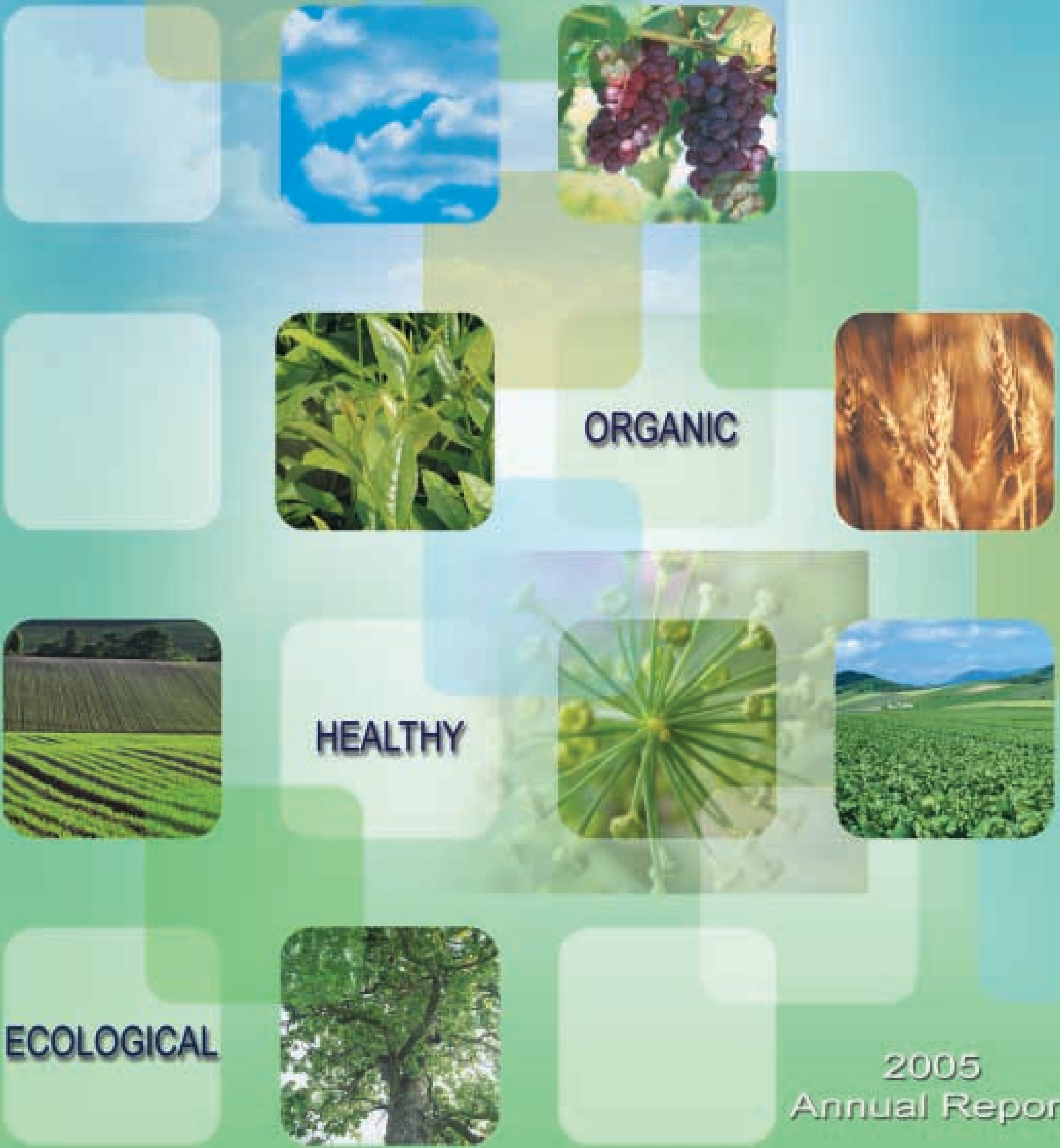
CENTURY SUNSHINE 世纪阳光

CENTURY SUNSHINE ECOLOGICAL TECHNOLOGY HOLDINGS LIMITED
世紀陽光生態科技控股有限公司



2005 Annual 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 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.

Given the emerging nature of 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 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 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" 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 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.

Turnover

RMB191 million

103% Increase

Century
Sunshine

Profit

RMB71 million

101% Increase

Organic

Healthy

Ecological

A market leader in the research and development, production and sale of organic fertilizers in China

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Chi Wen Fu *(Chairman)*
Shum Sai Chit
Zhou Xing Dun

NON-EXECUTIVE DIRECTORS

Zou Li
Wong May Yuk
Wu Wen Jing, Benjamin

INDEPENDENT NON-EXECUTIVE DIRECTORS

Cheung Sound Poon
Shen Yi Min
Kwong Ping Man

COMPANY SECRETARY

Tang Ying Kit (CPA, FCCA, ACMA)

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 2807, China Resources Building
26 Harbour Road
Wanchai
Hong Kong

COMPLIANCE OFFICER

Shum Sai Chit

QUALIFIED ACCOUNTANT

Tang Ying Kit (CPA, FCCA, ACMA)

LEGAL ADVISERS

As to Hong Kong law:–
Sit, Fung, Kwong & Shum

As to PRC law:–
Kang Da Law Office

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Bank (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26/F Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKER

DBS Bank (Hong Kong) Limited

LISTING DATE

17 February 2004

STOCK CODE

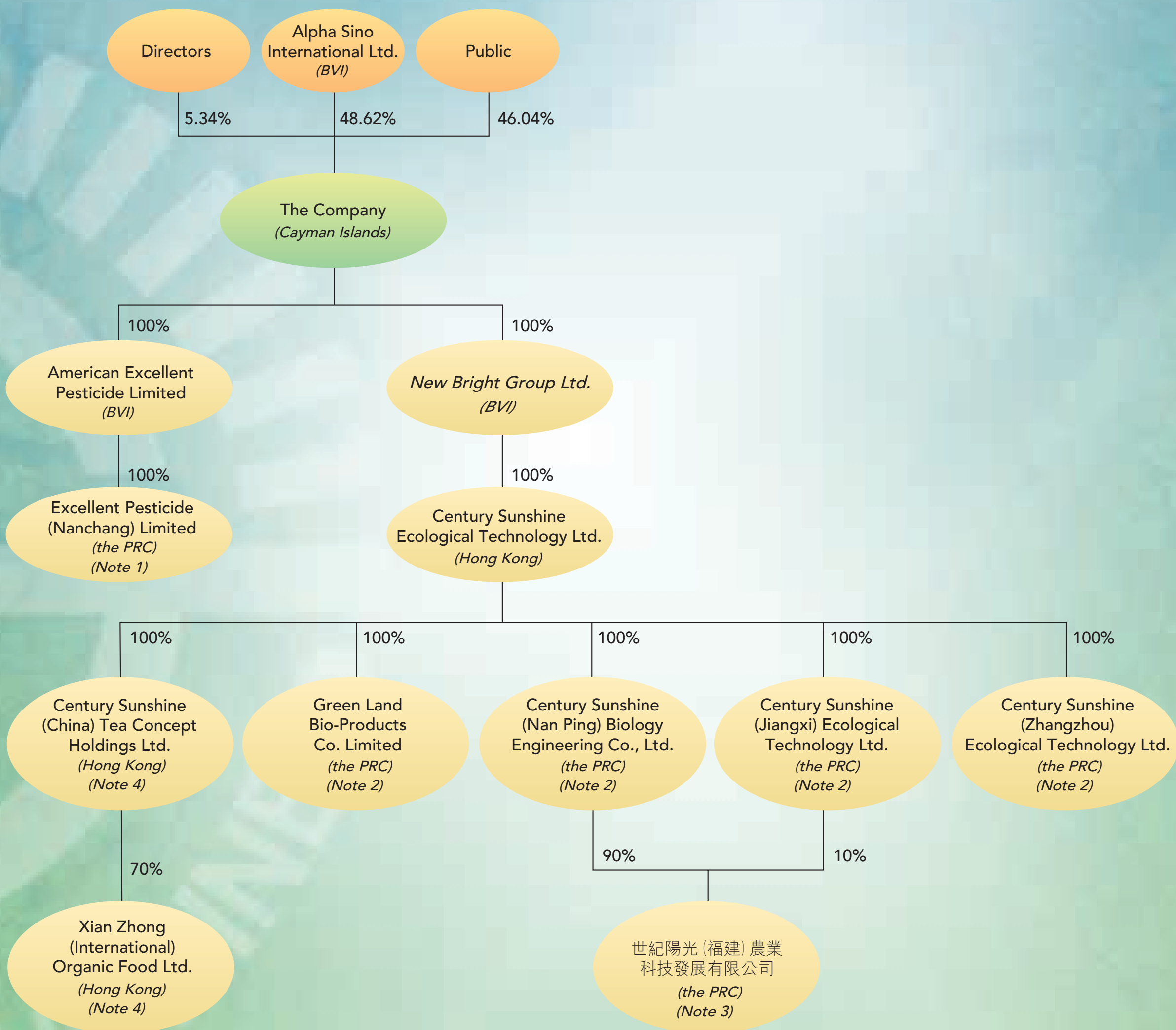
8276

COMPANY'S WEBSITE ADDRESS

www.centurysunshine.com.hk

GROUP BUSINESS STRUCTURE

As at 31 December 2005, the corporate structure of Century Sunshine Ecological Technology Holdings Limited (the "Company") and its subsidiaries (together, the "Group") is as follows:



Note 1: production and sale of bio-pesticide products.

Note 2: production and sale of organic fertilizer products.

Note 3: research and development and provision of technical services.

Note 4: Inactive.

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED 31 DECEMBER

	2005 RMB'000	2004 RMB'000 Restated	2003 RMB'000	2002 RMB'000	2001 RMB'000
Sales	**191,003**	93,921	55,468	42,630	5,923
Cost of sales	**(93,412)**	(41,301)	(24,364)	(19,177)	(3,140)
Gross Profit	**97,591**	52,620	31,104	23,453	2,783
Other gain-net	**528**	343	–	–	–
Selling and marketing costs	**(6,690)**	(3,416)	(3,094)	(3,241)	(700)
Administrative expenses	**(14,029)**	(13,996)	(6,473)	(6,781)	(1,541)
Operating profit	**77,400**	35,551	21,537	13,431	542
Finance costs	**(1,028)**	(136)	(343)	(230)	(269)
Profit before taxation	**76,372**	35,415	21,194	13,201	273
Income tax expense	**(4,997)**	–	(29)	(11)	–
Profit for the year	**71,375**	35,415	21,165	13,190	273
Attributable to:					
Equity holders of the Company	**71,375**	35,461	21,367	13,416	(231)
Minority interests	**–**	(46)	(202)	(226)	504
Total Assets	**342,356**	116,389	47,300	23,299	14,060
Total Liabilities	**(30,267)**	(4,706)	(12,927)	(7,384)	(10,700)
Total Equity	**312,089**	111,683	34,373	15,915	3,360

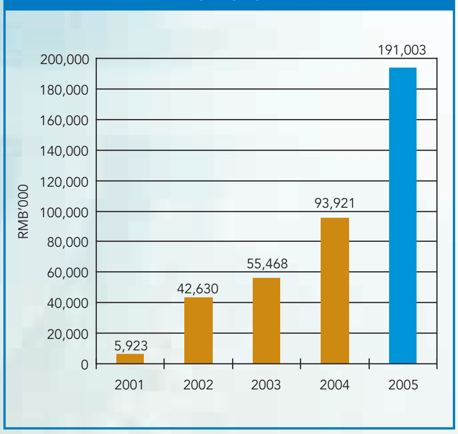
FINANCIAL HIGHLIGHTS

FINANCIAL RATIOS (AS AT 31 DECEMBER)

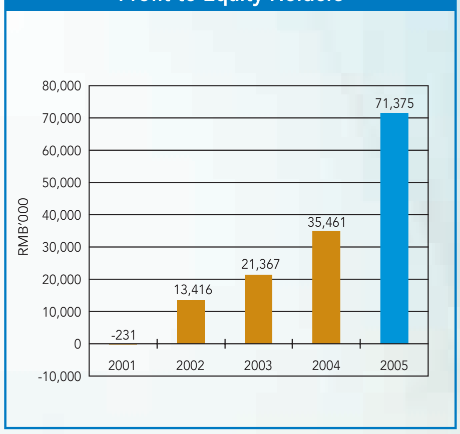
	2005	2004	2003	2002	2001
Return on total equity[1]	**23%**	32%	62%	84%	N/A
Return on total assets[2]	**21%**	30%	45%	58%	N/A
Interest cover[3]	**64x**	261x	63x	58x	2x
Gearing[4]	**7%**	–	32%	39%	215%
Liquidity[5]	**11x**	20x	3x	3x	1x

Notes:
1. Profit attributable to equity holders/Total equity
2. Profit attributable to equity holders/Total assets
3. Profit before tax and interest/Interest expense
4. Total borrowings/Total equity
5. Current assets/Current liabilities

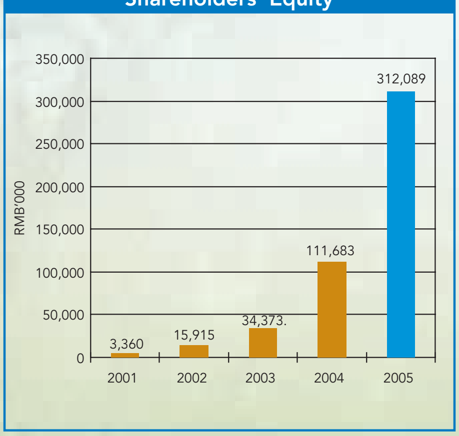
Turnover



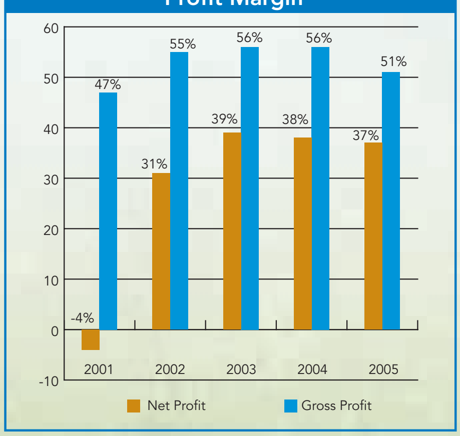
Profit to Equity Holders



Shareholders' Equity



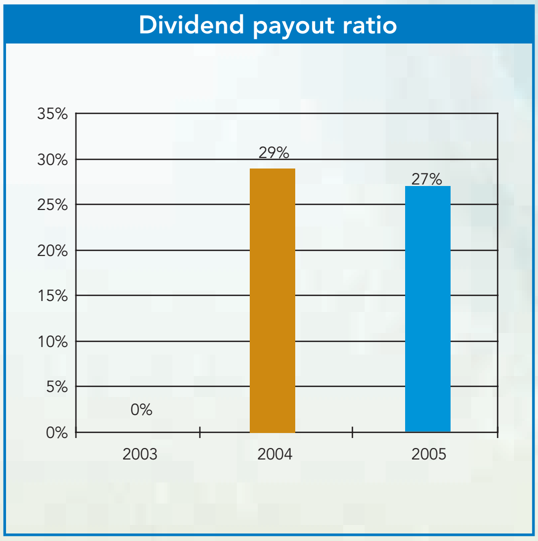
Profit Margin



FINANCIAL HIGHLIGHTS

SHARE INFORMATION

	31 December 2005	31 December 2004
Company's shares of HK$0.10 each (the "Shares") in issue	398,405,000	320,000,000
Closing market price per Share	HK$2.525	HK$0.72
Market capitalization	HK$1,006 million	HK$230 million
Net asset value per Share	RMB0.78	RMB0.35
Earnings per Share		
Basic	RMB21.74 cents	RMB11.45 cents
Diluted	RMB20.86 cents	RMB11.44 cents
Dividend per Share		
Interim	HK1.5 cents	–
Final	HK3.5 cents	HK3.0 cents



CHAIRMAN'S STATEMENT


Chi Wen Fu
Chairman

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

TURNOVER AND PROFITS

The financial results for this year were very encouraging. For the financial year ended 31 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

CHAIRMAN'S STATEMENT

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

CHAIRMAN'S STATEMENT

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

DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

CHI Wen Fu (池文富): aged 43, is the Chairman and Chief Executive Officer of the Group responsible for overall strategic direction and key operating decisions. Mr. Chi graduated from Fujian Light Industry Technical College (福建省輕工業技術學校) in 1981 specialising in Chemical Analysis. Mr. Chi became a qualified lawyer in the PRC in 1989 and joined Fuzhou Justice Bureau Commerce Law Office (福州市司法局經濟律師事務所). Mr. Chi left Fuzhou Justice Bureau Commerce Law Office and set up a law office in Fuzhou in 1995 in which he was the managing partner. In early 1998, Mr. Chi started initial research on organic agricultural production and funded a project on research and development of microbial compound fertilizer products. Mr. Chi established the Group in 2000. He is currently the Vice Chairman of the Youth Business Association of Fujian Province (福建省青年商會). He was awarded "Top Hundred of Asia Innovative Management Executive" (亞洲管理創新百名優秀人物獎) in 2005.

SHUM Sai Chit (沈世捷): aged 48, is the Chief Operation Officer of the Group responsible for investment and commercial activities of the Group in Hong Kong. Mr. Shum is a graduate from Longxi Finance Training College (龍溪地區財貿幹部學校) specializing in Consumer Product Pricing Statistics. Mr. Shum joined Fujian Textiles Import and Export Corporation (福建省紡織品進出口公司) as a manager in 1984 responsible for importing and exporting of textile products. In November 1994, Mr. Shum became a shareholder and managing director of Go Modern Limited which was principally engaged in the business of manufacturing of textile products and other investment and trading activities. Mr. Shum joined the Group in January 2002.

ZHOU Xing Dun (周性敦): aged 66, is the Chief Technology Officer of the Group responsible for technical development of products and research and development of new organic fertilizer applications for the Group. Professor Zhou is a graduate from Beijing Geological Institute (北京地質學院), presently known as China Geological University (中國地質大學), in the PRC in 1962. Before joining the Group in January 2002, Professor Zhou was a professor at the Institute of Natural Resource and Environment of Fujian Agriculture and Forestry University (福建農林大學資源與環境學院) in the PRC. He was also a senior technical consultant of the Technology Development Center of Fujian Agriculture University (福建農業大學科技開發中心) in the PRC. Professor Zhou has over 30 years of experience in the field of geology, ecology, fertilizer and environmental protection. Professor Zhou is currently a member of the Advisory Panel of Fuzhou Municipal People's Government in relation to city waste re-utilization (福州市人民政府城市垃圾資源化利用專家顧問).

DIRECTORS AND SENIOR MANAGEMENT PROFILE

NON-EXECUTIVE DIRECTORS

WONG May Yuk (黃美玉): aged 63, is the Chairman of Go Modern Limited. Ms. Wong has over 30 years experience in garment manufacturing, trading, property development in both Hong Kong and the PRC. Ms. Wong is also the Vice Chairman of a private school, the Fuzhou Li Ming Private School (福州黎明私立學校), and a director of a public high-school, the Fuzhou Yan An High School (福州延安中學), in Fuzhou, Fujian Province, the PRC. Ms. Wong joined the Group in October 2003.

ZOU Li (鄒勵): aged 38, Ms. Zou is a graduate from Fujian Government Departments Open University (福建省直屬機關業餘大學) in the PRC with a major in Finance. Ms. Zou has 15 years of experience in corporate accounting in the PRC. Before joining the Group in January 2000, Ms. Zou worked for Fuzhou Yinguang Factory (福州市瀛光工業綜合廠), a collectively owned enterprise in the PRC and Fujian Zhuang Zhuan Property Company Ltd. (福建壯昌房地產有限公司), a private enterprise in the PRC.

WU Wen Jing, Benjamin (吳文京): aged 37. Mr. Wu had over 10 years of investment banking experience in Hong Kong and Australia. He possesses a master degree in Banking and Finance from the University of Technology, Sydney, in Australia. Currently, Mr. Wu is also an independent non-executive director of Yunnan Enterprises Holdings Limited, a company listed on the Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

SHEN Yi Min (沈毅民): aged 41, is presently a partner of Fujian Zhi Li Law Office (福建至理律師事務所) in the PRC. Mr. Shen is a qualified lawyer to practise securities laws in the PRC. He is a graduate from Fudan University (復旦大學) with a major in Economics Law. Mr. Shen had been the former principal of Fujian Fuzhou Foreign Economics Law Office (福建省福州市對外經濟律師事務所). He was also appointed the legal consultant to the Fuzhou Municipal People's Government between 1994 and 1995.

CHEUNG Sound Poon (張省本): aged 45, is presently a senior manager at Chui & Kwok (CPA), an audit firm in Hong Kong. He was a senior auditor at Gary W. K. Yam & Co. (CPA), an audit firm in Hong Kong, of which he was with between June 1979 and May 1987. He then joined another audit firm in Hong Kong as an audit manager before joining Chui and Kwok. Mr. Cheung has had over 25 years of experience in auditing and accounting in Hong Kong.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

KWONG Ping Man (鄺炳文): aged 41, is currently the managing director of Fortitude Consulting Limited, engaging corporate advisory services. Prior to joining this company, he served as the chief financial officer of two companies based in Guangzhou and Nanjing, the PRC for more than 5 years. Mr. Kwong is a graduate from Curtin University of Technology in Australia with a bachelor's degree in Commerce Accounting. Mr. Kwong obtained a master's degree in Professional Accounting from the Hong Kong Polytechnic University in October 2003. Mr. Kwong is a Certified Practising Accountant of the CPA Australia and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Kwong is also an associate member of the Institute of Chartered Secretaries and Administrators and an associate member of the Hong Kong Institute of Company Secretaries.

SENIOR MANAGEMENT

REN Jian Fei (任建飛): aged 46, is the Chief Corporate Affairs Officer responsible for the overall corporate activities of the Group including public relations and communications management of the Group. Mr. Ren graduated from Fujian Economic Management Officials College (福建經濟管理幹部學院) with a major in Politics in July 1987. He also completed a postgraduate study course at the Postgraduate School of Xiamen University (廈門大學) with a major in Business Administration in January 1998. Before joining the Group in January 2000, he was an executive at a large manufacturer of agriculture-related products in the PRC responsible for administration of corporate activities.

SHI Li Ping (師力平): aged 49, is the Chief Sales Officer responsible for product sales and marketing. Mr. Shi is a graduate from the Artillery College of the PRC Liberation Army (中國人民解放軍炮兵學院) specialising in Artillery Military Affairs. Before joining the Group, he was the general manager of a major agricultural production group in the PRC, with extensive experience in sales and marketing of organic fertilizer.

CHEN Ru Mao (陳儒茂): aged 35, is the Chief Production Officer responsible for the Group's production of organic fertilizer products. Mr. Chen is a graduate from Fuzhou University (福州大學) specializing in Industrial Enterprise Management. He possesses a degree in Bachelor of Engineering and the title of Economist. Before joining the Group in July 2004, Mr. Chen was a deputy factory manager at a large food processing factory. He is responsible for the registration of quality control system GB/T19001-2000 idt ISO 9001: G2000 for the Group's organic fertilizer production.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

TANG Ying Kit (鄧英傑): aged 32, is the Chief Financial Officer and Company Secretary of the Group. Prior to joining the Group in April 2003, he served as the finance manager with Guangdong Assets Management Limited and Guangdong Enterprise (Holdings) Limited for a total of 5 years. He has a Bachelor degree in Business Administration in Finance from the Hong Kong University of Science and Technology and is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants and an associate member of the Chartered Institute of Management Accountants.

MANAGEMENT DISCUSSION AND ANALYSIS

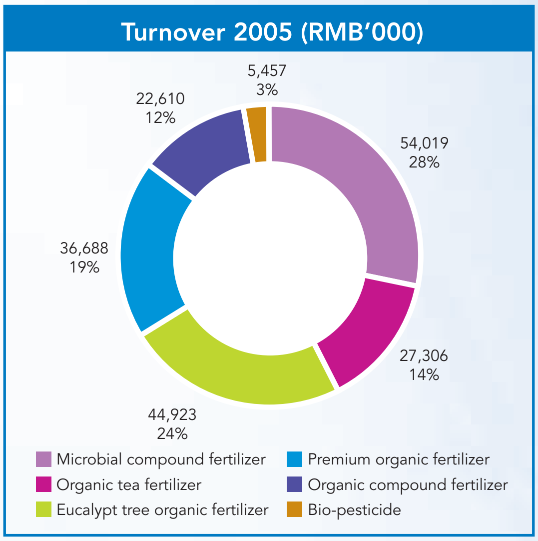
FINANCIAL REVIEW

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.

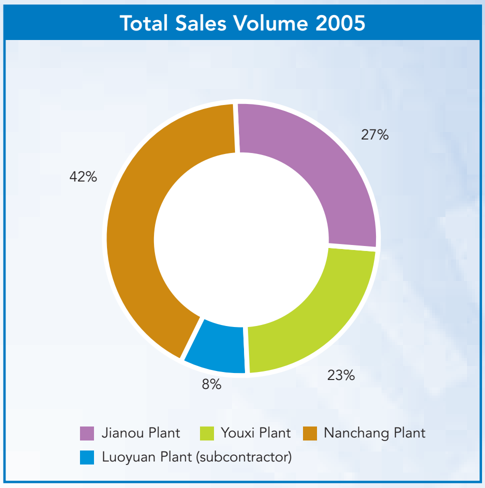


New Business

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.

MANAGEMENT DISCUSSION AND ANALYSIS

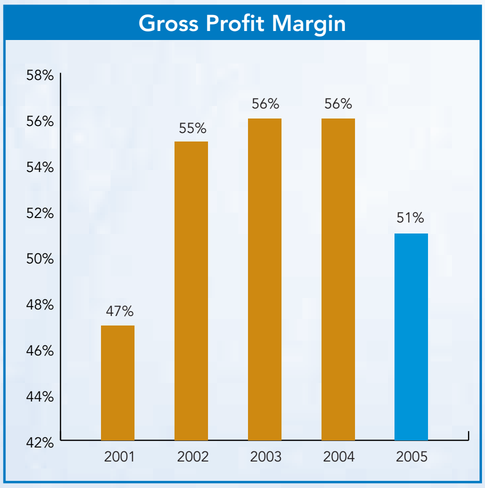
Production Capacity



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

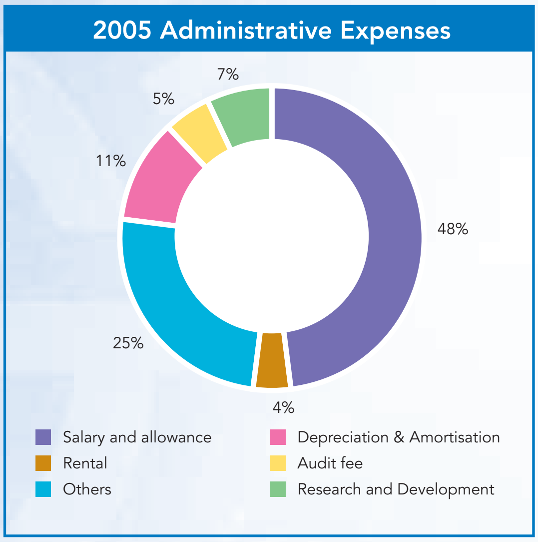
Gross profit amounted to RMB97,591,000 in 2005. Gross profit margin was about 51%, representing a decline of 5% from last year. The decline was mainly attributable to the introduction of eucalypt tree organic fertilizer which has a lower gross margin than the other products. Despite its lower margin, 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.

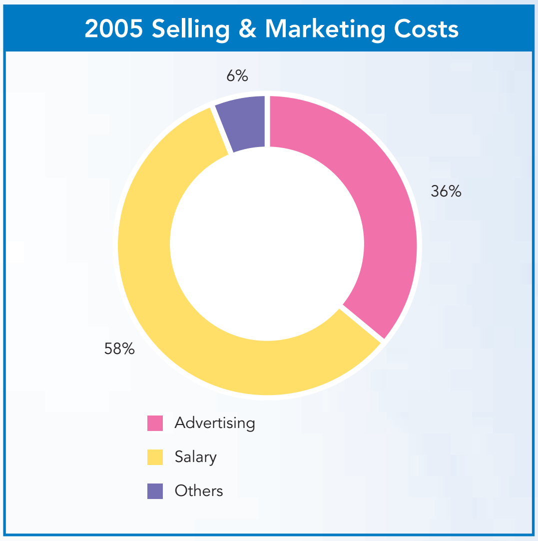
MANAGEMENT DISCUSSION AND ANALYSIS

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.



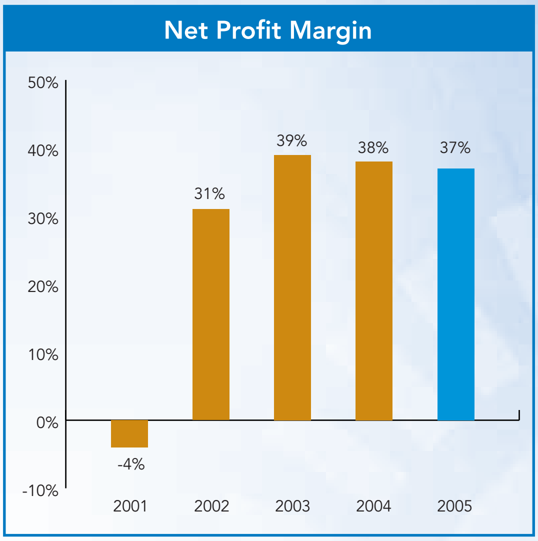


Selling and marketing costs included advertising cost and salary for sales staff. Advertising cost and salary for sales staff accounted for 36% and 58% of the total selling and marketing costs, representing an increase of 73% and 136% respectively. The increase in advertising cost and salary expense 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit attributable to shareholders

The Group's consolidated profit attributable to the equity holders of the Company for the year end 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.



CREDIT RISK CONTROL

In view of the significant increase in turnover, the Group was fully aware of the credit risks exposed by its customers. The Group strictly followed the "client account management procedures" which was established in 2004. The procedures required and ensured each client account was maintained properly and kept tracked periodically according to the previous transactions records and credit history of each customer. The Group specified and assigned to each customer a series of credit measures such as credit ratio, credit period, credit rating, credit terms, and guarantee and mortgage terms. The Group's credit risks were monitored and controlled effectively by these client account management procedures. As at 31 December 2005, no bad debt was recorded.

LIQUIDITY, GEARING AND SOURCE OF FINANCE

As at 31 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 31 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 total equity 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.

PLEDGE OF ASSETS

As at 31 December 2005, the Group did not have any charges or pledges on its assets.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENTS

As at 31 December 2005, the Group did not have any material capital commitments apart from those disclosed in Note 27 to the financial statements.

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 31 December 2005.

DISPOSAL OF SUBSIDIARIES

On 30 November 2005, the Group's wholly owned subsidiaries, 三明市世紀陽光農業科技開發有限公司 was deregistered. Details of disposal of this subsidiary are set out in note 28(b) to the financial statements. Save for disclosed, no subsidiary of the Group was disposed of during the year.

FOREIGN EXCHANGE EXPOSURE AND HEDGING POLICY

Since most of the income and expenses as well as assets and liabilities of the Group are denominated in Reminbi and Hong Kong dollars, the Directors consider that the Group has no material foreign exchange exposures and no hedging policy have been taken.

CONTINGENT LIABILITIES

As at 31 December 2005, the Group did not have any material contingent liabilities.

HUMAN RESOURCES

As at 31 December 2005, the Group had 400 employees. Salaries are determined by reference to prevailing market rates. Staff benefits include medical protection, pension, discretionary bonus and share options. The Group has not experienced any labour disputes or significant changes in its headcount which may undermine its normal operation. The Directors considers that the Group enjoys a good relationship with its staff.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

On the Listing Date, the Company obtained net proceeds, after deducting all relevant expenses, of approximately HK$33 million from the new issue of Shares by way of public offer and placing. Up to 31 December 2005, the Group has applied the net proceeds as follows:

	Proposed amount required from the Listing Date to 31 December 2005 HK$ (in million)	**Actual amount applied from the Listing Date to 31 December 2005** HK$ (in million)
Construction of new production facilities	21	21
Research and development	4	4
Installation of computer system	0.4	0.4
Marketing and advertising of the Group's products	1.6	1.6
Working Capital	6	6
	33	33

The Group has applied all the net proceeds of approximately HK$33 million in accordance with the objectives specified in the prospectus issued by the Company dated 5 February 2004 (the "Prospectus") and therefore, no net proceed was remained in the Group as at 31 December 2005.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Below shows a comparison of the actual business progress of the Group during the year under review and the business objectives stated in the Prospectus:

	Expected progress From 1 January 2005 to 31 December 2005	Actual progress From 1 January 2005 to 31 December 2005
Production	Complete the construction and commence production of a new production facilities in Anxi, Fujian province, the PRC with an annual production capacity of 20,000 tons of organic fertilizer products.	The construction of a new production facilities in Anxi, Fujian Province has been replaced by building a new production plant in Yunxiao, Fujian Province. The proceeds for Anxi Plant will be applied in Yunxiao Plant. The Group acquired a parcel of land of 126,700 square meter in Yunxiao, Fujian Province, in October 2005. The Group commenced construction of a new production facility with a total capacity of 400,000 tons of organic fertilizer on the acquired land. Phase I with 200,000 tons of capacity will be completed by December 2006 and Phase II with 200,000 tons of capacity will be completed by December 2007. Total investment of the Yunxiao Plant is approximately RMB180 million.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

	Expected progress From 1 January 2005 to 31 December 2005	Actual progress From 1 January 2005 to 31 December 2005
	Commence the construction of a new production facilities in Wuyuan, Jiangxi province with an annual production capacity of 20,000 tons of organic ferilizers.	The Group acquired certain production assets of a former fertilizer factory in Nanchang, Jiangxi province in early 2005. With additional work made on the modification and new equipment installation, the new production facility in Jiangxi with an annual production capacity of 100,000 tons of organic fertilizer products was completed in April 2005. The Nanchang Plant commenced production of organic fertilizer in May 2005.
Sales and Distribution	Additional marketing and advertising spending to increase market penetration of "LU DI" microbial compound fertilizer products and organic fertilizer products within Fujian and other PRC provinces,	Marketing and advertising of "LU DI" microbial compound fertilizer products and organic fertilizer products within Fujian and other PRC provinces are in progress as planned.
	Implement the franchise plan in Fujian and Jiangxi province to produce "LU DI" organic fertilizers.	The Group retained a consultancy firm to perform research and study on the feasibility of implementation of franchising both in Fujian and Jiangxi provinces. After reviewing the feasibility report, the management considered that it was not appropriate to implement franchise plan at this stage due to current market situation and legal environment in the PRC. The management will review the feasibility of implementation of franchise plan from time to time.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

	Expected progress From 1 January 2005 to 31 December 2005	Actual progress From 1 January 2005 to 31 December 2005
	Installing computer system linking the Group's head office and production facilities with its distributors for improving production and sales information flow as well as productivity.	Installation of computer system was completed in September 2005.
Research and development	Secure the registration of newly developed organic fertilizers with the Ministry of Agriculture of the PRC.	Registration of newly developed products such as organic fertilizers for lotus plan and bamboo shoot, humic acid organic fertilizer for general application were completed.
	Complete research and development of biological insecticides for tea plantation.	The research and development of biological insecticides specially for tea plantation was completed as planned and the testing stage was entered.
	Commence research and development of organic fertilizer specifically for peanuts.	The research and development of organic fertilizer specially for peanuts was commenced as planned and was expected to be completed in 2006.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Code on Corporate Governance Practices (the "CCGP") contained in Appendix 15 of the GEM Listing Rules was introduced on 1 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 this report, the Group has adopted practices which meets the code provisions of the CCGP.

THE BOARD

The Board is accountable to the shareholders and lead the Group in an ethical, responsible and effective manner. The Board sets the overall strategic directions of the Group, establishes effective management and monitors its performance. The Board meets at least four times a year for the approval of financial results. Other matters reserved to the full Board for decision include material acquisitions or disposals of assets, significant investments, capital projects, annual budget, and key human resources and administration issues.

The Board comprises nine Directors in which three are executive Directors; three are non-executive Directors and three are independent non-executive Directors. The Directors as at the date of this report are as follows:

– Chi Wen Fu *(Chairman and executive Director)*
– Shum Sai Chit *(Executive Director)*
– Zhou Xing Dun *(Executive Director)*
– Wong May Yuk *(Non-executive Director)*
– Zou Li *(Non-executive Director)*
– Wu Wen Jing, Benjamin *(Non-executive Director)*
– Cheung Sound Poon *(Independent non-executive Director)*
– Kwong Ping Man *(Independent non-executive Director)*
– Shen Yi Min *(Independent non-executive Director)*

All Directors (except of the Chairman of the Board) are subject to the general requirement of retirement by rotation of one-third of the Directors in each annual general meeting of the Company under its articles of association.

CORPORATE GOVERNANCE REPORT

The Company has received from each of Messrs. Shen Yi Min, Cheung Sound Poon and Kwong Ping Man an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Board considers that the independent non-executive Directors are independent.

To assist in the execution of its responsibilities, the Board has established two Board committees, namely Audit Committee and Remuneration Committee. These committees function within clearly defined terms of reference. Independent non-executive Directors play a significant role in these committees to ensure that the independent and objective views are taken.

AUDIT COMMITTEE

The Audit Committee oversees the audit process and reviews the effectiveness of both financial reporting process and the internal control and risk management systems of the Company. All the members of the Audit Committee are independent non-executive Directors. The Audit Committee members include:

– Cheung Sound Poon *(Chairman of the Audit Committee)*
– Kwong Ping Man
– Shen Yi Min

REMUNERATION COMMITTEE

The aim of the Remuneration Committee is to formulate transparent procedures for developing remuneration policies and packages for Directors and the senior management of the Group. The Remuneration Committee comprises of five members, the majority of whom are independent non-executive Directors:

– Kwong Ping Man *(Chairman of the Remuneration Committee)*
– Cheung Sound Poon
– Shen Yi Min
– Shum Sai Chit
– Wu Wen Jing, Benjamin

CORPORATE GOVERNANCE REPORT

The number of the Board meetings and the Board's committee meetings held for the year ended 31 December 2005 and the attendance of each Director are as follows:

	Meetings (Attended/Held)		
	Board	Audit Committee	Remuneration Committee
Executive Directors			
Chi Wen Fu	12/13	–	–
Shum Sai Chit	13/13	–	1/1
Zhou Xing Dun	8/13	–	–
Non-executive Directors			
Wong May Yuk	6/13	–	–
Zou Li	8/13	–	–
Wu Wen Jing, Benjamin	10/13	–	1/1
Independent non-executive Directors			
Cheung Sound Poon	9/13	4/4	1/1
Kwong Ping Man	11/13	4/4	1/1
Shen Yi Min	8/13	3/4	1/1

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the period under review, the Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transaction by Directors.

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.

CORPORATE GOVERNANCE REPORT

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.

NON-EXECUTIVE DIRECTORS

All the non-executive Directors are appointed for a specific term and are subject to retirement by rotation in accordance with the articles of association of the Company.

All the existing non-executive Directors are appointed for an initial term of two years and the term of office shall continue after the expiration of the initial term until at least 3 months' prior written notice is given by either party or the Company to terminate the same. Except that they are reimbursed for reasonable expenses incurred during the performance of their duties to the Company and are eligible to be granted share options under the Share Option Scheme, there is no emolument provided for their appointment.

REMUNERATION OF DIRECTORS

At the Board meeting held on 9 December 2005, the Board established a Remuneration Committee comprising one executive Director, one non-executive Director and three independent non-executive Directors. The Remuneration Committee meets at least once a year.

The functions of the Remuneration Committee are to review and recommend the remuneration packages of the Directors and the senior management of the Group, oversee and review the administration of the Share Option Scheme and to review the appropriateness of compensation for Directors and the senior management of the Group. No Directors is involved in determining his own remuneration.

At the meeting of Remuneration Committee held on 12 December 2005, the existing remuneration packages and terms of appointment of the Directors were reviewed and the Remuneration Committee approved the remuneration packages of the following Directors whose initial term of appointment expired in January 2006.

– Wong May Yuk
– Zou Li
– Cheung Sound Poon
– Shen Yi Min

The Remuneration Committee takes into consideration the market condition, comparable companies, past performance and experience and knowledge possessed when determining remuneration packages of the Directors. The Company will submit the new appointment of Director for approval at each annual general meeting.

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

The Board does not establish the Nomination Committee at present. The appointment of new Directors is therefore a matter for consideration and decision by the full Board. The Board considers that new Directors are expected to have such expertise to qualify them to make a positive contribution to the Company and to give sufficient time and attention to the affairs of the Company.

All Directors are subject to election by shareholders of the Company at the annual general meeting. New Directors are briefed on the role of the Board and Board Committee, their duties and obligation as a director of a listed company.

At the Board meeting held on 12 January 2005, the Board approved to appoint Wu Wen Jing, Benjamin as a non-executive Director. The Board considered that Mr. Wu possessed relevant expertise and knowledge in the field of capital market and believed that Mr. Wu could make direct contributions to the Company. Mr. Wu will retire at the forthcoming annual general meeting and the re-election of Mr. Wu as non-executive Director is to be proposed at the forthcoming annual general meeting.

AUDITORS' REMUNERATION

The Company has appointed Pricewaterhousecoopers as the auditors of the Group (the "Auditors") since the Listing Date. The Board is authorized in the annual general meeting to determine the remuneration of the Auditors. During the year, the Auditors only perform the work of statutory audit for the year of 2004 and 2005 and do not involve any non-audit assignment of the Group. The remuneration of the Auditors for the year of 2004 and 2005 are as follows:

	Year 2005	Year 2004
Statutory audit	**HK$680,000**	HK$480,000

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The written terms of reference, which describe the authority and duties of the Audit Committee were prepared and adopted in accordance with the GEM Listing Rules. The Audit Committee comprises three members, all of whom are independent non-executive Directors. The Audit Committee meets at least four times each year. The main duties of the Audit Committee are summarized as follows:

– Review the work of the external auditors of the Company;
– Meet with external auditors of the Company, whenever they consider necessary;
– Review quarterly, interim and annual financial statements and the Auditors' report on the Company's annual financial statements before presenting to the Board;
– Ensure the completeness, accuracy and fairness of quarterly, interim and annual financial statements;
– Review the independence of the external auditors annually;
– Ensures that co-operation is given by the Company's management to the internal auditor and external auditors;
– Review the adequacy and effectiveness of the Company's system of internal control in use;

The Audit Committee has the power to conduct investigations into any matter within the scope of responsibility of the Audit Committee. The Audit Committee is authorized to obtain independent professional advice if it deems necessary in the discharge of its responsibilities.

For the year ended 31 December 2005, the Audit Committee held four meetings in which the members of the Audit Committee had review the system of internal control and the following reports:

– Annual report for the year of 2004;
– Quarterly report for the first quarter and third quarter of 2005;
– Interim report for the first six months of 2005

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for the preparation of the financial statements, which give a true and fair view. The Auditors are responsible to form an independent opinion, based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the shareholders of the Company.

On behalf of the Board

Cheung Sound Poon
Independent non-executive Director
Hong Kong, 15 March 2006

DIRECTORS' REPORT

The Directors present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 9 to the financial statements.

No segmental information is presented. Details of which are set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out on page 45 of the annual report.

The financial statements for the year ended 31 December 2005 set out in this report have been reviewed by the Audit Committee.

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 25 April 2006 and payable on or about 18 May 2006, making a total dividend of HK$0.05 per Share for the full year of 2005 (2004: HK$0.03 per Share).

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group is set out on page 6 of the annual report.

PROPERTY PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 6 to the financial statements.

SHARE CAPITAL

As at 31 December 2005, the issued share capital of the Company was HK$39,840,500 divided into 398,405,000 Shares. Details of the movements in share capital of the Company are set out in note 13 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries, as at 31 December 2005 are set out in note 9 to the financial statements.

DIRECTORS' REPORT

DISTRIBUTABLE RESERVES

In accordance with the Laws of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that immediately following the date on which the distribution or dividend is proposed to be made, the Company is able to pay its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

As at 31 December 2005, the Company's reserve available for distribution to shareholders amounted to RMB155,750,000 (2004: RMB14,254,000).

BANK BORROWING

Total bank borrowing of the Group as at 31 December 2005 was RMB21,312,000. Detail of which is disclosed in note 15 to the financial statements.

INTEREST CAPITALISED

The Group did not capitalise any interest during the year.

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 16 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 15 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

DIRECTORS' REPORT

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES (CONTINUED)

SHARE PLACING (CONTINUED)

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.

SHARE OPTION SCHEME

On 31 January 2004, the Share Option Scheme (the "Scheme") was approved by a written resolution of the shareholders of the Company. The purpose of the Scheme is to attract and retain the best quality employees for the development of the Company's businesses and to provide additional incentives or rewards to selected qualifying participants of the Scheme for their contribution to the creation of the Company's shareholders value. Under the Scheme, the Company may grant options to the Directors or employees of the Group to subscribe for Shares in the Company for a consideration of HK$1 for each lot of share options granted. The Scheme, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The share options are exercisable only if the Directors or employees remain in service to the Group from the grant date of the share options up to the designated exercisable period.

The subscription price is not less than the highest of (i) the closing price of the Shares on GEM as stated in the Stock Exchange's daily quotation sheet on the date of offer of the option; (ii) the average closing prices of the Shares on GEM as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer of the option; and (iii) the nominal value of a Share of HK$0.10. The maximum number of Shares in respect of which options may be granted under the Scheme shall not, in aggregate, exceed 30% of the issued share capital of the Company from time to time.

The Company can issue options so that the total number of Shares that may be issued upon exercise of all options to be granted under the Scheme does not in aggregate exceed 10% of the Shares in issue on the date of approval of the Scheme. The Company may refresh this 10% limit at any time, subject to shareholders' approval and the issue of a circular and in accordance with the Listing Rules provided that the number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes does not exceed 30% of the Shares in issue from time to time.

DIRECTORS' REPORT

SHARE OPTION SCHEME (CONTINUED)

As at 31 December 2005, options to subscribe for a total of 28,955,000 option shares were still outstanding under the Scheme, which represents approximately 7.3% of the issued ordinary Shares of the Company.

Details of the share options outstanding as at 31 December 2005 are as follows:

(A) Share options granted on 11 October 2004

		Held at 1 January 2005	Options exercised during the period	Options Lapsed/ Cancelled During the period	Held at 31 December 2005	Exercise price HK$	Exercisable in December 2007	Exercisable in January 2009
(A)	Employee							
		14,500,000	(14,500,000)	–	–	0.63	–	–
		600,000	(300,000)	–	300,000	0.63	300,000	–
		11,810,000	(5,305,000)	–	6,505,000	0.63	–	6,505,000
		1,250,000	–	–	1,250,000	0.63	–	1,250,000
(B)	Director							
	Zhou Xing Dun	3,200,000	(1,800,000)	–	1,400,000	0.63	–	1,400,000
		31,360,000	**(21,905,000)**	**–**	**9,455,000**		**300,000**	**9,155,000**

(B) Share options granted on 17 June 2005

		Held at 1 January 2005	Options granted during the period	Options lapsed/ cancelled during the period	Held at 31 December 2005	Exercise price HK$	Exercisable between July and December 2006	Exercisable between July and December 2007	Exercisable between July 2008 and March 2009
(A)	Employee								
		–	6,000,000	–	6,000,000	1.47	6,000,000	–	–
		–	6,200,000	–	6,200,000	1.47	2,600,000	3,600,000	–
		–	5,300,000	–	5,300,000	1.47	1,600,000	1,600,000	2,100,000
(B)	Directors								
	Wu Wen Jing, Benjamin	–	1,000,000	–	1,000,000	1.47	500,000	500,000	–
	Cheung Sound Poon	–	500,000	–	500,000	1.47	150,000	150,000	200,000
	Kwong Ping Man	–	500,000	–	500,000	1.47	150,000	150,000	200,000
		–	**19,500,000**	**–**	**19,500,000**		**11,000,000**	**6,000,000**	**2,500,000**

DIRECTORS' REPORT

SHARE OPTION SCHEME (CONTINUED)

Notes:

1. During the year, 19,500,000 options were granted on 17 June 2005. At the date of the options granted, the market price per Share was HK$1.47. The value of the options granted to the respective parties is as follows:

	HK$
Mr. Wu Wen Jing Benjamin, Director	382,000
Mr. Cheung Sound Poon, Director	191,000
Mr. Kwong Ping Man, Director	191,000
Employees	6,678,000
	7,442,000

2. During the year, 21,905,000 options were exercised on 26 August 2005. At the date the options exercised, the market price per Share was HK$1.75.

3. The value of the options granted during the year is HK$7,442,000, based on the Black-Scholes option pricing model. The significant inputs into the model were share price of HK$1.47 at the grant date, exercise price of HK$1.47, standard deviation of share price returns of 40% and the annual risk-free interest rate of approximately 3.8%. The Black-Scholes model is developed to estimate the fair value of European share options. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option also varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

DIRECTORS

The Directors who held office during the year and up to the date of this report were as follows:

Executive Directors
Chi Wen Fu *(Chairman)*
Shum Sai Chit
Zhou Xing Dun

Non-Executive Directors
Zou Li
Wong May Yuk
Wu Wen Jing, Benjamin

Independent Non-Executive Directors
Shen Yin Min
Cheung Sound Poon
Kwong Ping Man

DIRECTORS' REPORT

DIRECTORS (CONTINUED)

In accordance with Article 87 of the Company's articles of association, Mr. Wu Wen Jing, Benjamin, Mr. Cheung Sound Poon and Mr. Kwong Ping Man will retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for election.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management are set out on pages 12 to 14 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years and will continue thereafter until the contract is terminated by either party giving to the other party not less than three calendar months' notice in writing. Each of the executive Directors is entitled to a basic salary subject to an annual review by the Board. In addition, the executive Directors are also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all executive Directors in respect of any financial year of the Company may not exceed 5% of the audited consolidated net profit of the Group in respect of that financial year.

The non-executive Directors and the independent non-executive Directors of the Company are appointed for an initial term of two years with specific terms in the letter of appointment and will continue thereafter until the contract is terminated by either party giving to the other party not less than three calendar months' notice in writing.

Details of the Directors' fee and any other reimbursement or emolument payable to Directors are set out in note 19(b) to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, whether directly or indirectly, in any contract significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' REPORT

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

As at 31 December 2005, the relevant interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange, were as follows:

(i) Directors' interests in the Company

Long positions in Shares

Name of Director	Capacity	Number of Shares	Percentage of issued share capital of the Company
Chi Wen Fu	Corporate (Note 1)	193,696,970	48.62%
Shum Sai Chit	Personal	16,000,000	4.02%
Zhou Xing Dun	Personal	1,400,000	0.35%
Wu Wen Jing, Benjamin	Personal	3,880,000	0.97%

Note:

1. Mr. Chi Wen Fu is beneficially interested in 80% of the entire issued share capital of Alpha Sino International Limited, a company incorporated under the laws of the British Virgin Islands with limited liability, which in turn holds 193,696,970 Shares as at 31 December 2005.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ANY ASSOCIATED CORPORATION (CONTINUED)

(ii) Directors' interests in associated corporations

Name	Name of associated corporation	Nature of interest and capacity	Total number of shares	Approximate percentage of interest
Chi Wen Fu	Alpha Sino International Limited	Personal (Note 1)	8	80%
Zou Li	Alpha Sino International Limited	Personal (Note 1)	2	20%

Note:

1. The entire issued share capital of Alpha Sino International Limited is beneficially owned as to 80% and 20% by Mr. Chi and Ms. Zou, respectively.

Save as disclosed above, as at 31 December 2005, none of the Directors or chief executive of the Company or their respective associates had interests and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 31 December 2005, the Company had been notified of the following substantial shareholders' interests and short position, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

Name	Position	Capacity	Number of Shares	Percentage of issued share capital of the Company
Alpha Sino International Limited	Long	Beneficial Owner (Note 1)	193,696,970	48.62%

Note:

1. The entire issued share capital of Alpha Sino International Limited is beneficially owned as to 80% and 20% by Mr. Chi Wen Fu and Ms. Zou Li, respectively.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	42%
– five largest suppliers combined	87%
Sales	
– the largest customer	3%
– five largest customers combined	14%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued Shares at 13 March 2006.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, none of the Directors nor the management shareholders of the Company nor 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.

PRE-EMPTIVE RIGHT

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new Shares on pro-rata basis to existing shareholders.

SPONSOR'S INTEREST

In accordance with the sponsor's agreement dated 4 February 2004 entered between the Company and CSC Asia Limited (the "Sponsor"), the Sponsor has received and shall receive an annual fee for acting as the Company's retained sponsor for the period from the Listing date to 31 December 2006.

To the best knowledge of the Sponsor, none of the Sponsor, its directors, employee or associates (as defined in the GEM Listing Rules) had any interest in the shares of the Company or any right to subscribe for or to nominate persons to subscribe for any Shares of the Company as at 31 December 2005.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

A resolution for the appointment of PricewaterhouseCoopers as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Shum Sai Chit
Executive Director

Hong Kong, 15 March 2006

AUDITORS' REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince s Building
Central, Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF CENTURY SUNSHINE ECOLOGICAL TECHNOLOGY HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 41 to 96 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31st December 2005 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 15 March 2006

CONSOLIDATED BALANCE SHEET

as at 31 December 2005

	Note	2005 RMB'000	2004 RMB'000 Restated
ASSETS			
Non-current assets			
Property, plant and equipment	6	**75,518**	16,014
Land use rights	7	**4,365**	–
Prepayment for acquisition of land	7	**7,030**	–
Intangible assets	8	**5,402**	3,634
Investment deposit		**–**	2,000
		92,315	21,648
Current assets			
Inventories	10	**7,570**	3,030
Trade and other receivables	11	**23,478**	21,237
Cash and cash equivalents	12	**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	13	**179,713**	37,291
Other reserves	14	**29,972**	19,942
Retained earnings			
– Proposed final dividend	25	**14,502**	10,176
– Others		**87,899**	44,271
		312,086	111,680
Minority interest		**3**	3
Total equity		**312,089**	111,683

CONSOLIDATED BALANCE SHEET

as at 31 December 2005

	Note	2005 RMB'000	2004 RMB'000 Restated
LIABILITIES			
Non-current liabilities			
Borrowings	15	**6,656**	–
Current liabilities			
Trade and other payables	16	**4,291**	4,677
Current income tax liabilities		**4,664**	29
Borrowings	15	**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

Chi Wen Fu
Director

Shum Sai Chit
Director

The notes on pages 49 to 96 are an integral part of these consolidated financial statements.

BALANCE SHEET

as at 31 December 2005

	Note	2005 RMB'000	2004 RMB'000 Restated
ASSETS			
Non-current assets			
Investments in subsidiaries	9	**1,803**	1,802
Current assets			
Prepayments, deposits and other receivables	11	**186**	183
Amounts due from subsidiaries	9	**28,451**	31,492
Dividend receivable		**41,340**	13,462
Cash and cash equivalents	12	**126,398**	1,906
		196,375	47,043
Total assets		**198,178**	48,845
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital and premium	13	**179,713**	37,291
Other reserves	14	**2,733**	624
Retained earnings			
– Proposed final dividend	25	**14,502**	10,176
– Others		**346**	83
Total equity		**197,294**	48,174

BALANCE SHEET

as at 31 December 2005

	Note	2005 RMB'000	2004 RMB'000 Restated
LIABILITIES			
Current liabilities			
Accrued expenses	16	**884**	671
Total liabilities		**884**	671
Total equity and liabilities		**198,178**	48,845
Net current assets		**195,491**	46,372
Total assets less current liabilities		**197,294**	48,174

Chi Wen Fu	**Shum Sai Chit**
Director	Director

The notes on pages 49 to 96 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2005

	Note	2005 RMB'000	2004 RMB'000 Restated
Sales		**191,003**	93,921
Cost of sales	18	**(93,412)**	(41,301)
Gross profit		**97,591**	52,620
Other gains	17	**528**	343
Selling and marketing costs	18	**(6,690)**	(3,416)
Administrative expenses	18	**(14,029)**	(13,996)
Operating profit		**77,400**	35,551
Finance costs	20	**(1,028)**	(136)
Profit before income tax		**76,372**	35,415
Income tax expense	21	**(4,997)**	–
Profit for the year		**71,375**	35,415
Attributable to:			
Equity holders of the Company	23	**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	24	**21.74 cents**	11.45 cents
– diluted	24	**20.86 cents**	11.44 cents
Dividends	25	**19,590**	10,176

The notes on pages 49 to 96 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2005

	Note	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	14	–	3,266	–	–	3,266
Appropriation of retained earnings	14	–	2,887	(2,887)	–	–
Issue of shares	13	46,640	–	–	–	46,640
Share issuance cost	14	–	(7,808)	–	–	(7,808)
Share issuance cost credited against share premium account	14	(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 31 December 2004, as previously reported		37,291	19,318	54,447	3	111,059
Employee share option scheme – value of employee services	14	–	624	–	–	624
Balance at 31st December 2004, as restated		37,291	19,942	54,447	3	111,683

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2005

	Note	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 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	14	**–**	**8,157**	**(8,157)**	**–**	**–**
Transfer of reserves upon exercise of share options	14	**2,171**	**(2,171)**	**–**	**–**	**–**
Share option scheme						
– value of employee services	14	**–**	**4,280**	**–**	**–**	**4,280**
– proceed from shares issued upon exercise of share options	13	**14,352**	**–**	**–**	**–**	**14,352**
Issuance of shares	13	**125,899**	**–**	**–**	**–**	**125,899**
Dividend paid relating to 2004	25	**–**	**–**	**(10,176)**	**–**	**(10,176)**
Dividend paid relating to 2005	25	**–**	**–**	**(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**

The notes on pages 49 to 96 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2005

	Note	2005 RMB'000	2004 RMB'000
Cash flows from operating activities			
Cash generated from operations	26	**85,781**	41,698
Interest received		**528**	343
Income tax paid		**(362)**	–
Net cash generated from operating activities		**85,947**	42,041
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	28(a)	**(4,048)**	–
Acquisition of additional interest in a subsidiary		**–**	(1,025)
Purchase of property, plant and equipment		**(65,796)**	(1,552)
Payment of investment deposit		**–**	(2,000)
Proceeds from sale of property, plant and equipment		**685**	–
Payment for land use rights		**(4,424)**	–
Payment for acquisition of land		**(7,030)**	–
Purchase of intangible assets		**(1,914)**	(2,573)
Net cash used in investing activities		**(82,527)**	(7,150)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**140,251**	46,640
Share issuance cost		**–**	(7,808)
Contribution from a minority shareholder		**–**	3
Proceeds from borrowings		**24,640**	–
Repayment of borrowings		**(3,328)**	(7,800)
Interest paid		**(1,208)**	(136)
Dividends paid to the Company's shareholders		**(15,264)**	–
Net cash generated from financing activities		**145,091**	30,899
Net increase in cash and cash equivalents		**148,511**	65,790
Cash and cash equivalents at beginning of the year		**70,474**	4,655
Exchange gains on cash and cash equivalents		**8**	29
Cash and cash equivalents at end of the year		**218,993**	70,474

The notes on pages 49 to 96 are an integral part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Century Sunshine Ecological Technology Holdings Limited ("the Company") and its subsidiaries (together "the Group") are principally engaged in the research and development, production and distribution of organic fertilizers and biological pesticides.

The Company was incorporated in the Cayman Islands on 21st January 2003 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, PO Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies.

The Company has its primary listing on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units of Chinese Reminbi (RMB'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 15th March 2006.

2 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.

2.1 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 areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

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

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

The adoption of new/revised HKFRS (Continued)

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 (Note 2.14).

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

The adoption of new/revised HKFRS (Continued)

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 (Note 2.6):

– 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;

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

The adoption of new/revised HKFRS (Continued)

– 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 RMB'000	2004 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 RMB'000	2004 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	**–**

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the accounting periods beginning on or after 1st January 2006 or later periods but which the Group has not early adopted, as follows:

- *HKAS 19 (Amendment), Employee Benefits (effective from 1st January 2006)*
  This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. These amendments are not relevant to the Group's operations, as the Group does not maintain any defined benefit plan during the years ended 31st December 2005 and 2004.

- *HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1st January 2006)*
  The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as of 31st December 2005 and 2004.

- *HKAS 39 (Amendment), The Fair Value Option (effective from 1st January 2006)*
  This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments. The Group will apply this amendment from annual periods beginning 1st January 2006.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

Standards, interpretations and amendments to published standards that are not yet effective (Continued)

- *HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1st January 2006)*
  This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to HKAS 39 and concluded that it is not relevant to the Group.

- *HKFRS 1 (Amendment), First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1st January 2006)*
  These amendments are not relevant to the Group's operations, as the Group is not a first-time adopter and does not carry out exploration for and evaluation of mineral resources.

- *HKFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)*
  HKFRS 6 is not relevant to the Group's operations.

- *HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)*
  HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1st January 2007.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

Standards, interpretations and amendments to published standards that are not yet effective (Continued)

- *HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1st January 2006)*
  HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

- *HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1st January 2006)*
  HKFRS-Int 5 is not relevant to the Group's operations.

- *HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste* Electrical and Electronic Equipment (effective from 1st December 2005)
  HK(IFRIC)-Int 6 is not relevant to the Group's operations.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31st December.

(a) ***Subsidiaries***

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (Continued)

(a) *Subsidiaries (Continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) *Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Chinese Reminbi, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation (Continued)

(c) Group companies (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

Construction-in-progress represents buildings on which construction work has not been completed and machinery pending installation, is stated at cost, which includes construction expenditure incurred, cost of machinery, interest capitalised and other direct costs capitalised during the construction and installation period, less accumulated impairment losses, if any. On completion, construction-in-progress is transferred to appropriate categories of property, plant and equipment.

Buildings comprise mainly factories. All property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment (Continued)

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

–	Buildings	5 to 10 years
–	Leasehold improvements	5 years
–	Plant and machinery	5 years
–	Furniture and office equipment	5 years
–	Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount.

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Intangible assets (Continued)

(b) Technical know-how

Costs on acquired technical know-how is capitalised and amortised using the straight-line method over its estimated useful life of 5 years, from the date when the technical know-how is available for use.

(c) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within "administrative expenses".

2.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.11 Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.13 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Employee Benefits

(a) *Pension obligations*

Group companies operate various defined contribution plans. The plans are generally funded through payments to trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.16 Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

2.18 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.19 Government grants

Grants from government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities and deferred government grants are recognised in the income statement on a straight-line basis over the expected lives of the related assets.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

(c) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. At the year end, approximately 38% of borrowings were at fixed rates.

3.2 Fair value estimation

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) **Estimated impairment of property, plant and equipment and intangible assets (excluding goodwill)**

The Group evaluate whether property, plant and equipment and intangible assets (excluding goodwill) have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) **Estimated impairment of goodwill**

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7 at each balance sheet date. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(c) **Estimated useful lives of property, plant and equipment**

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

5 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.

NOTES TO THE FINANCIAL STATEMENTS

6 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Furniture and office equipment	Motor vehicles	Construction-in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January 2004							
Cost	–	2,513	4,863	29	–	12,211	19,616
Accumulated depreciation	–	(1,055)	(2,539)	(12)	–	–	(3,606)
Net book amount	–	1,458	2,324	17	–	12,211	16,010
Year ended 31st December 2004							
Opening net book amount	–	1,458	2,324	17	–	12,211	16,010
Additions	–	73	524	189	414	352	1,552
Transfers	7,183	148	1,312	–	–	(8,643)	–
Depreciation (Note 18)	(60)	(490)	(935)	(22)	(41)	–	(1,548)
Closing net book amount	7,123	1,189	3,225	184	373	3,920	16,014
At 31st December 2004							
Cost	7,183	2,734	6,699	218	414	3,920	21,168
Accumulated depreciation	(60)	(1,545)	(3,474)	(34)	(41)	–	(5,154)
Net book amount	7,123	1,189	3,225	184	373	3,920	16,014
Year ended 31st December 2005							
Opening net book amount	**7,123**	**1,189**	**3,225**	**184**	**373**	**3,920**	**16,014**
Additions	**–**	**900**	**1,316**	**144**	**307**	**65,129**	**67,796**
Acquisition of a subsidiary (Note 28(a))	**–**	**–**	**633**	**–**	**–**	**–**	**633**
Transfers	**20,392**	**6,535**	**18,793**	**–**	**–**	**(45,720)**	**–**
Disposals (Note 26)	**–**	**–**	**(866)**	**(9)**	**–**	**–**	**(875)**
Depreciation (Note 18)	**(2,795)**	**(1,593)**	**(3,483)**	**(55)**	**(124)**	**–**	**(8,050)**
Closing net book amount	**24,720**	**7,031**	**19,618**	**264**	**556**	**23,329**	**75,518**
At 31st December 2005							
Cost	**27,575**	**10,169**	**26,575**	**353**	**721**	**23,329**	**88,722**
Accumulated depreciation	**(2,855)**	**(3,138)**	**(6,957)**	**(89)**	**(165)**	**–**	**(13,204)**
Net book amount	**24,720**	**7,031**	**19,618**	**264**	**556**	**23,329**	**75,518**

Depreciation expense of approximately RMB7,871,000 (2004: RMB1,485,000) and approximately RMB179,000 (2004: RMB63,000) has been expensed in cost of sales and administrative expenses, respectively.

NOTES TO THE FINANCIAL STATEMENTS

7 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2005	2004
	RMB'000	RMB'000
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**4,365**	–

	2005	2004
	RMB'000	RMB'000
Opening	**–**	–
Additions	**4,424**	–
Amortisation of prepaid operating lease payment (Note 18)	**(59)**	–
	4,365	–

On 29th October 2005, the Group entered into an agreement to acquire land use rights on a parcel of land in Yunxiao County, Fujian Province, Mainland China for a cash consideration of approximately RMB7,372,000. As at 31st December 2005, RMB7,030,000 has been paid and recorded as prepayment for acquisition of land. The Group is in process of obtaining the land use rights of the aforementioned parcel of land.

NOTES TO THE FINANCIAL STATEMENTS

8 INTANGIBLE ASSETS

	Goodwill RMB'000	Technical know-how RMB'000	Development costs RMB'000	Total RMB'000
At 1st January 2004				
Cost	–	3,600	1,156	4,756
Accumulated amortisation	–	(2,230)	(578)	(2,808)
Net book amount	–	1,370	578	1,948
Year ended 31st December 2004				
Opening net book amount	–	1,370	578	1,948
Acquisition of additional interest in a subsidiary	166	–	–	166
Additions	–	–	2,573	2,573
Amortisation expense (Note 18)	(4)	(720)	(329)	(1,053)
Closing net book amount	162	650	2,822	3,634
At 31st December 2004				
Cost	166	3,600	3,729	7,495
Accumulated amortisation	(4)	(2,950)	(907)	(3,861)
Net book amount	162	650	2,822	3,634
Year ended 31st December 2005				
Opening net book amount	**162**	**650**	**2,822**	**3,634**
Additions	**–**	**–**	**1,914**	**1,914**
Acquisition of a subsidiary (Note 28(a))	**37**	**2,000**	**–**	**2,037**
Write-off	**–**	**(650)**	**–**	**(650)**
Disposal of a subsidiary (Note 28(b))	**(162)**	**–**	**–**	**(162)**
Amortisation expense (Note 18)	**–**	**(400)**	**(971)**	**(1,371)**
Closing net book amount	**37**	**1,600**	**3,765**	**5,402**
At 31st December 2005				
Cost	**37**	**3,000**	**5,643**	**8,680**
Accumulated amortisation	**–**	**(1,400)**	**(1,878)**	**(3,278)**
Net book amount	**37**	**1,600**	**3,765**	**5,402**

Amortisation expense of approximately RMB1,371,000 (2004: RMB1,053,000) has been expensed in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

9 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES

(a) Investments in subsidiaries

	Company	
	2005 RMB'000	2004 RMB'000
Investments, at cost:		
Unlisted shares/capital	**1,803**	1,802

The following is a list of the principal subsidiaries at 31st December 2005:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Interest held
American Excellent Pesticide Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	100 ordinary share of US$1.00 each	100% [1]
New Bright Group Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	20 ordinary share of US$1.00 each	100% [1]
Century Sunshine Ecological Technology Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	1,000 ordinary share of HK$1.00 each	100%
Century Sunshine (China) Tea Concept Holdings Limited	Hong Kong, limited liability company	Inactive	100 ordinary share of HK$1.00 each	100% [4]
Xian Zhong (International) Organic Food Limited	Hong Kong, limited liability company	Inactive	100 ordinary share of HK$1.00 each	70%
Century Sunshine (Nan Ping) Biology Engineering Co., Ltd.	Mainland China, limited liability company	Manufacturing and sale of organic fertilizers in Mainland China	Registered and paid up capital HK$7,000,000	100%
Century Sunshine (Jiangxi) Ecological Technology Limited	Mainland China, limited liability company	Manufacturing and sale of organic fertilizers in Mainland China	Registered and paid up capital HK$31,800,000	100%

NOTES TO THE FINANCIAL STATEMENTS

9 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES (CONTINUED)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Interest held
Century Sunshine (Zhangzhou) Ecological Technology Limited	Mainland China, limited liability company	Manufacturing and sale of organic fertilizers in Mainland China	Registered capital HK$30,000,000 [2]	100%
Excellent Pesticide (Nanchang) Limited	Mainland China, limited liability company	Manufacturing and sale of biological pesticides in Mainland China	Registered capital US$1,180,000 [3]	100%
Green Land Bio-Products Co., Ltd	Mainland China, limited liability company	Manufacturing and sale of organic fertilizers in Mainland China	Registered and paid up capital RMB10,500,000	100%
世紀陽光(福建)農業科技發展有限公司	Mainland China, limited liability company	Research and development and sale of organic fertilizers and biological pesticides in Mainland China	Registered capital RMB10,000,000	100%

1 Shares held directly by the Company

2 The Group is committed to make capital contribution to Century Sunshine (Zhangzhou) Ecological Technology Limited of RMB31,200,000 (equivalent to HK$30,000,000) within six months after issuance of the business license in November 2005. As at 31st December 2005, the registered capital was not yet paid.

3 The Group is committed to make capital contribution to Excellent Pesticide (Nanchang) Limited of RMB9,526,000 (equivalent to US$1,180,000) within one year after the issuance of the business license in April 2005, of which approximately RMB3,875,000 (equivalent to US$480,000) was paid as at 31st December 2005.

4 Subsequent to year-end, on 10 February 2006, the Group disposed of its entire interest in Century Sunshine (China) Tea Concept Holdings Limited and Xian Zhong (International) Organic Food Limited to Mr. Chi Wen Fu, an executive director and Ms. Chi Bi Fen, sister of Mr. Chi Wen Fu at a consideration of HK$100, resulting in loss on disposal of subsidiary of RMB73.

(b) Amounts due from subsidiaries

The amounts due from subsidiaries are unsecured, non-interest bearing and repayable within one year.

NOTES TO THE FINANCIAL STATEMENTS

10 INVENTORIES

	2005 RMB'000	2004 RMB'000
Raw materials	5,189	1,991
Work in progress	1,291	875
Finished goods	1,090	164
	7,570	3,030

The cost of inventories recognised as expense and included in cost of sales amounted to RMB83,744,000 (2004: RMB39,558,000).

No provision for impairment of inventories was recognised during the year ended 31st December 2005 (2004: Nil).

11 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 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	78	77
Other receivables	76	892	108	106
	23,478	21,237	186	183

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.

NOTES TO THE FINANCIAL STATEMENTS

11 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2005 RMB'000	2004 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.

12 CASH AND CASH EQUIVALENTS

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Cash at bank and in hand	**135,793**	70,474	**43,198**	1,906
Short-term bank deposits	**83,200**	–	**83,200**	–
	218,993	70,474	**126,398**	1,906

The effective interest rate on short-term bank deposits was 4% (2004: N/A); these deposits have an average maturity of 30 days.

As at 31st December 2005, the Group's cash and cash equivalents of approximately RMB92,364,000 were kept in Mainland China (2004: RMB67,826,000). The remittance of these funds out of Mainland China is subject to the foreign exchange control restriction imposed by the government of Mainland China.

NOTES TO THE FINANCIAL STATEMENTS

13 SHARE CAPITAL AND PREMIUM

	Number of shares (thousand)	Ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
At 1st January 2004	240,000	1,802	–	1,802
Issue of new shares	80,000	8,480	38,160	46,640
Share issuance cost credited against share premium account	–	–	(11,151)	(11,151)
Capitalisation of share premium account	–	23,638	(23,638)	–
At 31st December 2004	320,000	33,920	3,371	37,291
Employee share option scheme – proceeds from shares issued	21,905	2,278	12,074	14,352
Transfer of reserves upon exercise of share options	–	–	2,171	2,171
Issue of new shares	56,500	5,876	120,023	125,899
At 31st December 2005	**398,405**	**42,074**	**137,639**	**179,713**

The total authorised number of ordinary shares is 1,000 million shares (2004: 1,000 million shares) with a par value of HK$0.10 per share (2004: HK$0.10 per share). All issued shares are fully paid.

During the year ended 31st December 2005, 21,905,000 ordinary shares of HK$0.10 each were issued at HK$0.63 each pursuant to the employee share option scheme.

On 16th December 2005, 56,500,000 ordinary shares of HK$0.10 each were issued at HK$2.20 each by way of placing, resulting in net cash proceeds of approximately RMB125,899,000 (equivalent to HK$121,057,000). The excess over the par value of the shares, net of share issuance costs was credited to the share premium account.

NOTES TO THE FINANCIAL STATEMENTS

13 SHARE CAPITAL AND PREMIUM (CONTINUED)

Share options

The Company may grant options to the directors or employees of the Group to subscribe for shares in the Company for a consideration of HK$1.00 for each lot of share option granted. The subscription price is not less than the highest of (i) the closing price of the shares on GEM as stated in the Stock Exchange's daily quotation sheet on the date of offer of the option; (ii) the average closing prices of the shares on GEM as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option; and (iii) the nominal value of a share of HK$0.10. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The share options are exercisable only if the directors and employees remain in service to the Group from the grant date of the share options up to the designated exercisable period.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2005		2004	
	Average exercise price in HK$ per share	**Options (thousands)**	Average exercise price in HK$ per share	Options (thousands)
At 1st January	**0.63**	**31,360**	–	–
Granted	**1.47**	**19,500**	0.63	31,360
Forfeited	**–**	**–**	–	
Exercised	**0.63**	**(21,905)**	–	–
Lapsed	**–**	**–**	–	–
At 31st December	**1.20**	**28,955**	0.63	31,360

All the outstanding options as at 31st December 2005 were not yet exercisable. Options exercised in 2005 resulted in 21,905,000 shares (2004: Nil) being issued at HK$0.63 each (2004: Nil).

NOTES TO THE FINANCIAL STATEMENTS

13 SHARE CAPITAL AND PREMIUM (CONTINUED)

Share options (Continued)

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price HK$ per share	Share options 2005	Share options 2004
31st December 2005	0.63	–	21,905,000
31st December 2006	1.47	**11,000,000**	–
31st December 2007	0.63	**300,000**	300,000
31st December 2007	1.47	**6,000,000**	–
31st January 2009	0.63	**9,155,000**	9,155,000
31st March 2009	1.47	**2,500,000**	–
		28,955,000	31,360,000

The fair value of options granted during the year determined using the Black-Scholes valuation model was RMB7,889,000 (2004: RMB4,368,000). The significant inputs into the model were share price of HK$1.47 (2004: HK$0.63), at the grant date, exercise price shown above, standard deviation of expected share price returns of 40% (2004: 37%), annual risk-free interest rate of 3.8% (2004: 2.8%), expected life of options of approximately 1 to 4 years (2004: approximately 1 to 4 years) and dividend pay out ratio of zero (2004: zero). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices from the date of listing of the Company's share (17 February 2004) or from date of the previous grant through to the current grant date.

During the year, 19,500,000 share options were granted to directors and employees at the market share price on that date of HK$1.47 per share.

NOTES TO THE FINANCIAL STATEMENTS

14 OTHER RESERVES

(a) Group

	Capital reserve[i] RMB'000	Statutory reserves[ii] RMB'000	Employee compensation reserves RMB'000	Share issuance cost RMB'000	Currency translation reserves RMB'000	Total 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**

NOTES TO THE FINANCIAL STATEMENTS

14 OTHER RESERVES (CONTINUED)

(b) Company

	Employee compensation reserves RMB'000	Share issuance cost RMB'000	Total RMB'000
At 1st January 2004	–	(3,343)	(3,343)
Share issuance cost	–	(7,808)	(7,808)
Share issuance cost credited against share premium	–	11,151	11,151
At 31st December 2004, as previously reported	–	–	–
Employee share option scheme – value of employee services	624	–	624
At 31st December 2004, as restated	624	–	624
At 1st January 2005, as per above	**624**	**–**	**624**
Employee share option scheme – value of employee services	**4,280**	**–**	**4,280**
Transfer of employee compensation reserves upon exercise of share options	**(2,171)**	**–**	**(2,171)**
At 31st December 2005	**2,733**	**–**	**2,733**

Notes:

(i) Capital reserve represents the difference between the nominal value of the shares of the subsidiaries that would have been acquired and capitalised pursuant to a group reorganisation over the nominal value of the Company's shares issued in exchange therefore.

(ii) In accordance with the articles of association of the subsidiaries established in Mainland China and the relevant Mainland China rules and regulations, these subsidiaries are required to set aside 10% of their net profit after income tax as recorded in the Mainland China statutory financial statements as statutory reserves, except where the reserve fund balance has reached 50% of the subsidiaries' registered capital. The reserve fund can only be used to make good of the subsidiaries' previous years' losses, to expand the subsidiaries' production operations or to increase the capital of the subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

15 BORROWINGS

	2005 RMB'000	2004 RMB'000
Non-current		
Bank borrowings	**6,656**	–
Current		
Bank borrowings	**14,656**	–
Total borrowings	**21,312**	–

As at 31st December 2005, bank borrowings of RMB13,312,000 are secured by: (i) corporate guarantee given by the Company; and (ii) personal guarantees given by Mr. Chi Wen Fu and Mr. Shum Sai Chit, directors of the Company.

The maturity of borrowings is as follows:

	2005 RMB'000	2004 RMB'000
Within one year	**14,656**	–
Between two and five years	**6,656**	–
	21,312	–

NOTES TO THE FINANCIAL STATEMENTS

15 BORROWINGS (CONTINUED)

The effective interest rates at the balance sheet date were as follows:

	2005		2004	
	HK$	RMB	HK$	RMB
Bank borrowings	**8.65%**	**6.14%**	–	–

The carrying amounts of bank borrowings approximate their fair values.

The carrying amounts of the borrowings are denominated in the following currencies:

	2005 RMB'000	2004 RMB'000
Chinese Renminbi	**8,000**	–
Hong Kong dollars	**13,312**	–
	21,312	–

As at 31st December 2005, the Group has no undrawn borrowing facilities.

NOTES TO THE FINANCIAL STATEMENTS

16 TRADE AND OTHER PAYABLES

	Group		Company	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Trade payables	**1,823**	608	**–**	–
Accrued expenses	**2,468**	4,069	**884**	671
	4,291	4,677	**884**	671

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

	2005 RMB'000	2004 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

17 OTHER GAINS

	2005 RMB'000	2004 RMB'000
Interest income	**528**	343

NOTES TO THE FINANCIAL STATEMENTS

18 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 (Note 10)	**83,744**	39,558
Employee benefit expense (Note 19)	**12,234**	4,660
Depreciation and amortisation expense (Notes 6, 7 and 8)	**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

19 EMPLOYEE BENEFIT EXPENSE

	2005 RMB'000	2004 RMB'000
Wages and salaries	**7,831**	3,636
Share options granted to directors and employees (Note 14)	**4,280**	624
Pension costs – defined contribution plans (Note a)	**123**	400
	12,234	4,660

(a) **Pensions – defined contribution plans**

No forfeited contributions were utilised during the year nor available at year-end to reduce future contributions (2004: Nil).

Contributions totalling approximately RMB3,000 (2004: RMB3,000) were payable to the fund at the year-end.

NOTES TO THE FINANCIAL STATEMENTS

19 EMPLOYEE BENEFIT EXPENSE (CONTINUED)

(b) Directors' emoluments

The remuneration of every director for the year ended 31st December 2005 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Inducement fees	Other benefits	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Director								
Chi Wen Fu	74,200	59,996	-	-	-	-	-	134,196
Shum Sai Chit	-	349,800	-	-	-	12,720	-	362,520
Zhou Xin Dun	-	63,600	-	-	191,853	-	-	255,453
Wu Wen Jing, Benjamin	-	-	-	-	108,109	-	-	108,109
Zou Li	-	36,040	-	-	-	-	-	36,040
Wong May Yuk	-	-	-	-	-	-	-	-
Cheung Sound Poon	21,200	-	-	-	54,054	-	-	75,254
Shen Yi Min	21,200	-	-	-	-	-	-	21,200
Kwong Ping Man	21,200	-	-	-	54,054	-	-	75,254

The remuneration of every director for the year ended 31st December 2004 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Inducement fees	Other benefits	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Director								
Chi Wen Fu	-	118,975	-	-	-	-	-	118,975
Shum Sai Chit	-	300,242	-	-	-	12,000	-	312,242
Zhou Xin Dun	-	63,600	-	-	52,745	-	-	116,345
Wu Wen Jing, Benjamin	-	-	-	-	-	-	-	-
Zou Li	-	-	-	-	-	-	-	-
Wong May Yuk	-	-	-	-	-	-	-	-
Cheung Sound Poon	10,600	-	-	-	-	-	-	10,600
Shen Yi Min	10,600	-	-	-	-	-	-	10,600
Kwong Ping Man	-	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

19 EMPLOYEE BENEFIT EXPENSE (CONTINUED)

(b) Directors' emoluments (Continued)

During the year, 2,000,000 (2004: 3,300,000) options were granted to certain directors of the Company under the Share Option Scheme approved on 11th October 2004.

None of the directors of the Company waived or agreed to waive any emoluments paid by the Group during the year (2004: Nil)

The emoluments of each director of the Company were below HK$1,000,000 (equivalent to RMB1,060,000) for the years ended 31st December 2004 and 2005.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2004: three) directors of the Company whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2004: two) individuals during the year are as follows:

	2005 RMB'000	2004 RMB'000
Basic salaries, share options, other allowances and benefits in kind	**931**	385
Pension costs – defined contribution plan	**42**	15
	973	400

The emoluments of each of the highest paid individuals were below HK$1,000,000 (equivalent to RMB1,060,000) for the years ended 31st December 2004 and 2005.

(d) During the year, no emoluments were paid by the Group to any of the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2004: Nil).

NOTES TO THE FINANCIAL STATEMENTS

20 FINANCE COSTS

	2005 RMB'000	2004 RMB'000
Interest expense:		
– bank borrowings wholly repayable within five years	**1,408**	136
Net foreign exchange transaction gain (Note 22)	**(180)**	–
Less: Government grant	**(200)**	–
	1,028	136

The Group obtained and recognised as a deduction of finance costs a government grant of RMB200,000 (2004: Nil) for the government's subsidiary to interest expense incurred by the Group.

21 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).

NOTES TO THE FINANCIAL STATEMENTS

21 INCOME TAX EXPENSE (CONTINUED)

(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.

NOTES TO THE FINANCIAL STATEMENTS

21 INCOME TAX EXPENSE (CONTINUED)

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

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 RMB'000	2004 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.

22 NET FOREIGN EXCHANGE GAINS

The exchange differences recognised in the income statement are included as follows:

	2005 RMB'000	2004 RMB'000
Finance costs (Note 20)	**180**	–
	180	–

23 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB20,383,000 (2004: RMB10,331,000).

NOTES TO THE FINANCIAL STATEMENTS

24 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 RMB'000	2004 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 RMB'000	2004 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

NOTES TO THE FINANCIAL STATEMENTS

25 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 RMB'000	2004 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

26 CASH GENERATED FROM OPERATIONS

	2005 RMB'000	2004 RMB'000
Profit for the year	**71,375**	35,415
Adjustment for:		
– Tax (Note 21)	**4,997**	–
– Depreciation (Note 6)	**8,050**	1,548
– Amortisation (Notes 7 and 8)	**1,430**	1,053
– Write-off of technical know-how (Note 8)	**650**	–
– Loss on disposal of a subsidiary (Note 28(b))	**162**	–
– Write-off of statutory reserves on disposal of a subsidiary	**(244)**	–
– Loss on sale of property, plant and equipment (see below)	**190**	–
– Employee share option costs	**4,280**	624
– Interest income (Note 17)	**(528)**	(343)
– Interest expense (Note 20)	**1,208**	136
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):	**91,570**	38,433
– Inventories	**(3,162)**	559
– Trade and other receivables	**(2,241)**	(139)
– Trade and other payables	**(386)**	2,845
Cash generated from operations	**85,781**	41,698

NOTES TO THE FINANCIAL STATEMENTS

26 CASH GENERATED FROM OPERATIONS (CONTINUED)

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2005 RMB'000	2004 RMB'000
Net book amount (Note 6)	**875**	–
Loss on sale of property, plant and equipment	**(190)**	–
Proceeds from sale of property, plant and equipment	**685**	–

27 COMMITMENTS

(a) **Capital Commitments**

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	2005 RMB'000	2004 RMB'000
Property, plant and equipment contracted but not provided for	**13,206**	1,454

In addition, the Group is committed to (i) make capital contribution to Century Sunshine (Zhangzhou) Ecological Technology Limited of RMB31,200,000 (equivalent to HK$30,000,000) within six months after issuance of the business license in November 2005, of which RMBNil was paid as at 31st December 2005; and (ii) make capital contribution to Excellent Pesticide (Nanchang) Limited of RMB9,526,000 (equivalent to US$1,180,000) within one year after the issuance of the business license in April 2005, of which approximately RMB3,875,000 (equivalent to US$480,000) was paid as at 31st December 2005 (see Note 9).

NOTES TO THE FINANCIAL STATEMENTS

27 COMMITMENTS (CONTINUED)

(b) **Operating lease commitments**

The Group leases various office premises and warehouses under non-cancellable lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2005 RMB'000	2004 RMB'000
Not later than 1 year	**518**	556
Later than 1 year and not later than 5 years	**1,001**	1,120
Later than 5 years	**1,695**	1,840
	3,214	3,516

28 BUSINESS COMBINATIONS

(a) **Acquisition of a subsidiary**

On 1st January 2005, the Group acquired 100% of the share capital of Excellent Pesticide (Nanchang) Limited (formerly known as 江西先科化工有限公司), a pesticides manufacturer in Mainland China. The acquired company did not commence business during the year ended 31st December 2005 and did not contribute any revenues to the Group. The acquired company contributed a net loss of approximately RMB842,000 to the Group during the year ended 31st December 2005, being the administrative expenses of the acquired company.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase considerations:	
– Cash paid	4,050
Fair value of net assets acquired – shown as below	4,013
Goodwill (Note 8)	37

NOTES TO THE FINANCIAL STATEMENTS

28 BUSINESS COMBINATIONS (CONTINUED)

(a) **Acquisition of a subsidiary (Continued)**

The assets and the liabilities arising from the acquisition are as follows:

	Fair value RMB'000	Acquiree's carrying amount RMB'000
Property, plant and equipment (Note 6)	633	633
Intangible assets (Note 8)	2,000	2,000
Inventories	1,378	1,378
Trade and other receivables	–	1,040
Cash and cash equivalents	2	2
Trade and other payables	–	(970)
Net assets acquired	4,013	4,083
Purchase consideration settled in cash		4,050
Cash and cash equivalent in subsidiary acquired		(2)
Cash outflow on acquisition		4,048

There were no acquisition during the year ended 31st December 2004.

(b) **Disposal of a subsidiary**

On 30th November 2005, 三明市世紀陽光農業科技開發有限公司, a wholly owned subsidiary of the Company, was deregistered. Details of assets and liabilities disposed are as follows:

	RMB'000
Net assets disposed	–
	–
Goodwill written off (Note 8)	(162)
Loss on disposal of a subsidiary	(162)

NOTES TO THE FINANCIAL STATEMENTS

29 RELATED-PARTY TRANSACTIONS

The Group is controlled by Alpha Sino International Limited (incorporated in the British Virgin Islands), which owns 48.62% of the Company's shares as at 31st December 2005. The remaining 51.38% of the shares are widely held. The ultimate parent of the Group is Alpha Sino International Limited.

The following transactions were carried out with related parties:

(a) **Key management compensation**

	2005	2004
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**85**	42
Share-based payments	**398**	115
	483	157