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世纪阳光

CENTURY SUNSHINE ECOLOGICAL TECHNOLOGY HOLDINGS LIMITED

世 紀 陽 光 生 態 科 技 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8276)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

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.

This announcement, for which the directors (the "Directors" and individually a "Director") of Century Sunshine Ecological Technology Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirmed that, to the best of their knowledge and belief:- (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CHAIRMAN'S STATEMENT

On behalf of the board of Directors (the "Board") of the Company, I am pleased to present the annual results of the Group for the year ended 31 December 2006 for your review and consideration.

RESULTS HIGHLIGHTS

We achieved very good financial results in the past year. For the financial year ended 31 December 2006, the Group's consolidated turnover reached RMB312,695,000, representing a significant growth of 64% from last year, and the profit attributable to the equity holders of the Company increased by 79% to RMB127,708,000. Basic and diluted earnings per Share were RMB6.35 cents and RMB6.05 cents respectively, representing an increase of 46% and 45% from 2005.

The Board is pleased to share the profit growth with shareholders by recommending a payment of a final dividend of HK1 cents per Share. This dividend, together with the interim dividend of HK0.4 cents per Share already paid, as adjusted for the effect of the Share Subdivision, will make a total dividend of HK1.4 cents per Share for the full year.

BUSINESS REVIEW

1. Market demand remains strong

The significant increase in turnover was mainly driven by strong market demand for organic fertilizers. The Chinese consumers' increasing demand for green food has been driving the farmers to use more organic fertilizers. We produced a total of 178,000 tones of organic fertilizers. Our production facilities reached 100% utilization, however still not able to meet the demand. We believe that such trend of demand is to be continued in 2007.

2. Brand name promotion

During the year, we spent much effort on promoting our brand name and products in Fujian and Jiangxi provinces. We have always placed strong emphasis on product qualities and we expected to win the customers' confidence in our products through these promotional activities. The results were very encouraging and we received steadily increasing orders from our existing customers. We believe these promotional activities are very effective in building our brand name in the industry and we plan to continue to do the same in the coming years.

3. Government recognition

In early 2006, the Chinese Government implemented a new round of "Rich Soil Project" nation-wide with an objective to improve the soil structure and fertility. Some of the key strategies include the promotion of "Customized Fertilization Method" among farmers and encouraging the use of organic fertilizers. In November 2006, we were appointed by the Chinese Government as one of the customized-fertilizer producers in Fujian province. This recognition is a demonstration of our foresight in product research and development. We had been engaging in the research and development of customized fertilizing method as early as year 2000.

4. Construction of Yunxiao Plant

The building construction of the first phase of Yunxiao Plant was completed in March 2007 with 200,000 tones of capacity. The machinery installation is yet to complete due to tightened environmental appraisal procedures by the Chinese Government. The Chinese Government has recently implemented more stringent appraisal requirements on all newly constructed factories with the aim to protect the environment. The Yunxiao Plant is currently undergoing the appraisal procedure before obtaining the consent for machinery installation and production. Although our plant is designed for pollution-free with little energy consumption, we are still subject to all the application procedures. We expect the appraisal to be completed in the second quarter and installation and production will be immediately followed thereafter.

5. Strategic cooperation with International Finance Corporation ("IFC")

In November 2006, we were granted by IFC a 7-year loan in the principal amount of RMB120 million (the "IFC Loan"). The loan is to be used to finance our business and capacity expansion in the future. Before granting us the loan, IFC conducted a comprehensive due diligence on various aspects of our operation including production, financials, social environmental and corporate governance. The loan did not only provide us with the financial resources for future expansion, but also took us to a higher platform in terms of corporate governance. While appreciating the support from IFC, we also realize that it is our objective to keep our corporate governance at a high standard.

6. Shares placement and subscription

In February 2007, we completed a shares placement of 300 million existing Shares to over 20 institutional investors through Morgan Stanley & Co. International Limited and a subscription of 250 million new Shares by Alpha Sino International Limited. The net proceeds from the subscription were approximately HK$456 million and were intended to be used to finance future expansion as well as general working capital. Following the shares placement, our shareholders' base was broadened widely and our capital base was strengthened significantly.

BUSINESS OUTLOOK

1. Government's favorable agricultural policies

Organic fertilizer has been listed as one of the key development products in the Central Government's "11th Five-Year Plan" commencing 2006. The Central Government spent RMB700 million in 2006 to provide 100 million farmers with technical services on how to use fertilizers wisely. These activities are to be continued in the coming years. In addition, the Central Government also pledged to increase spending on research and development on organic fertilizer products and technologies in the next five to ten years. These new policies will help the farmers to realize the advantages of using organic fertilizers especially for the farmland with poor soil structure and fertility after prolonged inappropriate use of chemical fertilizers. We therefore believe that demand for organic fertilizers will remain very strong in the coming years.

2. Capacity expansion

It is our primary objective to reach one million tones of capacity by 2010. With the expected completion of the both phases of Yunxiao Plant by next year, our annual production capacity will reach 555,000 tones by the end of 2008. The balance of 445,000 tones of capacity is expected to be achieved through acquisition. We are actively seeking for suitable acquisition targets and hope to complete one to two acquisitions by the end of this year. However, these activities are currently in preliminary stages, no agreements whatsoever have been entered into between the Company and any of the potential candidates.

3. Research and development ("R&D")

We have been placing strong emphasis on developing new types of fertilizer products. Following the launch of humic acid organic fertilizer for eucalypt tree in 2005, we launched the humic acid organic fertilizer for orchards this year. It contributed about 10% of our turnover in 2006. We are currently developing two new products, namely the wind-protection tree organic fertilizer and pesticide-fertilizer. Wind-protection tree organic fertilizer is specially designed for the plantation of wind-protection trees in costal and desert areas. Pesticide-fertilizer is a product that combines the function of both bio-pesticide and organic fertilizer. We expect these new products to be completed in 2007 and launched to the market in 2008.

I wish to thank our shareholders for your kind support over the past year. Looking forward, we expect the strong growth to be continued in 2007. With the new plant to commence operation and possible completion of acquisition, we foresee the coming year to be both challenging and promising. We shall definitely do our best to deliver to you a satisfactory return next year.

Chi Wen Fu
Chairman

RESULTS

The Board is pleased to announce the audited results of the Group for the year ended 31 December 2006, together with the comparative figures for the corresponding year ended 31 December 2005 as follows:

	Note	2006 RMB'000	2005 RMB'000
Sales		312,695	191,003
Cost of sales	3	(152,410)	(93,412)
Gross profit		160,285	97,591
Selling and marketing costs	3	(10,667)	(6,690)
Administrative expenses	3	(23,599)	(14,029)
Operating profit		126,019	76,872
Finance income		12,258	528
Finance costs		(767)	(1,028)
Profit before income tax		137,510	76,372
Income tax expense	4	(9,802)	(4,997)
Profit for the year, attributable to equity holders of the Company		127,708	71,375
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– basic	5	6.35 cents	4.35 cents
– diluted	5	6.05 cents	4.17 cents
Dividends	6	31,286	19,590

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		130,842	75,518
Land use rights		4,275	4,365
Prepayment for acquisition of land		7,372	7,030
Intangible assets		5,618	5,402
		148,107	92,315
Current assets			
Inventories		5,432	7,570
Trade and other receivables	7	27,747	23,478
Cash and cash equivalents		384,827	218,993
		418,006	250,041
Total assets		566,113	342,356
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		43,194	42,074
Share premium		156,703	137,639
Other reserves	8	42,175	29,972
Retained earnings			
– Proposed final dividend	6	22,970	14,502
– Others		172,666	87,899
		437,708	312,086
Minority interests		–	3
Total equity		437,708	312,089

	Note	2006 RMB'000	2005 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		110,482	6,656
Current liabilities			
Trade and other payables	9	10,342	4,291
Current income tax liabilities		7,581	4,664
Borrowings		–	14,656
		17,923	23,611
Total liabilities		128,405	30,267
Total equity and liabilities		566,113	342,356
Net current assets		400,083	226,430
Total assets less current liabilities		548,190	318,745

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Attributable to equity holders of the Company					
	Share capital *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Minority interests *RMB'000*	Total *RMB'000*
Balance at 1 January 2005	33,920	3,371	19,942	54,447	3	111,683
Disposal of a subsidiary	–	–	(244)	–	–	(244)
Translation differences	–	–	8	–	–	8
Net expense recognised directly in equity	–	–	(236)	–	–	(236)
Profit for the year	–	–	–	71,375	–	71,375
Total recognised (expense)/ income for 2005	–	–	(236)	71,375	–	71,139
Appropriation of retained earnings	–	–	8,157	(8,157)	–	–
Transfer of reserves upon exercise of share options	–	2,171	(2,171)	–	–	–
Share option scheme						
– value of employee services	–	–	4,280	–	–	4,280
– proceed from shares issued	2,278	12,074	–	–	–	14,352
Issue of shares	5,876	120,023	–	–	–	125,899
Dividend paid relating to 2004	–	–	–	(10,176)	–	(10,176)
Dividend paid relating to 2005	–	–	–	(5,088)	–	(5,088)
	8,154	134,268	10,266	(23,421)	–	129,267
Balance at 31 December 2005	42,074	137,639	29,972	102,401	3	312,089
Balance at 1 January 2006	42,074	137,639	29,972	102,401	3	312,089
Disposal of subsidiaries	–	–	–	–	(3)	(3)
Translation differences	–	–	(11)	–	–	(11)
Net expense recognised directly in equity	–	–	(11)	–	(3)	(14)
Profit for the year	–	–	–	127,708	–	127,708
Total recognised (expense)/ income for 2006	–	–	(11)	127,708	(3)	127,694
Appropriation of retained earnings	–	–	11,655	(11,655)	–	–
Transfer of reserves upon exercise of share options	–	3,717	(3,717)	–	–	–
Share option scheme						
– value of employee services	–	–	4,276	–	–	4,276
– proceed from shares issued	1,120	15,347	–	–	–	16,467
Dividend paid relating to 2005	–	–	–	(14,502)	–	(14,502)
Dividend paid relating to 2006	–	–	–	(8,316)	–	(8,316)
	1,120	19,064	12,214	(34,473)	–	(2,075)
Balance at 31 December 2006	43,194	156,703	42,175	195,636	–	437,708

Notes:

1. **Summary of significant accounting policies**

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

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. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) *Interpretations of existing standards that are not yet effective*

- HKFRS 7, 'Financial instruments: Disclosures', and the complementary Amendment to HKAS 1, 'Presentation of Financial Statements-Capital Disclosures', (effective for annual periods beginning on or after 1 January 2007). 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 capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 for annual periods beginning 1 January 2007.

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements; and

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As the Group has not changed the terms of its contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations.

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

(b) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 19 Amendment – Employee Benefits;
- HKAS 21 Amendment – New Investment in a Foreign Operation;
- HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment – The Fair Value Option;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 Amendment – First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment

2. Segment information

Primary reporting format – business segments

At 31 December 2006, 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 31 December 2006 and 31 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.

Secondary reporting format – geographical segments

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

3. Expenses by nature

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

	2006 *RMB'000*	2005 *RMB'000*
Cost of inventories	136,416	83,594
Employee benefit expense	15,478	12,234
Depreciation and amortisation expense	15,442	9,480
Advertising costs	4,750	2,381
Research and development expense	3,837	983
Transportation expenses	1,553	518
Operating lease payments	787	673
Exchange losses – net	2,296	–
Auditors' remuneration	895	742
Other expenses	5,222	3,526
	186,676	114,131

4. Income tax expense

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

	2006 *RMB'000*	2005 *RMB'000*
Current income tax		
– Hong Kong profits tax	–	–
– Mainland China enterprise income tax	9,802	4,997
	9,802	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 (2005: Nil).

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

The subsidiaries established in Mainland China are subject to Mainland China EIT at rates ranging from 27% to 33%. Green Land Bio-Products Co., Ltd. ("Green Land"), Century Sunshine (Nan Ping) Biology Engineering Co., Ltd. ("Nan Ping") and Century Sunshine (Jiangxi) Ecological Technology Limited ("Jiangxi") are wholly foreign owned 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 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 years after offsetting prior year tax losses of Greenland, Nan Ping and Jiangxi were 31 December 2003, 31 December 2004 and 31 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 31 December 2006.

(c) Overseas income tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies law of Cayman Islands and, accordingly, is exempted from Cayman Island 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 British Virgin Islands income tax. Century Sunshine (Australia) Ecological Technology Limited is incorporated in Australia and was loss making during the year ended 31 December 2006.

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 income tax rate of Mainland China enterprises, as follows:

	2006	**2005**
	RMB'000	*RMB'000*
Profit before income tax	137,510	76,372
Calculated at a tax rate of 33% (2005: 33%)	45,378	25,203
Effect of different tax rates	(7,191)	(9,701)
Effect of tax exemption	(31,003)	(11,783)
Income not subject to tax	(3,102)	(1,729)
Expenses not deductible for tax purposes	2,648	1,090
Tax losses for which no deferred income tax asset was recognised	3,072	1,917
Income tax expense	9,802	4,997

As at 31 December 2006, the Group has unrecognised tax losses of approximately RMB29,907,000 (2005: RMB15,416,000), which can be carried forward to offset future taxable profit. Tax losses of RMB5,460,000 (2005: RMB1,645,000) will expire in 2009 while tax losses of RMB24,447,000 (2005: RMB13,264,000) can be carried forward indefinitely. The deferred tax benefit of such tax losses has not been recognised as it is not considered probable that future taxable profit will be available to utilise the unused tax losses.

5. Earnings per share

Basic

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

	2006	**2005**
Profit attributable to equity holders of the Company (RMB'000)	127,708	71,375
Weighted average number of ordinary shares in issue, adjusted for the effect of the Share Subdivision (thousands) *(i)*	2,010,583	1,641,505
Basic earnings per share (RMB per share)	6.35 cents	4.35 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.

	2006	**2005**
Profit attributable to equity holders of the Company (RMB'000)	127,708	71,375
Weighted average number of ordinary shares in issue, as adjusted for the effect of the Share Subdivision (thousands) *(i)*	2,010,583	1,641,505
Adjustment for share options (thousands)	100,889	69,665
Weighted average number of ordinary shares for diluted earnings per share, adjusted for the effect of the Share Subdivision (thousands) *(i)*	2,111,472	1,711,170
Diluted earnings per share (RMB per share)	6.05 cents	4.17 cents

(i) Pursuant to a shareholders' resolution passed on 4 December 2006, the Company's ordinary shares of HK$0.10 each was subdivided into 5 ordinary shares of HK$0.02 each (the "Share Subdivision"). All the issued ordinary share numbers previously disclosed have been adjusted for the effect of the Share Subdivision.

6. Dividends

Dividends paid during the year ended 31 December 2006 were RMB22,818,000 (HK$0.011 per ordinary share, adjusted for the effect of the Share Subdivision) (2005: RMB15,264,000, HK$0.009per ordinary shares, adjusted for the effect of the Share Subdivision). A final dividend in respect of the year ended 31st December 2006 of HK$0.01 per ordinary share, adjusted for the effect of the Share Subdivision, amounting to a total of RMB22,970,000 is to be proposed at the Annual General Meeting on 30 April 2007. These financial statements do not reflect this dividend payable.

	2006	**2005**
	RMB'000	*RMB'000*
Interim dividend paid of HK$0.004 (2005: HK$0.003) per ordinary share, adjusted for the effect of Share Subdivision	8,316	5,088
Proposed final dividend of HK$0.01 (2005: HK$0.007) per ordinary share, adjusted for the effect of Share Subdivision	22,970	14,502
	31,286	19,590

7. Trade and other receivables

	2006	2005
	RMB'000	*RMB'000*
Trade receivables	27,457	20,591
Prepayments and deposits	20	2,811
Other receivables	270	76
	27,747	23,478

The carrying amounts of trade and other receivables approximate their fair values and are denominated in Chinese Reminbi.

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

At 31 December 2006, the ageing analysis of the trade receivables was as follows:

	2006	2005
	RMB'000	*RMB'000*
0 to 30 days	23,154	15,464
31 to 60 days	4,010	3,722
61 to 90 days	293	941
Over 90 days	–	464
	27,457	20,591

No provision for impairment of trade receivables was recognised during the year ended 31 December 2006 (2005: write back of RMB633,000). The write back of provision during the year ended 31 December 2005 has been included in administrative expenses.

8. Other reserves

	Capital reserve *RMB'000*	Statutory reserves *RMB'000*	Employee compensation reserves *RMB'000*	Translation reserves *RMB'000*	Total *RMB'000*
At 1 January 2005	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)
Translation differences	–	–	–	8	8
At 31 December 2005	11,965	15,237	2,733	37	29,972
At 1 January 2006, as per above	11,965	15,237	2,733	37	29,972
Appropriation of retained earnings	–	11,655	–	–	11,655
Employee share option scheme – value of employee services	–	–	4,276	–	4,276
Transfer of reserves upon exercise of share options	–	–	(3,717)	–	(3,717)
Translation differences	–	–	–	(11)	(11)
At 31 December 2006	11,965	26,892	3,292	26	42,175

9. Trade and other payables

	2006 *RMB'000*	2005 *RMB'000*
Trade payables	3,757	1,823
Accruals and other payables	6,585	2,468
	10,342	4,291

At 31 December 2006, the ageing analysis of trade payables was as follows:

	2006 *RMB'000*	2005 *RMB'000*
0 to 30 days	3,700	978
31 to 60 days	12	–
61 to 90 days	10	1
Over 90 days	35	844
	3,757	1,823

MANAGEMENT DISCUSSION AND ANALYSIS

Turnover

The Group's turnover for the year amounted to approximately RMB312,695,000, representing a significant increase of 64% from last year. The table below sets out the Group's turnover by product for both 2006 and 2005.

	2006	**2005**	**Growth**
	RMB'000	*RMB'000*	
Mircrobial compound fertilizer	78,327	54,019	45%
Organic tea fertilizer	31,309	27,306	15%
Premium organic fertilizer	51,470	36,688	40%
Organic compound fertilizer	26,378	22,610	17%
Humic acid organic fertilizer	113,542	44,923	153%
Bio-pesticides	11,669	5,457	114%
Total	312,695	191,003	64%

Microbial compound fertilizer recorded a turnover of RMB78,327,000 and accounted for 25% of the total turnover. It remained as our key product with the highest profit margin and recorded a growth of 45% from last year.

Organic tea fertilizer recorded a turnover of RMB31,309,000 and accounted for about 10% of the total turnover. Its growth rate was about 15% which is lower than the average growth rate of 64%. This is due to the fact that we allocated more capacity to new products such as humic acid organic fertilizer. Therefore the production volume of organic tea fertilizer was restricted due to our capacity constraint and was not able to grow as fast as its demand. This situation is expected to be improved following the commencement of operation of the Yunxiao Plant in 2007.

Premium organic fertilizer recorded a turnover of RMB51,470,000 and accounted for about 16% of the total turnover. Its growth rate was 40% from last year.

Humic acid organic fertilizer recorded a turnover of RMB113,542,000 and accounted for about 36% of the total turnover. It had the highest growth rate of 153% from last year. We have three types of humic acid organic fertilizers, namely the humic acid organic fertilizer for eucalypt tree, humic acid organic fertilizer for orchard and humic acid organic fertilizer for general purpose. Humic acid organic fertilizer for eucalypt tree was firstly introduced in 2005, and continued to be the major driver of growth in 2006. It recorded a 52% growth rate and accounted for about 22% of the total turnover this year. Both of the humic acid organic fertilizer for orchard and general purpose were introduced in the third quarter of 2006 and the sales were satisfactory. The sales of the humic acid organic fertilizer for orchard and general purpose accounted for about 10% and 4% of the total turnover respectively.

	2006	**2005**	**Growth**
	RMB'000	*RMB'000*	
Humic acid organic fertilizer			
– for eucalypt tree	68,231	44,923	52%
– for orchard	33,041	–	–
– for general purpose	12,270	–	–
	113,542	44,923	153%

Organic compound fertilizer recorded a turnover of RMB26,378,000 and accounted for about 9% of the total turnover. Its growth rate was about 17%.

Bio-pesticides recorded a turnover of RMB11,669,000, representing an increase of 114% from last year. It accounted for about 4% of the total turnover. Bio-pesticide is a supplemental business to the Group and acts as our additional services to customers. We expect this section to remain as a minor part of our business in the coming years.

In 2006, the total sales volume of organic fertilizer products amounted to approximately 178,000 tones in which 20,000 tones of the organic compound fertilizers were produced through a subcontractor in the Fujian province.

Production Capacity

Our current production capacity, excluding the subcontractor, is 155,000 tones. This is not enough to meet the continued growth of demand. It is our primary objective to reach one million tones of capacity by 2010. This is expected to be achieved through both building new plants and acquisitions. The building construction of the first phase of Yunxiao Plant with 200,000 tones of capacity is completed in March 2007. The plant is currently undergoing a environmental appraisal that is required by the Chinese government and is expected to commence operation in mid 2007. The second phase of Yunxiao Plant with another 200,000 tones of capacity is expected to be completed by the first half of 2008. Upon completion, the total capacity is to reach 555,000 tones. The balance of 445,000 tones is expected to be achieved through acquisitions. We are actively seeking suitable acquisition targets and hope to complete one to two acquisitions by the end of 2007. However, these activities are currently in preliminary stages, no agreements whatsoever have been entered into between the Company and any of the potential candidates.

Margins

Gross profit of the Group amounted to RMB160,285,000 in 2006. Gross profit margin was maintained unchanged at 51%. We increased the average selling price of two products by 12% and 15% in 2006. The effects were offseted by the increased portion of products with relatively lower gross margins. Including the fair value gain on the IFC Loan of RMB8,543,000 under the current accounting standards, the net profit for the year amounted to RMB127,708,000, representing an increase of 79% over that of 2005. The net profit margin therefore increased by 4% from 37% to 41%.

Expenses

Selling and marketing cost increased by 59% to RMB10,667,000 from last year. Due to the recruitment of sales personnel and increased marketing activities for our bio-pesticides business, advertising costs and salary expenses increased by 99% and 40% respectively, accounting for 45% and 51% of the total selling and marketing cost.

Administrative expenses amounted to RMB23,599,000, representing an increase of 68% from last year. The increase was mainly attributable to increase in R&D expenses on new R&D projects for bio-pesticides and organic fertilizers. During the year, R&D expenses increased by 290% to RMB3,837,000. Salary expenses recorded a slight increase of 11% to RMB7,507,000 when compared to the same period last year. Exchange loss of RMB2,296,000 was mainly due to the appreciation of Chinese Reminbi during the year against the Group's Hong Kong dollar assets. The R&D expenses, salary and exchange loss accounted for 16%, 32% and 10% of the total administrative expenses respectively.

LIQUIDITY, GEARING AND SOURCE OF FINANCE

As at 31 December 2006, cash and bank balances of the Group increased by RMB165,834,000 to RMB384,827,000 (2005: RMB218,993,000), balances of which are mostly denominated in Hong Kong dollars (RMB34,296,000) (2005: RMB126,627,000) and Chinese Reminbi (RMB350,529,000) (2005: RMB92,364,000). As at 31 December 2006, the Group has a long term borrowings of RMB110,482,000 (2005: 21,312,000) and the net current assets was approximately RMB400,083,000 (2005: RMB226,430,000). The Group's gearing ratio as measured by bank and other borrowings over net asset value was 25% as at 31 December 2006 (2005: 7%).

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

CONNECTED TRANSACTION

On 10 February 2006, the Group disposed of its entire interest in two wholly owned subsidiaries namely Century Sunshine (China) Tea Concept Holdings Limited and Xian Zhong (International) Organic Food Limited, which had been dormant since the dates of their incorporation, to Mr. Chi Wen Fu and Ms. Chi Bi Fen at a consideration of HK$100 (the "Disposal"). The terms of the Disposal were arrived at after arm's length negotiations between the parties. The Disposal was made on normal commercial terms and the Directors (including the independent non-executive Directors) consider that the terms thereof are fair and reasonable to the Company. Both Mr. Chi Wen Fu and Ms Chi Bi Fen were connected persons of the Company under the GEM Listing Rules as Mr. Chi Wen Fu was a Director and Ms. Chi Bi Fen was an associate of Mr. Chi Wen Fu. The Disposal was therefore a connected transaction under the GEM Listing Rules. However, the Disposal qualified as a de minimis transaction under the GEM Listing Rules, which was exempted from reporting, announcement and independent shareholders' approval requirements.

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

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

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

The Company is committed in maintaining high standards of corporate governance and business integrity in all of its activities. The Board believes the commitment in robust corporate governance practices will translate into long-term value and providing satisfactory and sustainable returns to shareholders. The Company has applied the principles and complied with the Code on Corporate Governance Practices (the "CCGP") contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2006, except for disclosed in the following:

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, 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. This structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. The Board considers that there is no suitable professional or expertise in the market to fill the position of CEO at this stage.

In light of the single leadership structure, sufficient safeguards are established to ensure that the management is accountable to the Board as a whole. The Chairman/CEO ensures that Board meetings are held regularly and when necessary. The Chairman/CEO ensures that Board members are provided with complete, adequate, accurate and timely information on a regular basis to enable them to be fully cognisant of the affairs of the Group. The Chairman/CEO ensures that all Directors have unrestricted access to the documents or information kept by the Group and professional advice when necessary.

FINAL DIVIDEND

The Board recommends the payment of final dividend for 2006 of HK1 cents per Share (2005: HK0.7 cents, as adjusted for the effect of the Share Subdivision) which, together with the interim dividends paid on 15 September 2006 of HK0.4 cents per Share (as adjusted for the effect of the Share Subdivision), make a total dividend of HK1.4 cents per Share for the full year of 2006 (2005: HK1 cents, as adjusted for the effect of the Share Subdivision). Subject to the approval of the 2006 final dividends by the shareholders at the annual general meeting to be held on 30 April 2007, it is expected that the final dividends will be paid on 21 May 2007 to the shareholders registered on 26 April 2007.

AUDIT COMMITTEE

The Audit Committee was established to review the Group's financial reporting, internal controls, corporate governance and risk management matters and to make relevant recommendation to the Board. The Audit Committee comprises all independent non-executive Directors, namely Mr. Cheung Sound Poon (being the Chairman of the Committee), Mr. Kwong Ping Man and Mr. Shen Yi Min.

During the year, the Audit Committee held four meetings and performed duties including reviewing the Group's financial statements (including the annual, interim and quarterly accounts before recommending to the Board for approval), significant internal control, audit findings, external auditors' independence and the Group's accounting principles and practices.

The Group's annual results for the year ended 31 December 2006 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the financial statements of the Company and the Group for year ended 31 December 2006 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company will be held at 3:00 p.m. on Monday, 30 April 2007 at Ballroom Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong. Notice of the annual general meeting of the Company will be sent to the shareholders of the Company shortly.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 26 April 2007 to Monday, 30 April 2007, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the proposed final dividend for the year ended 31 December 2006 and for attending the annual general meeting of the Company to be held on Monday, 30 April 2007, all transfers of shares of the Company accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tricor Investor Services Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Wednesday, 25 April 2007.

By order of the Board
Shum Sai Chit
Director

Hong Kong, 21 March 2007

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

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