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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 2007**

**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 Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2007 for your review and consideration.

### **RESULTS HIGHLIGHTS**

For the financial year of 2007, the Group's consolidated turnover increased by 3% to RMB322,102,000 and the profit attributable to equity holders declined by 50% to RMB63,953,000. The decline in net profit was mainly attributable to the problem of bacteria degeneration which caused our production output of organic fertilizers significantly lower than our normal capacity and increase in administrative expenses.

In spite of the temporary setback in our financial results, the Board is to recommend a payment of a final dividend of HK0.4 cents per Share. Together with the interim dividend of HK0.4 cents per Share already paid, total dividend for the year will be HK0.8 cents per Share, representing about 28% of the basic earnings per Share for the year.

### **BUSINESS REVIEW**

#### **1. Degeneration of bacteria**

We have encountered the problem of bacteria degeneration since the beginning of the third-quarter. The problem has caused our production capacity to decline significantly due to longer than normal fermentation process. We have already identified the cause to the problem which is due to environmental changes in the mountain area in Fujian province where we derive our bacteria. Currently there is no sign of such environmental impact disappearing in the near future. However, the situation has been stabilized at the current level. We are in the process of looking for replacement bacteria and developing new technologies to resolve the problem.

Despite the bacteria problem, operations at our factories remain normal. Our production output of organic fertilizer is at 58% of our normal capacity and we expect this to be maintained in 2008.

#### **2. Yunxiao Plant**

In June 2007, our Yunxiao Plant failed to pass the environmental appraisal that is required for obtaining the production permit. We subsequently appealed to the local government on this matter but were not successful. Since most of the ground work for the second phase of the plant had already been completed by June 2007, we plan to continue the construction of the second phase in 2008 with a schedule to complete in 2009. Upon completion and before obtaining the production permit, we plan to lease these premises to other companies as production and warehousing facilities.

### **3. Jiangsu Acquisition**

In June 2007, we acquired a compound fertilizer facility in Jiangsu province through our 51%-owned subsidiary. This facility has an annual capacity of 200,000 tones of compound fertilizer. Compound fertilizers currently accounts for about 30% of the PRC fertilizer markets in terms of annual sales. We believe it is a right strategy to expand our product lines into this compound fertilizer market in order to broaden our income base. We plan to expand the capacity of Jiangsu Plant to 300,000 tons in 2009. The products of Jiangsu Plant are currently distributed to the northern-provinces of China. We expect the sales network established by the Jiangsu Plant will also help to distribute our organic fertilizers to the northern-provinces of China in the future.

### **4. Share Repurchase**

During the fourth quarter, we repurchased a total of 109,105,000 Shares in the market with an average price of HK\$0.502 per Share. The total number of Shares repurchased accounted for 4.7% of the total number of Shares outstanding as at the date before the share repurchase. The aim of the share buyback is to increase the earnings and net asset value per Share in order to maximize the shareholders' benefits.

## **BUSINESS OUTLOOK**

The Chinese agricultural industry is growing steadily under the government's favourable policies. The selling prices for many agricultural products have been rising. Market demands for both organic and compound fertilizers remain strong. Given such favourable market sentiment and in order to overcome the short-term difficulties that we are facing, we plan to broaden our income base into other areas such as compound fertilizers.

Due to the increase in operating costs on raw material and labour, we foresee that the operating margin of both organic fertilizers and compound fertilizers may continue to decline. In order to improve the profit margin, we are considering to increase the average selling price of our products in 2008.

In the near future, we will be actively looking for other investment opportunities that could help increasing our incomes and profits. We are very confident that the current setback will eventually pass and our company will continue to prosper into the future.

**Chi Wen Fu**

*Chairman*

Hong Kong, 19 March 2008

## RESULTS

The Board is pleased to announce the audited results of the Group for the year ended 31 December 2007, together with the comparative figures for the corresponding year ended 31 December 2006 as follows:

### CONSOLIDATED INCOME STATEMENTS

		Year ended 31 December	
		2007	2006
	Note	RMB'000	RMB'000
Revenue	2	322,102	312,695
Cost of sales	3	(201,298)	(152,410)
Gross profit		120,804	160,285
Selling and marketing costs	3	(10,760)	(10,667)
Administrative expenses	3	(42,813)	(23,599)
Operating profit		67,231	126,019
Finance income		17,828	12,258
Finance costs		(6,348)	(767)
Profit before income tax		78,711	137,510
Income tax expense	4	(15,916)	(9,802)
Profit for the year		62,795	127,708
Attributable to:			
Equity holders of the Company		63,953	127,708
Minority interest		(1,158)	—
		62,795	127,708
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
-basic	5	2.82 cents	6.35 cents
-diluted	5	2.74 cents	6.05 cents
Dividends	6	17,374	31,286

## CONSOLIDATED BALANCE SHEETS

As at 31 December 2007

		As at 31 December	
		2007	2006
	Note	RMB'000	RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		162,235	130,842
Land use rights		20,587	4,275
Prepayment for acquisition of land		–	7,372
Intangible assets		3,475	5,618
		<u>186,297</u>	<u>148,107</u>
<b>Current assets</b>			
Inventories		36,752	5,432
Trade and other receivables	7	77,291	27,747
Cash and cash equivalents		792,914	384,827
		<u>906,957</u>	<u>418,006</u>
<b>Total assets</b>		<u><u>1,093,254</u></u>	<u><u>566,113</u></u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital		46,426	43,194
Share premium		557,020	156,703
Other reserves	8	51,572	42,175
Retained earnings			
-Proposed final dividend	6	8,345	22,970
-Others		211,772	172,666
		<u>875,135</u>	<u>437,708</u>
<b>Minority interest</b>		<u>49,062</u>	<u>–</u>
<b>Total equity</b>		<u><u>924,197</u></u>	<u><u>437,708</u></u>

		<b>As at 31 December</b>	
		<b>2007</b>	<b>2006</b>
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		110,678	110,482
		-----	-----
<b>Current liabilities</b>			
Trade and other payables	9	51,154	10,342
Current income tax liabilities		7,225	7,581
		-----	-----
		58,379	17,923
		-----	-----
<b>Total liabilities</b>		<b>169,057</b>	<b>128,405</b>
		=====	=====
<b>Total equity and liabilities</b>		<b>1,093,254</b>	<b>566,113</b>
		=====	=====
<b>Net current assets</b>		<b>848,578</b>	<b>400,083</b>
		=====	=====
<b>Total assets less current liabilities</b>		<b>1,034,875</b>	<b>548,190</b>
		=====	=====

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company					Minority interest RMB'000	Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000			
<b>Balance at 1 January 2006</b>	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)	
<b>Balance at 31 December 2006</b>	<b>43,194</b>	<b>156,703</b>	<b>42,175</b>	<b>195,636</b>	<b>–</b>	<b>437,708</b>	
<b>Balance at 1 January 2007</b>	43,194	156,703	42,175	195,636	–	437,708	
Translation differences	–	–	28	–	–	28	
Net income recognised directly in equity	–	–	28	–	–	28	
Profit/(loss) for the year	–	–	–	63,953	(1,158)	62,795	
Total recognised income/(expense) for 2007	–	–	28	63,953	(1,158)	62,823	
Appropriation of retained earnings	–	–	5,880	(5,880)	–	–	
Issue of shares	4,900	441,840	–	–	–	446,740	
Transfer of reserves upon exercise of share options	–	2,581	(2,581)	–	–	–	
Share option scheme							
–value of employee services	–	–	1,792	–	–	1,792	
–proceed from shares issued	614	8,166	–	–	–	8,780	
Contribution from minority shareholders	–	–	–	–	50,220	50,220	
Repurchase of shares	(2,282)	(52,270)	4,278	(2,282)	–	(52,556)	
Dividend paid relating to 2006	–	–	–	(22,281)	–	(22,281)	
Dividend paid relating to 2007	–	–	–	(9,029)	–	(9,029)	
	3,232	400,317	9,369	(39,472)	50,220	423,666	
<b>Balance at 31 December 2007</b>	<b>46,426</b>	<b>557,020</b>	<b>51,572</b>	<b>220,117</b>	<b>49,062</b>	<b>924,197</b>	

## Notes:

### 1. Basis of preparation and accounting policies

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. The areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in the notes to financial statements.

#### *(a) Standards, amendments and interpretations interpretations effective in 2007*

- 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).
- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006).
- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).

#### *(b) Standards, amendments and interpretations effective in 2007 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 2007 but are not relevant to the Group’s operations:

- HK(IFRIC)-Int 7, ‘Apply the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economic’; and
- HK(IFRIC)-Int 9, ‘Re-assessment of embedded derivatives’.

#### *(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group’s accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), ‘Presentation of Financial Statements’ (effective from 1 January 2009).
- HKAS 23 (Amendment), ‘Borrowing costs’ (effective from 1 January 2009).
- HKFRS 8, ‘Operating segments’ (effective from 1 January 2009).
- HK(IFRIC)-Int 14, ‘HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction’ (effective from 1 January 2008).



The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

- HK(IFRIC) – Int 11-HKFRS 2 – “Group and treasury share transactions” (effective for the annual periods beginning on or after 1 March 2007).
- HK(IFRIC)-Int 12, ‘Service concession arrangements’ (effective from 1 January 2008).
- HK(IFRIC)-Int 13, ‘Customer loyalty programmes’ (effective from 1 July 2008).

## 2. Revenue and segment information

### (a) Turnover

The Group is principally engaged in the research and development, production and distribution of organic fertilizers, compound fertilizers and biological pesticides. Turnover is as follows:

	<b>2007</b> <i>RMB'000</i>	<b>2006</b> <i>RMB'000</i>
Sale of organic fertilizers	243,028	301,026
Sale of compound fertilizers	67,805	–
Sale of biological pesticides	11,269	11,669
	<u>322,102</u>	<u>312,695</u>

### (b) Segment information

*Primary reporting format – business segments*

At 31 December 2007, the Group has three main business segments:

- (1) Manufacturing and sales of organic fertilizers;
- (2) Manufacturing and sales of compound fertilizers; and
- (3) Manufacturing and sales of biological pesticides

The segment results for the year ended 31 December 2007 are as follows:

	<b>Organic fertilizers</b> <i>RMB'000</i>	<b>Compound fertilizers</b> <i>RMB'000</i>	<b>Biological pesticides</b> <i>RMB'000</i>	<b>Unallocated</b> <i>RMB'000</i>	<b>Group</b> <i>RMB'000</i>
Total segment revenue	243,727	72,954	11,269	–	327,950
Inter-segment revenue	(699)	(5,149)	–	–	(5,848)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Revenue	<u>243,028</u>	<u>67,805</u>	<u>11,269</u>	<u>–</u>	<u>322,102</u>
Segment results	92,000	(618)	(1,796)	(22,355)	67,231
Finance income					17,828
Finance costs					(6,348)
					<hr/>
Profit before income tax					78,711
Income tax expense					(15,916)
					<hr/>
Profit for the year					<u>62,795</u>

The segment results for the year ended 31 December 2006 are as follows:

	<b>Organic fertilizers</b> <i>RMB'000</i>	<b>Compound fertilizers</b> <i>RMB'000</i>	<b>Biological pesticides</b> <i>RMB'000</i>	<b>Unallocated</b> <i>RMB'000</i>	<b>Group</b> <i>RMB'000</i>
Total segment revenue	301,579	–	11,669	–	313,248
Inter-segment revenue	(553)	–	–	–	(553)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Revenue	<u>301,026</u>	<u>–</u>	<u>11,669</u>	<u>–</u>	<u>312,695</u>
Segment results	145,079	–	(5,932)	(13,128)	126,019
Finance income					12,258
Finance costs					(767)
					<hr/>
Profit before income tax					137,510
Income tax expense					(9,802)
					<hr/>
Profit for the year					<u>127,708</u>

Other segment items included in the consolidated income statement are as follow

	<b>Year ended 31 December 2007</b>				
	<b>Organic fertilizers</b> <i>RMB'000</i>	<b>Compound fertilizers</b> <i>RMB'000</i>	<b>Biological pesticides</b> <i>RMB'000</i>	<b>Unallocated</b> <i>RMB'000</i>	<b>Group</b> <i>RMB'000</i>
Depreciation of property, plant and equipment	13,399	2,285	2,327	230	18,241
Amortisation of land use rights and intangible assets	1,201	91	400	–	1,692
Impairment charges	5,763	–	–	–	5,763
	<b>Year ended 31 December 2006</b>				
	<b>Organic fertilizers</b> <i>RMB'000</i>	<b>Compound fertilizers</b> <i>RMB'000</i>	<b>Biological pesticides</b> <i>RMB'000</i>	<b>Unallocated</b> <i>RMB'000</i>	<b>Group</b> <i>RMB'000</i>
Depreciation of property, plant and equipment	11,113	–	2,654	46	13,813
Amortisation of land use rights and intangible assets	1,229	–	400	–	1,629

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows:

	<b>Organic fertilizers</b> <i>RMB'000</i>	<b>Compound fertilizers</b> <i>RMB'000</i>	<b>Biological pesticides</b> <i>RMB'000</i>	<b>Unallocated</b> <i>RMB'000</i>	<b>Group</b> <i>RMB'000</i>
Segment assets	661,731	121,504	20,064	289,955	1,093,254
Segment liabilities	141,409	23,299	2,470	1,879	169,057
Capital expenditure	28,451	40,994	68	4,753	74,266

The segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended are as follows:

	<b>Organic fertilizers</b> <i>RMB'000</i>	<b>Compound fertilizers</b> <i>RMB'000</i>	<b>Biological pesticides</b> <i>RMB'000</i>	<b>Unallocated</b> <i>RMB'000</i>	<b>Group</b> <i>RMB'000</i>
Segment assets	511,803	–	19,776	34,534	566,113
Segment liabilities	125,079	–	1,988	1,338	128,405
Capital expenditure	69,814	–	1,144	276	71,234

*Secondary reporting format – geographical segments*

No geographical segment information is presented as all of the Group's business is carried out in Mainland China/Hong Kong.

### 3. Expenses by nature

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

	<b>2007</b> <i>RMB'000</i>	<b>2006</b> <i>RMB'000</i>
Cost of inventories	176,861	136,416
Employee benefit expense	14,428	15,478
Depreciation and amortisation expense	19,933	15,442
Impairment of property, plant and equipment and intangible assets	5,763	–
Forfeiture of prepayment of machinery	4,775	–
Advertising costs	4,880	4,750
Research and development expense	2,550	3,837
Transportation expenses	1,415	1,553
Operating lease payments	1,586	787
Exchange losses – net	11,960	2,296
Auditor's remuneration	1,391	895
Legal and professional fee	1,474	1,404
Other expenses	7,855	3,818
	<u>254,871</u>	<u>186,676</u>

#### 4. Income tax expense

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

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Current income tax		
– Hong Kong profits tax	–	–
– Mainland China enterprise income tax	15,916	9,802
	<u>15,916</u>	<u>9,802</u>
	<u><u>15,916</u></u>	<u><u>9,802</u></u>

##### (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 (2006: 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 25% to 33%. Green Land Bio-Products Co., Ltd. (“Green Land”), Century Sunshine (Nan Ping) Biology Engineering Co., Ltd. (“Nan Ping”), Century Sunshine (Jiangxi) Ecological Technology Limited (“Jiangxi”) and 福州美地國際貿易有限公司 are wholly foreign owned enterprises engaged in the production and sale of organic fertilizers and compound 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 “Tax Concession”). 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 (Shanghai) Management Co., Ltd., Century Sunshine (Zhangzhou) Ecological Technology Limited and Excellent Pesticide (Nanchang) Limited were loss making during the year ended 31 December 2007.

On 16 March 2007, the National People’s Congress approved the Enterprise Income Tax Law of the People’s Republic of China (the “new CIT Law”), which is effective from 1 January 2008. Under the new CIT Law, the enterprise income tax rate applicable to the Group’s subsidiaries located in mainland China starting from 1 January 2008 will be 25%, replacing the currently applicable tax rate of 33%. Companies eligible for the Tax Concession but have not yet commence the relevant tax holiday will be deemed to commence the tax holiday starting in 2008.

##### (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) Limited is incorporated in Australia and was loss making during the year ended 31 December 2007.

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:

	<b>2007</b> <i>RMB'000</i>	<b>2006</b> <i>RMB'000</i>
Profit before income tax	78,711	137,510
Calculated at a tax rate of 33% (2006: 33%)	25,975	45,378
Effect of different tax rates	(3,512)	(7,191)
Effect of tax exemption	(16,127)	(31,003)
Income not subject to tax	(1,002)	(3,102)
Expenses not deductible for tax purposes	4,940	2,648
Utilisation of previously unrecognised tax losses	(77)	–
Tax losses for which no deferred income tax asset was recognised	5,719	3,072
Income tax expense	<u>15,916</u>	<u>9,802</u>

As at 31 December 2007, the Group has unrecognised tax losses of approximately RMB52,978,000 (2006: RMB29,907,000), which can be carried forward to offset future taxable profit. Tax losses of RMB15,881,000 (2006: RMB5,460,000) will expire in 2009 while tax losses of RMB37,097,000 (2006: RMB24,447,000) 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.

	<b>2007</b>	<b>2006</b>
Profit attributable to equity holders of the Company (RMB'000)	63,953	127,708
Weighted average number of ordinary shares in issue (thousands)	2,265,387	2,010,583
Basic earnings per share (RMB per share)	<u>2.82 cents</u>	<u>6.35 cents</u>

### 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 below is compared with the number of shares that would have been issued assuming the exercise of the share options.

	<b>2007</b>	<b>2006</b>
Profit attributable to equity holders of the Company ( <i>RMB'000</i> )	63,953	127,708
Weighted average number of ordinary shares in issue (thousands)	2,265,387	2,010,583
Adjustment for share options (thousands)	65,454	100,889
Weighted average number of ordinary shares for diluted earnings per share (thousands)	2,330,841	2,111,472
Diluted earnings per share (RMB per share)	<u>2.74 cents</u>	<u>6.05 cents</u>

## 6. Dividends

Dividends paid during the year ended 31 December 2007 were RMB31,310,000 (HK\$0.014 per ordinary share,) (2006: RMB22,818,000, HK\$0.011 per ordinary share). The directors recommend the payment of a final dividend of HK\$0.004 per ordinary share, totalling RMB8,345,000. Such dividend is to be approved by the shareholders at the Annual General Meeting on 28 April 2008. These financial statements do not reflect this dividend payable.

	<b>2007</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Interim dividend paid of HK\$0.004 (2006: HK\$0.004) per ordinary share	9,029	8,316
Proposed final dividend of HK\$0.004 (2006: HK\$0.01) per ordinary share	8,345	22,970
	<u>17,374</u>	<u>31,286</u>

## 7. Trade and other receivables

	<b>2007</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	55,486	27,457
Prepayments and deposits	21,015	20
Other receivables	790	270
	<u>77,291</u>	<u>27,747</u>

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.

The maximum exposure to credit risk as at 31 December 2007 is the fair value of trade and other receivables mentioned above. The Group does not hold any collateral as security.

At 31 December 2007, the ageing analysis of the trade receivables was as follows:

	<b>2007</b> <i>RMB'000</i>	<b>2006</b> <i>RMB'000</i>
0 to 30 days	44,015	23,154
31 to 60 days	9,424	4,010
61 to 90 days	1,869	293
Over 90 days	178	–
	<u>55,486</u>	<u>27,457</u>

No provision for impairment of trade receivables was recognised during the year ended 31 December 2007 (2006: Nil).

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2007, trade receivables of RMB178,000 (2006: Nil) were past due up to 3 months but are considered not impaired. These relate to a number of independent customers for whom there is no recent history of default.

No trade receivables were past due up to 3 months but are considered impaired.

## 8. Other reserves

	<b>Capital redemption reserve</b> <i>RMB'000</i>	<b>Capital reserve</b> <i>RMB'000</i>	<b>Statutory reserves</b> <i>RMB'000</i>	<b>Employee compensation reserves</b> <i>RMB'000</i>	<b>Translation reserves</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
At 1 January 2006	–	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	<u>–</u>	<u>11,965</u>	<u>26,892</u>	<u>3,292</u>	<u>26</u>	<u>42,175</u>
At 1 January 2007, as per above	–	11,965	26,892	3,292	26	42,175
Appropriation of retained earnings	–	–	5,880	–	–	5,880
Employee share option scheme						
– value of employee services	–	–	–	1,792	–	1,792
Transfer of reserves upon exercise of share options	–	–	–	(2,581)	–	(2,581)
Repurchase of shares	2,282	–	–	–	1,996	4,278
Translation differences	–	–	–	–	28	28
At 31 December 2007	<u>2,282</u>	<u>11,965</u>	<u>32,772</u>	<u>2,503</u>	<u>2,050</u>	<u>51,572</u>



## 9. Trade and other payables

	<b>2007</b> <i>RMB'000</i>	<b>2006</b> <i>RMB'000</i>
Trade payables	10,179	3,757
Accruals and other payables	40,975	6,585
	<u>51,154</u>	<u>10,342</u>

The carrying amount of trade and other payables approximate their fair value.

At 31 December 2007, the ageing analysis of trade payables was as follows:

	<b>2007</b> <i>RMB'000</i>	<b>2006</b> <i>RMB'000</i>
0 to 30 days	8,185	3,700
31 to 60 days	1,748	12
61 to 90 days	139	10
Over 90 days	107	35
	<u>10,179</u>	<u>3,757</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Turnover

The Group's total sales amounted to RMB322,102,000 in 2007, representing a increase of 3% from 2006. It was mainly attributable to the introduction of new business line of compound fertilizers. The Group currently engages in three business lines, namely organic fertilizers, compound fertilizers and bio-pesticides. The following tables set out the sales of each business line for both 2006 and 2007:

<i>RMB'000</i>	<b>2007</b>	<b>2006</b>	Change
Organic fertilizers	243,028	301,026	-19%
Compound fertilizers	67,805	—	—
Bio-pesticides	11,269	11,669	-3%
	<u>322,102</u>	<u>312,695</u>	<u>+3%</u>

### *Organic fertilizers*

The significant drop in sales of organic fertilizers was mainly attributable to the decrease in production capacity of organic fertilizers due to the degeneration of production bacteria which caused our production output significantly lower than our normal capacity. The problem of bacteria degeneration occurred in July 2007 and therefore, the second-half turnover of organic fertilizer was severely affected. When comparing to the same period of last year, the sales of organic fertilizers for the second half of 2007 was decreased by 39% to RMB106,866,000. However, the production of organic fertilizers has stabilized at this current level. During the year, the total sales volume of organic fertilizers amounted to approximately 130,000 tons and it accounted for 75% of the total sales.

### *Compound fertilizers*

Compound fertilizers are composite of different kinds of chemical fertilizers in order to provide balanced nutrients to the plantation. The fertilizer market in the PRC is huge with the annual sales of over RMB400 billion in which compound fertilizers accounted for approximately 30%. The Group acquired a compound fertilizers facility in July 2007 through a 51%-owned subsidiary in the Jiangsu province. Jiangsu province is a traditional agricultural base in the northern PRC. The Group's compound fertilizers were well received by the market and accounted for about 21% of the Group's total sales in 2007.

### *Bio-pesticides*

The Group maintained bio-pesticides as a supplemental products and services to its customers. The sales of bio-pesticides recorded a slightly decrease of 3% and accounted for about 4% of the Group's total sales in 2007.

## **Production Capacity**

### *Organic fertilizers*

The degeneration of production bacteria caused the production capacity of organic fertilizer drop significantly in the second half of 2007. Given that no significant improvement on our current production technology, our annual production capacity of organic fertilizer decreases by 42% from 155,000 tons to approximately 90,000 tons. The Group is now searching for replacement bacteria and developing new technologies to resolve the problem.

## *Compound fertilizers*

The designed annual capacity of Jiangsu Plant was about 200,000 tons of compound fertilizers. After the completion of modification of existing machinery and installation of new production facilities in 2009, the annual capacity will increase to approximately 300,000 tons of compound fertilizers.

We are actively seeking for suitable acquisition targets of compound fertilizers and organic fertilizers in the PRC and Australia. We hope to complete one to two acquisitions in 2008. However, these activities are currently in preliminary stages, no agreements whatsoever have been entered into between the Company and any of the potential candidates.

### **Gross Margin**

The average gross margin in 2007 significantly dropped to about 38% from 51% in 2006, which was mainly attributable to the introduction of compound fertilizers and the longer production cycle of organic fertilizers caused by the degeneration of bacteria. Compound fertilizers have lower average margin than organic fertilizers. Our compound fertilizers have an average gross margin of less than 10%. Meanwhile, the average gross margin of our organic fertilizers decreased by 6% in 2007 due to the longer production cycle.

### **Expenses**

Selling and marketing cost remained stable at the level of approximately RMB11,000,000 in which advertising, salary and transportation cost accounted for 45%, 42% and 9% respectively.

Administrative expenses amounted to RMB42,813,000, representing an increase of 81% from last year. It was mainly attributable to the increase in net exchange loss from RMB2,296,000 in 2006 to RMB11,960,000 in 2007 due to the continuous appreciation of Renminbi against the Group's assets denominated in foreign currencies. Due to the failure to commence operations of the Yunxiao Plant, administrative expenses included its impairment loss of RMB5,128,000 and contracts termination cost of RMB4,775,000. Without taking into account of these expenses, administrative expenses of 2007 recorded a slight decrease of 2%.

### **Net margin**

Due to the significant decrease in gross margin and increase in administrative expenses, the net profit for the year of 2007 only amounted to RMB63,953,000, representing a decrease of 50% from last year and the net profit margin decreased to 20% from 41% in 2006.

## **LIQUIDITY, GEARING AND SOURCE OF FINANCE**

The Group continued to maintain a strong financial position with net cash of RMB682,236,000. As at 31 December 2007, cash and bank balances of the Group increased by RMB408,087,000 to RMB792,914,000 (2006: RMB384,827,000).

As at 31 December 2007, the Group has a long term borrowings of RMB110,678,000 (2006: 110,482,000) and the net current assets was approximately RMB848,578,000 (2006: RMB400,083,000). The Group's gearing ratio as measured by borrowings over net asset value was 12% in 2007 (2006: 25%).

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

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

The Company completed a shares placement of 300 million existing Shares to over 20 institutional investors at a placing price of HK\$1.88 per Share on 14 February 2007 and completed a subscription of 250 million new Shares by Alpha Sino International Limited, being the substantial shareholder of the Company, at a subscription price of HK\$1.88 per Share on 23 February 2007. The net proceeds from the subscription were approximately HK\$456 million and were intended to finance future expansion as well as general working capital.

The Company repurchased an aggregate of 109,105,000 Shares on The Stock Exchange of Hong Kong Limited at the average purchase price of HK\$0.502 per Share from 12 November 2007 to 20 November 2007 under the general mandate granted by the shareholders of the Company in the annual general meeting of the Company held on 30 April 2007. The purchase including the transaction cost involved a total cash outlay of approximately HK\$55 million and was for the purpose to increase the earnings and net asset value per Share so as to maximize the return of shareholders' investment in the Company.

Save as disclosed above, neither the Company nor its subsidiaries had purchased or sold any of the Shares during the year ended 31 December 2007 and the Company has not redeemed any of its Shares during the year ended 31 December 2007.

## **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 during the year ended 31 December 2007, excepted 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 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 a final dividend for 2007 of HK0.4 cents per Share (2006: HK1 cents) which, together with the interim dividends paid on 17 September 2007 of HK0.4 cents per Share, make a total dividend of HK0.8 cents per Share for the full year of 2007 (2006: HK1.4 cents). Subject to the approval of the 2007 final dividends by the shareholders at the annual general meeting to be held on 28 April 2008, it is expected that the final dividends will be paid on 28 May 2008 to the shareholders registered on 28 April 2008.

## **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. Kwong Ping Man (being the Chairman of the Committee), Mr. Shen Yi Min and Mr. To Yan Ming, Edmond.

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 2007 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 2007 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

## **SCOPE OF WORK OF PRICEWATERHOUSECOOPERS**

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2007 have been agreed by the Group's auditors, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

## **ANNUAL GENERAL MEETING**

The forthcoming annual general meeting of the Company will be held at 3:00 p.m. on Monday, 28 April 2008 at Everest Room, Pacific Place Conference Centre, Level 5, One 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 Wednesday, 23 April 2008 to Monday, 28 April 2008, 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 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 Tuesday 22 April 2008.

By order of the Board

**Chi Wen Fu**

*Chairman*

Hong Kong, 19 March 2008

*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. Kwong Ping Man and Mr. To Yan Ming, Edmond .*

*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 and on the website of the Company at <http://www.centurysunshine.com.hk>.*