is the Group’s strategy to allocate a significant amount of capacity to the eucalypt tree organic fertilizer in order to capture the market share in the fast-growing forestry plantation market. Except for this new product, gross profit margins of the Group’s other products remained stable as compared to last year.

Operating expenses

Total operating expenses amounted to RMB20,719,000, representing a increase of 19% from last year. Of the total operating expense, administrative expenses slightly increased by 0.2% to RMB14,029,000, selling and marketing costs increased by 96% to RMB6,690,000.

Administrative expenses included items such as salary, amortisation and research and development cost. Salary cost accounted for 48% of the total administrative expenses in which share option cost was charged for about RMB4,280,000 in accordance with the new Hong Kong Financial Reporting Standards.

Selling and marketing costs included advertising cost and salary for sales staff. Advertising cost and salary for sales staff accounted for 36% and 58% of the total selling and marketing costs, representing an increase of 73% and an increase of 136% respectively. The increase in advertising cost and salary expense is mainly due to the commencement of operation of Nanchang Plant and recruitments of additional sales staff. During the year, sales made by our sales teams in terms of turnover increased to 45% from 43% in 2004.

Profit attributable to shareholders

The Group's consolidated profit attributable to the equity holders of the Company for the year ended 31 December 2005 was approximately RMB71,375,000, representing an increase of 101% from last year. The net profit margin was about 37%, remaining constant from last year.

LIQUIDITY, GEARING AND SOURCE OF FINANCE

As at 31st December 2005, cash and bank balances of the Group increased by RMB148,519,000 to RMB218,993,000 (2004: RMB70,474,000), balances of which are denominated in Hong Kong dollars (RMB126,629,000) (2004: RMB2,648,000) and Reminbi (RMB92,364,000) (2004: RMB67,826,000). As at 31st December 2005, the Group has a bank borrowings of RMB21,312,000 (2004: Nil) and the net current assets was approximately RMB226,430,000 (2004: RMB90,035,000). The Group's gearing ratio as measured by the total borrowings over net asset value was 7% in 2005 (2004: 0%).

The existing cash resources together with the steady cash flows generated from operations are sufficient to meet its business requirements.

SIGNIFICANT INVESTMENT

In October 2005, the Group acquired a parcel of land with a site area of 126,700 square meters in Yunxiao, Fujian province for a total consideration of approximately RMB7 million. The Group plans to build on this site a new production plan with a total production capacity of 400,000 tons of organic fertilizers. Total investment of the Yunxiao Plant is estimated to be approximately of RMB180 million. The Yunxiao Plant will be completed in two phases: Phase I with 200,000 tons capacity and Phase II with another 200,000 tons capacity are expected to be completed by the end of 2006 and 2007 respectively. The investment cost of the Yunxiao Plant is expected to be satisfied by the internal resources. Save for disclosed, the Group did not have any future plan for material investment as at 31st December 2005.

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

Neither the Company nor any of its subsidiaries had purchased or redeemed any of the Company's listed securities during the year.

Share Placing

On 16th December 2005, 56,500,000 existing ordinary Shares were placed at HK$2.20 per share (the "Placing Price") through the share placement and the Company subsequently issued 56,500,000 new Shares (the "New Shares"), with a view to strengthening the capital base of the Company. The placees included professional and institutional investors who were not connected persons of the Company and named as follows. The Placing Price represented a discount of approximately 7.4% to the closing price of HK$2.375 per Share as quoted on the Stock Exchange on 15th December 2005.

Name of placees
Atlantis Investment Management Limited
DNB Asset Management (Asia) Limited
ABN Amro Bank NV London Branch
Lapp Capital Pte Ltd.-Lapp Opportunity Fund
PCI Investment Management Limited

The New Shares represented approximately 16.5% of the issued share capital of the Company prior to the share placement. The net issue price for the New Shares was approximately HK$2.14 per Share, which is equivalent to the Placing Price less expenses and commissions of the Share Placement. A net proceed of approximately HK$121 million in aggregate after expenses and commissions was received. Such proceeds was planned to be applied to construction of new production facilities with annual production capacity of 400,000 tons of organic fertilizers on the land located at Yunxiao County, Fujian Province, the PRC.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES OF THE GEM LISTING RULES

The Code on Corporate Governance Practices (the "CCGP") contained in Appendix 15 of the GEM Listing Rules was introduced on 1st January 2005, which set out the principles of good corporate governance and the Company is required to comply with the code provisions of the CCGP. The Company is fully admitted that good corporate governance, as part of the Company's culture, can create values to the Group and our shareholders. It is not just a question of regulatory compliance, it is the guidance of the Company to do the right thing. Therefore, the Board is committed to continue to enhance the standards of corporate governance within the Group and to ensure that the Group conducts its businesses in an honest and responsible manner. Except for disclosed in the following, the Group has adopted practices which meets the code provisions of the CCGP.

Chairman And Chief Executive Officer (The "CEO")

Chi Wen Fu, the founder of the Group, currently holds both the roles of the Chairman and the CEO. This structure is not complied with the code provision of the CCGP. However, the Board is of the view that it is for the best interests of the Group to adopt a single leadership structure, instead of dual leadership structure as Mr. Chi possesses extensive experience and knowledge in the field of agriculture especially the organic fertilizers and he is playing significant role in establishing the strategic decision and the overall management of the Group. The Board considers that there is no suitable professional or expertise in the market to fill the position of CEO at this stage. In light of the single leadership structure, sufficient safeguards are established to ensure that the management is accountable to the Board as a whole.

The Chairman/CEO ensures that Board meetings are held regularly and when necessary. The Chairman/CEO ensures that Board members are provided with complete, adequate, accurate and timely information on a regular basis to enable them to be fully cognisant of the affairs of the Group. The Chairman/CEO ensures that all Directors have unrestricted access to the documents or information kept by the Group and professional advice when necessary.

FINAL DIVIDEND

The Board recommends a payment of a final dividend of HK$0.035 (2004: HK$0.03) per Share to the shareholders of the Company whose names appear in the register of members on 25th April 2006 and payable on or about 18th May 2006, making a total dividend of HK$0.05 per Share for the full year of 2005 (2004: HK$0.03 per Share).

AUDIT COMMITTEE

During the year, the audit committee of the Company ("the "Audit Committee") held four meetings and performed duties including reviewing the Group's annual report, half-yearly report, quarterly report and announcement. The Audit Committee is of the opinion that the financial statements of the Company and the Group for year ended 31st December 2005 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company will be held at 3:00 p.m. on Friday, 28th April 2006 at Salon IV, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong. Notice of the annual general meeting of the Company will be sent to the shareholders of the Company shortly.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 25th April 2006 to Friday, 28th April 2006, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the proposed final dividend for the year ended 31st December 2005 and for attending the annual general meeting of the Company to be held on Friday, 28th April 2006, all transfers of shares of the Company accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tricor Investor Services Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Monday, 24th April 2006.

By order of the Board
Shum Sai Chit
Director

Hong Kong, 15th March 2006

As at the date hereof, the executive directors of the Company are Mr. Chi Wen Fu, Mr. Shum Sai Chit and Mr. Zhou Xing Dun; the non-executive directors of the Company are Ms. Zou Li, Ms. Wong May Yuk and Mr. Wu Wen Jing, Benjamin and the independent non-executive directors of the Company are Mr. Shen Yi Min, Mr. Cheung Sound Poon and Mr. Kwong Ping Man.

This announcement will remain on the GEM website on the "Latest Company Announcement" page for at least 7 days from the date of its posting.