



世纪阳光

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

Safe

Healthy

Ecological

Annual Report

2004

## **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.*

# Century sunshine

## TURNOVER

2004 RMB 94million

69% Increase

Remarkable Results

## Profit

RMB 36million

Sincere Return

69% Increase

2004



A market leader in the Research and Development, production and sale of organic fertilizers in the PRC, providing

**safe,  
healthy,  
ecological**

and environmental-friendly production materials for organic agriculture.

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**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

**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

**COMPANY'S WEBSITE ADDRESS**

[www.centurysunshine.com.hk](http://www.centurysunshine.com.hk)

**COMPANY SECRETARY**

Tang Ying Kit (CPA, ACCA, ACMA)

**COMPLIANCE OFFICER**

Shum Sai Chit

**QUALIFIED ACCOUNTANT**

Tang Ying Kit (CPA, ACCA, ACMA)

**AUDIT COMMITTEE**

Cheung Sound Poon (*Chairman*)  
Shen Yi Min  
Kwong Ping Man

**AUTHORISED REPRESENTATIVES**

Chi Wen Fu  
Shum Sai Chit

**SPONSOR**

CSC Asia Limited

**LEGAL ADVISERS**

*As to Hong Kong law:–*  
So Keung Yip & Sin

*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  
Ground Floor  
Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

**PRINCIPAL BANKER**

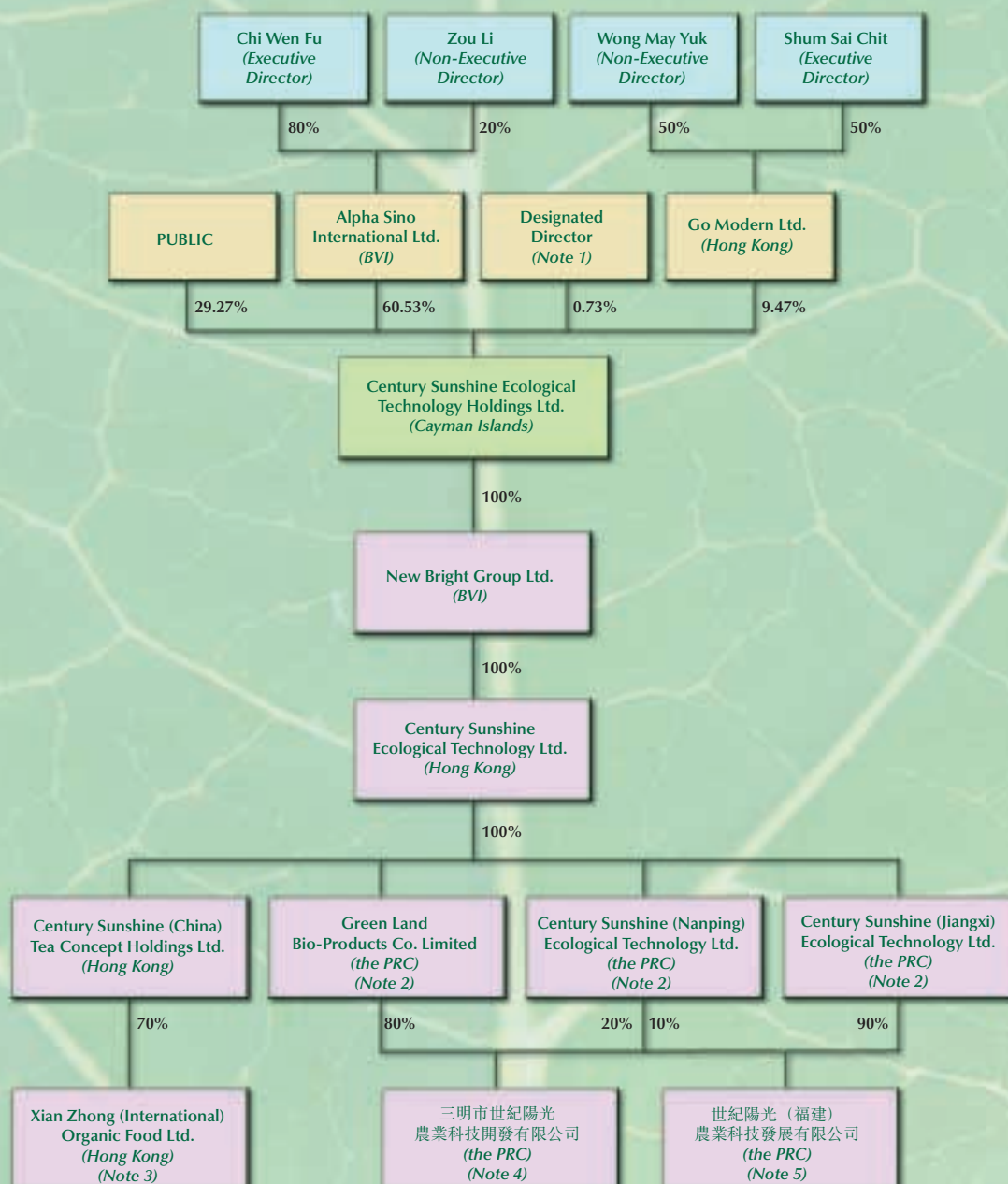
DBS Bank (Hong Kong) Limited

**STOCK CODE**

8276

## group business structure

As at the date of this report, the corporate structure of Century Sunshine Ecological Technology Holdings Limited (the “Company”) and its subsidiaries (the “Group”) is as follows:



Note 1: “Designated Director” refers to Mr. Wu Wen Jing, Benjamin.

Note 2: production of organic fertilizer products.

Note 3: established on 29 October 2004, to be engage in the distribution of organic food products.

Note 4: research and development of organic fertilizer products.

Note 5: research and development and provision of technical services.



## FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED 31 DECEMBER

	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000
Turnover	93,921	55,468	42,630	5,923
Cost of sales	(41,301)	(24,364)	(19,177)	(3,140)
Gross profit	52,620	31,104	23,453	2,783
Other revenue	343	–	–	–
Distribution and selling expenses	(3,416)	(3,094)	(3,241)	(700)
General and administrative expenses	(7,247)	(4,348)	(2,702)	(1,433)
Research and development costs	(6,125)	(2,125)	(4,079)	(108)
Operating profit	36,175	21,537	13,431	542
Finance costs	(136)	(343)	(230)	(269)
Profit before taxation	36,039	21,194	13,201	273
Taxation	–	(29)	(11)	–
Profit after taxation	36,039	21,165	13,190	273
Minority interests	46	202	226	(504)
Profit attributable to shareholders	36,085	21,367	13,416	(231)
Total Assets	116,389	47,300	23,299	14,060
Total Liabilities	(4,709)	(13,832)	(8,491)	(12,033)
Shareholders' Funds	111,680	33,468	14,808	2,027

## financial highlights

### FINANCIAL RATIO (AS AT 31 DECEMBER)

	2004	2003	2002	2001
Return on shareholders funds <sup>1</sup>	<b>32%</b>	64%	91%	N/A
Return on total assets <sup>2</sup>	<b>31%</b>	45%	58%	N/A
Gearing <sup>3</sup>	–	32%	39%	215%
Liquidity <sup>4</sup>	<b>20x</b>	3.0x	3.4x	1.1x

Notes:

1. Profit attributable to shareholders / Shareholders' funds
2. Profit attributable to shareholders / Total assets
3. Total borrowings / Net asset value
4. Current assets / Current liabilities

### SHARE INFORMATION (AS AT 31 DECEMBER 2004)

	31 December 2004
Company's shares of HK\$0.10 each (the "Shares") in issue	320,000,000 shares
Closing market price per Share	HK\$0.72
Market capitalization	HK\$230m
Net asset value per Share	0.35
Basic earnings per Share	RMB11.65 cents
Diluted earnings per Share	RMB11.64 cents
Final dividend per Share	HK\$0.03

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 2004 for your consideration. I greatly appreciate this opportunity to share the achievements with shareholders.

## TURNOVER AND PROFITS

The financial results for 2004 were very encouraging. For the year ended 31 December 2004, the consolidated turnover of the Group was approximately RMB93,921,000 (2003: RMB55,468,000), representing a growth of 69% from last year, and the audited profit attributable to shareholders was approximately RMB36,085,000 (2003: RMB21,367,000), representing an increase of 69% from last year. The Board is pleased to share the profit growth with shareholders by recommendation of a payment of final dividend of HK\$0.03 per Share.

## BUSINESS REVIEW

### 1. Successfully listed on GEM and corporate governance strengthened

Shares of the Company were listed on GEM on 17 February 2004 (the "Listing Date") which represents a milestone in the development history of the Group. The successful listing further strengthened our corporate image and made our "LU DI" (綠滴) brand-name more recognized among our customers. All these contributed to our significantly improved results for the year. Meanwhile, we realized that being a listed company, we are obliged to meet higher standard of requirements from both the shareholders and the regulatory authorities. The Board and the management team fully understand the new challenges and opportunities ahead and are determined to make our best endeavor to maintain a high standard of corporate governance and to reward our shareholders with better operating results in the future.



In order to improve management efficiency and corporate governance standards, we implemented a series of measures within the Group immediately after the listing. These mainly include the following:–

- we completed and implemented a new set of operating procedures and policies covering the Group's six major departments including Personnel, Administration, Accounting and Finance, Sales, Production, and Research and Development;
- we strengthened our human resources by recruiting more than 30 professional staffs in the area of administration, production, sales, technical service and finance;

**Chi Wen Fu**

*Chairman*

## Enormous Market with Ample Business Potential

- we implemented the incentive share option scheme for our employees and our management team; and
- we upgraded our head-office with new computer networking systems and other equipment.

By implementing the above measures, the Group is able to enhance the overall corporate governance and risk control capability, and making the operation more transparent and efficient.

### 2. Growing demand for organic fertilizer products

The year of 2004 saw the fastest growth of green food and organic food industry in the PRC. According to China Green Food Net ([www.greenfood.org.cn](http://www.greenfood.org.cn)), the number of product certifications of green food and organic food products in the PRC increased by 61% and 55% respectively in 2004 from previous year. These figures show a trend of increasing demand for healthy green food and organic food and thus the growing demand for organic fertilizer products. During the year, the Fujian Provincial Government announced a plan to invest RMB11.1 billion in order to facilitate the development of eco-friendly agriculture in Fujian province. We believe such plan further stimulated the demand for organic fertilizer products in Fujian province.



### 3. Expanded sales network and improved sales services

We conduct sales through both distributors and our sales team. During the year, sales made through distributors accounted for 57% of the total turnover and

sales made directly by our sales team accounted for 43% of the total turnover. Under both ways of sales, we maintained our sales strategy of providing technical guidance to our major customers before and after the sales. Based on such strategy, we made improvements in two areas this year. Firstly, we expanded our sales network by increasing the numbers of distributors by 23%. Secondly, we established a number of technical service teams. Each team was equipped with a set of soil-nutrients-testing machine. Such machine is for hand-carry and able to provide on-site testing and diagnosis of soil nutrients for farmers. The examination results are used to determine the best formula of fertilizer applications for the plantation. The practice is well received by the customers as it provides a tailor-made service to meet the individual demand of major customers. Such practice enabled us to not only improve our relationship with existing customers but also develop new customers. Currently, our sales network covers over 80% of the plantation areas in Fujian province comparing to 60% in 2003. The total number of customer increased by 35% from last year.

It has been our primary principal to provide technical services to our customers before and after sales. We strive to continuously enhance our service qualities so as to further increase our credibility among our customers.

#### **4. Production capacity doubled by new plant**

During the year, we established a new organic fertilizer plant in Jianou, Fujian province with an area of 16,700 m<sup>2</sup> under our newly incorporated subsidiary "Century Sunshine (Nan Ping) Biology Engineering Co., Ltd" ("Century Sunshine (Nan Ping)"). The plant was put into operation in August 2004. Its annual production capacity is 30,000 tones of organic fertilizers, which makes our annual production capacity (excluding outsourcing processing capacity) increased from 25,000 tones to 55,000 tones. Before the new plant was put into operation, our production was at over 100% capacity. The new plant temporarily eased the pressure of over-capacity. Meanwhile, we upgraded our production facilities in Youxi plant so as to further improve its operation efficiency.

#### **5. Success in research and development of new products – eucalypt trees fertilizers**

During the year, we made a breakthrough in research and development of new products. Our newly developed humic acid organic fertilizer for eucalypt trees completed a field-experiment for a period of 12 months. The experiment was conducted by Fujian Forestry Scientific Research Institute (福建省林業科學研究院). In December 2004, the product passed the expert appraisal conducted jointly by the Technology Department of the State Forestry Bureau (國家林業局科技司), Fujian Forestry Bureau (福建省林業廳), Fujian Agriculture Bureau (福建省農業廳) and Fujian Agriculture and Forestry University (福建省農林大學). It was recognized by the experts that the product is the first of its kind in the PRC and has significant academic and practical impact in the field of forest plantation.

Our eucalypt trees fertilizer is mainly used for plantation of eucalypt trees. Eucalypt trees are primarily used for timber and paper production and are known for their fast growth and shorter logging cycle as compared to other species. Due to its high economic value, there has been a rapid growth in the plantation of eucalypt trees in the southern provinces of China in recent years. At present, the total plantation area of

eucalypt trees in Fujian province, Guangdong province, Guangxi province, and Hainan province is estimated to be about 22 million mu ( about 1.5 million hectares). Eucalypt trees consume large amount of soil fertilities during the growing cycle, thus require good fertilizers to sustain their growth. Our product not only meets such requirements but also protects the ecological environment by limiting the usage of chemical materials and provision of rich organic matters.

## **DIFFICULTIES AND CHALLENGES LYING AHEAD**

Although we achieved satisfactory results for the year, we also realized that we are facing certain difficulties and challenges ahead.

### **1. Current capacity not enough to satisfy the rapidly increasing market demand**

During the year, we had fully utilized our production capacity but were still unable to meet the growing demand in Fujian province. The total plantation area of crops in Fujian province is estimated to be about 38 million mu (about 2.5 million hectares). If we assume that all these plantations choose to use organic fertilizers at an annual consumption rate of 150 kilogram per mu, the total consumption will be about 5.7 million tones of organic fertilizers. Although it is unlikely that all the arable land in Fujian province would apply organic fertilizers, our current capacity of 55,000 tones is significantly small as compared to the potential demand. We need to expand our production capacity soon.

### **2. Shortage of talents in eco-technology and organic fertilizer industries**

As eco-technology and organic fertilizers are relatively new in the PRC, there are not as many experienced professionals in these fields as in other industries. With the successful listing of the Group and the rapid development of our business, we urgently need to expand our professional team by both new recruitments and internal training.

## PROSPECT

During the year, the average prices of agricultural products increased sharply across the country. It was also announced that the agricultural tax will be exempted in Fujian province and Jiangxi province starting from 2005. These favorable government policies will provide farmers with further incentives to grow crops. As such, we believe that the future prospects for organic fertilizer industry are promising.

In order to take advantage of the growing market opportunities, we are going to carry out the following plans:—

Firstly, we plan to build a new plant in Jiangxi province with a planned annual capacity of 100,000 tones of organic fertilizers and organic compound fertilizers. Upon completion, our total annual production capacity will increase by 1.8 times to 155,000 tones. The new plant is expected to start operation in May 2005.

Secondly, we plan to commence the production and distribution of our new eucalypt trees fertilizers. The new product will broaden our product lines from agricultural fertilizers to forestry fertilizers. It is expected that the new product will make significant contribution to the Group's profit next year.

Thirdly, we plan to extend our market coverage to Jiangxi, one of the major agricultural provinces in China. This will significantly enlarge our potential customer base thus contribute to future profit growth.

I wish to thank our shareholders for your kind support and all our staffs for your dedication over the year. With good prospects ahead, I am fully confident about our future. I will work together with my colleagues and try to bring better returns to the shareholders next year.

**Chi Wen Fu**

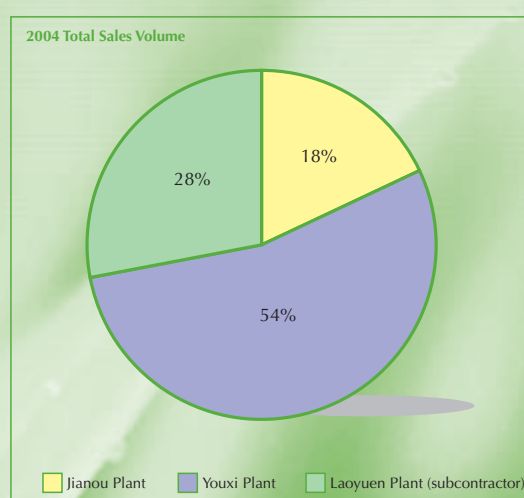
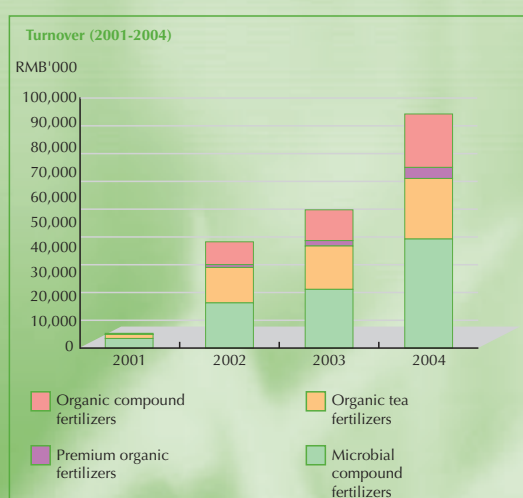
*Chairman*



## FINANCIAL REVIEW

### Turnover

The Group's sale for the year significantly increased to RMB93,921,000, representing a growth of 69% from last year. Turnover of microbial compound fertilizer, organic tea fertilizer, premium organic fertilizer and organic compound fertilizer recorded RMB43,745,000, RMB24,300,000, RMB4,436,000 and RMB21,440,000 respectively, representing an increase of 86%, 40%, 104% and 74% from last year respectively. The increase in turnover were primarily contributed by the continued growth in demand for our products and the start of operation of our new factory in Jianou Fujian province, the PRC. Of the Group's four kinds of fertilizer products, premium organic fertilizer recorded the highest growth rate for its wide application on different kinds of crops. Microbial compound fertilizer recorded the second highest growth rate. Microbial compound fertilizer was a high-quality fertilizer product which is suitable for plantation of premium and high quality organic crops. It could also be used together with other types of fertilizers to improve the soil fertility. In addition, we raised the prices of our premium organic fertilizer and one type of organic compound fertilizer by 21% and 15% respectively in October 2004. The price rise also contributed to profit growth this year.



In 2004, the total sales volume of organic fertilizer products amounted to approximately 52,400 tones. Our primary production facilities include the Youxi plant and Jianou plant, both in Fujian province. Most of our organic compound fertilizer products were outsourced to Laoyuan plant in Fujian province. The output volume of Youxi plant and Jianou plant were 28,000 tones and 9,600 tones respectively, representing about 54% and 18% of the total sales volume. The capacity utilization rates were about 112% and 77%

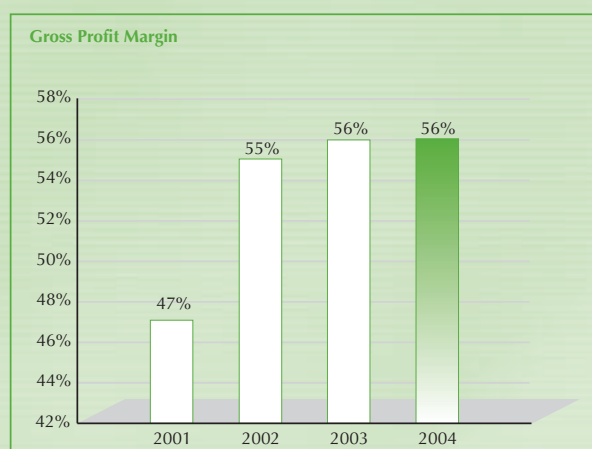


for the Youxi plant and Jianou plant respectively. Jianou plant was put into operation in August 2004 with annual capacity of 30,000 tones of organic fertilizer products. The sales volume produced through Laoyuan plant was about 14,800 tones, representing about 28% of the total sales volume.

The Group's current production capacity of 55,000 tones is not enough to meet the current market demand. It is our primary objective to expand the production capacity soon in order to meet the demand. In January 2005, the Group acquired the production facilities of a former fertilizer producer in Jiangxi province with the aim to expand them into a production facility with an annual capacity of 100,000 tones of organic fertilizer products. We expect the new facility to commence operation in May 2005. Upon completion, our total capacity will reach 155,000 tones.

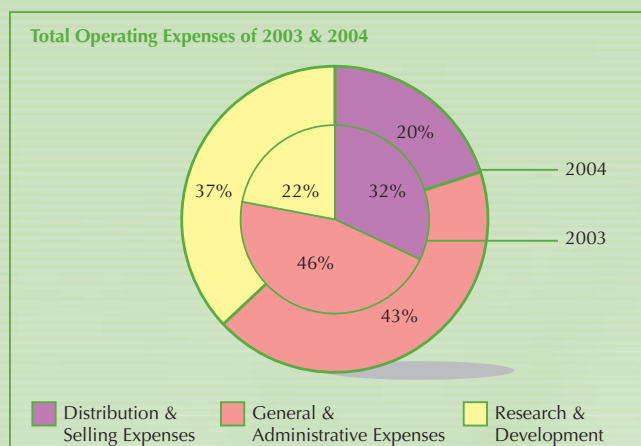
### Gross Profit

Gross profit of the Group for 2004 amounted to RMB52,620,000. Gross profit margin was about 56% which remains the same as that of last year.



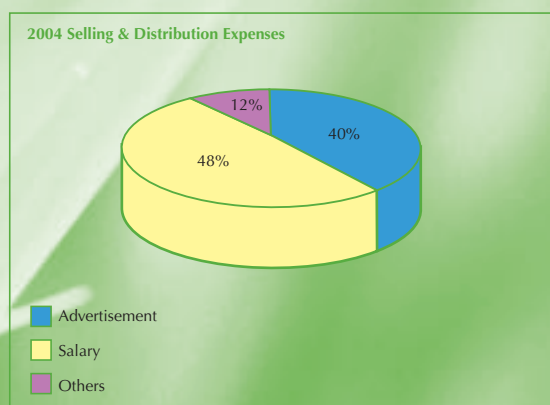
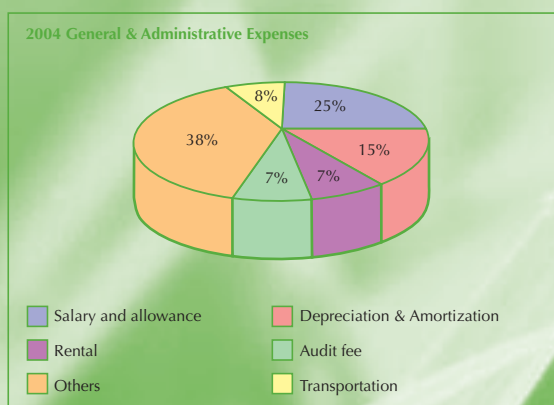
### Operating expenses

Total operating expenses amounted to RMB16,788,000, representing a significant increase of 75% from last year. Of the total operating expense, general and administrative expenses increased by 67% to RMB7,247,000, selling and marketing expenses increased by 10% to RMB3,416,000 and R&D cost increased by 188% to RMB6,125,000.

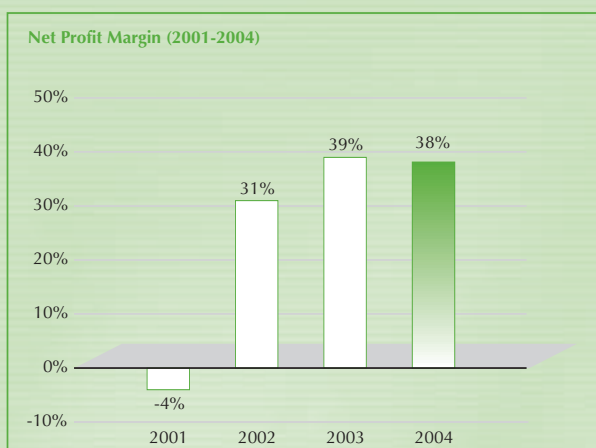


General and administrative expenses mainly included items such as salary, depreciation and amortization, audit fee and other administrative expenses. Salary and transportation cost accounted for 25% and 8% of the total general and administrative expenses respectively. Comparing to 2003, salary expense increased by 73% to RMB1,805,000 due to recruitment of new staffs and transportation cost increased by 2.5 times to RMB589,000 due to business growth.

Selling and distribution expenses mainly included advertising cost and salary for sales staff. Advertising cost and salary for sales staff accounted for 40% and 48% respectively of the total selling and distribution expenses. Comparing to 2003, advertising cost decreased by 25% to RMB1,374,000. Salary expense for sales staff increased by 108% to 1,653,000 due to recruitment of new sales staff with the objective of strengthening our sales force. During the year, sales made by our sales teams in terms of turnover increased to 43% from 30% in 2003.



During 2004, we primarily conducted R&D on eight products, namely organic fertilizers for eucalypt trees, peanuts, Chinese herbs, chestnuts, grapes, humic acid fertilizer for tobacco, organic pesticides and plant stimulants. Eucalypt trees fertilizer, peanuts fertilizer, Chinese herbs fertilizer and humic acid fertilizer for tobacco were completed and approved by the Fujian Agriculture Bureau (福建省農業廳). During the year, we conducted trial distribution of the eucalypt trees fertilizer and received positive results. We expect this new product to bring significant contribution to our revenue in 2005.



#### Profit attributable to shareholders

The Group's consolidated profit attributable to shareholders for the year ended 31 December 2004 was approximately RMB36,085,000, representing an increase of 69% from last year. The net profit margin was at 38.4%, remaining constant from last year.

## **CREDIT RISK CONTROL**

During 2004, the Group improved its credit risk management by the establishment of a “client account management procedures”. The procedures require that each client account to be maintained and keep tracked according to the previous transactions records and credit history of each customer. The Group specified and assigned to each customer a serious of credit measures such as credit ratio, credit period, credit rating, credit terms, and guarantee and mortgage terms. As at 31 December 2004, the bad debt of the Group accounted for approximately 1% of the gross account receivables.

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

As at 31 December 2004, cash and bank balances of the Group increased by RMB65,819,000 to RMB70,474,000 (2003: RMB4,655,000), balances of which are mostly denominated in Hong Kong dollars (RMB2,648,000) (2003:RMB986,000) and Reminbi (RMB67,826,000) (2003: RMB3,669,000). The cash and bank balances mainly comprised of the internal generated resources and the remaining listing proceed of approximately RMB20.8 million. As at 31 December 2004, the Group did not have any bank borrowings (2003: RMB7,800,000) and the net current assets was approximately RMB90,035,000 (2003: RMB19,681,000). The Group’s gearing ratio as measured by bank and other borrowings over net asset value was zero in 2004. (2003: 32%)

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 2004, the Group did not have any charges or pledges on its assets.

## **CAPITAL COMMITMENTS**

As at 31 December 2004, the Group did not have any material capital commitments apart from those disclosed in Note 27 to the financial statements.

## **SIGNIFICANT INVESTMENT**

Save for the Company’s investment in its subsidiaries, the Group did not have any significant investment 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, 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 2004, the Group did not have any material contingent liabilities.

## CAPITAL STRUCTURE

The authorised share capital of the Company when incorporated on 21 January 2003 was HK\$100,000, divided into 1,000,000 Shares. On 11 March 2003, one subscriber Share was allotted and issued as fully paid to the founding shareholder to provide the Company's founding share capital, and such Share was subsequently transferred to Alpha Sino International Limited ("Alpha Sino") on the same day. On 11 March 2003, the Company further allotted and issued 999,999 Shares as unpaid to Alpha Sino.

On 30 January 2004, the written resolution of the Company's then sole shareholder, Alpha Sino, was passed, pursuant to which, 16,000,000 additional Shares were created, resulting in an increase of the authorised share capital from HK\$100,000 to HK\$1,700,000. The additional Shares rank pari passu with the then existing Shares in all respects. On 30 January 2004, 16,000,000 Shares in aggregate were allotted and issued to Alpha Sino, credited as fully paid and all 999,999 unpaid Shares held by Alpha Sino were credited as fully paid at par, in exchange for the 20 shares of US\$1 each in the share capital of New Bright Group Limited acquired by the Company.

On 31 January 2004, the written resolution of the Company's then sole shareholder, Alpha Sino, was passed, pursuant to which, 983,000,000 additional Shares were created, resulting in an increase of the authorised share capital from HK\$1,700,000 to HK\$100,000,000. The Company, through the capitalisation of HK\$22,300,000 standing to the credit of the share premium accounts of the Company, allotted and issued 223,000,000 Shares to shareholders whose names were on the share register of the Company on 5 February 2004 or their designated persons in proportion to their shareholdings.

Pursuant to the public offer and placing completed on the Listing Date, the Company allotted and issued an aggregate of 80,000,000 Shares.

As at 31 December 2004, the issued share capital of the Company was HK\$32,000,000, divided in to 320,000,000 Shares.

## **DIVIDEND**

The Board recommends a payment of final dividend of HK\$0.03 per Share (2003: Nil) to the shareholders of the Company whose name appear in the register of members on 26 April 2005 and payable on or about 9 May 2005, making a total dividend of HK\$0.03 per Share for the full year of 2004 (2003: nil).

## **HUMAN RESOURCES**

As at 31 December 2004, the Group had 159 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

21

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 2004, the Group has applied the net proceeds as follows:

	<b>Proposed amount required from the Listing Date to 31 December 2004</b>	<b>Actual amount Applied from the Listing Date to 31 December 2004</b>
	HK\$ (in million)	HK\$ (in million)
Construction of new production facilities	10	7
R&D	1.4	1.4
Installation of computer system	0.4	0.2
Marketing and advertising of the Group's products	0.8	0.8
Working capital	4	4
	16.6	13.4

	<b>Proposed total amount stated in the Prospectus</b>	<b>Actual total amount applied from the Listing Date up to 31 December 2004</b>	<b>Remaining net proceeds</b>
	HK\$ (in million)	HK\$ (in million)	HK\$ (in million)
Construction of new production facilities	21	7	14
R&D	4	1.4	2.6
Installation of computer system	0.4	0.2	0.2
Marketing and advertising of the Group's products	1.6	0.8	0.8
Working capital	6	4	2
	33	13.4	19.6

The remaining net proceeds as at 31 December 2004 of approximately HK\$19.6 million have been placed as short-term interest bearing deposit with banks or financial institutions in Hong Kong and/or the PRC.

## comparison of business objectives with actual business progress

Below shows a comparison of the actual business progress of the Group during the period under review and the business objectives stated in the prospectus issued by the Company dated 5 February 2004 (the "Prospectus"):

	<b>Expected progress From the Listing Date to 31 December 2004</b>	<b>Actual progress From the Listing Date to 31 December 2004</b>
<b>Production</b>	<p>Complete the construction and commence production of a new production facilities in Jianou, Fujian province, the PRC with an annual production capacity of 20,000 tones of organic fertilizer products.</p> <p>Commence construction of the first phase of a new production facilities in Anxi, Fujian province which, upon completion, will have an annual production capacity of 10,000 tones of organic fertilizer products.</p>	<p>The construction has been completed at the end of June. Production of organic fertilizer formally commenced in August 2004.</p> <p>The construction of a new production facilities in Anxi, Fujian province has been postponed to 2006. The Group planned to increase the production capacity of its next production facility to 100,000 tones organic fertilizer products by the way of acquisition of assets in Jiangxi province with additional work be made on the modification and new equipment installation.</p>
<b>Sales and distribution</b>	<p>Additional marketing and advertising spending to increase market penetration of "LU DI" microbial compound fertilizer products and organic fertilizer products within the Fujian province, the PRC.</p>	<p>Marketing and advertising of "LU DI" microbial compound fertilizer products and organic fertilizer products within the Fujian province, the PRC are in progress as planned.</p>



## comparison of business objectives with actual business progress

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	<b>Expected progress From the Listing Date to 31 December 2004</b>	<b>Actual progress From the Listing Date to 31 December 2004</b>
	Recruit additional sales and marketing staff.	The Group has recruited additional 10 sales and marketing staff.
	Commence to formulate a detailed implementation plan for franchising both in Fujian and in other provinces to produce "LU DI" organic fertilizers.	The Group has retained a consultancy firm to perform research and study on the feasibility of implementation of franchising both in Fujian and in other provinces and the research and study were still in progress.
	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 are in progress as planned. It is expected that the installation will be completed in the mid of 2005.
<b>R&amp;D</b>	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 are in progress as planned.
	Complete R&D of the biological insecticides for general purposes.	The development stage of biological insecticides for general purposes was completed as planned and the testing stage was entered.

## comparison of business objectives with actual business progress

**Expected progress  
From the Listing Date to  
31 December 2004**

Complete R&D of the soil fertility replenish technology and the city waste treatment project.

Commence research and development of biological insecticides specially for tea plantation.

**Actual progress  
From the Listing Date to  
31 December 2004**

The development of soil fertility replenish technology and the city waste treatment project were completed as planned and the testing stage was entered.

The research and development of biological insecticides specially for tea plantation was commenced as planned and was expected to be completed in second half of 2005.

## EXECUTIVE DIRECTORS

**CHI Wen Fu (池文富)**: aged 42, 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).

**SHUM Sai Chit (沈世捷)**: aged 47, 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. Mr. Shum became a shareholder and managing director of Go Modern Limited which was principally engaged in the business of manufacturing, investment and trading of textile products. Mr. Shum joined the Group in January 2002.

**ZHOU Xing Dun (周性敦)**: aged 65, 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組顧問).

## NON-EXECUTIVE DIRECTORS

**WONG May Yuk (黃美玉)**: aged 62, 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.

## directors and senior management profile

**ZOU Li (鄒勵)**: aged 37. 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 36. Mr. Wu has about 10 years of investment banking experience in Hong Kong, Mainland China and Australia. Mr. Wu was a executive Director of Watterson Asia Limited and a Vice President at DBS Bank (Hong Kong) Limited, responsible for corporate initial public offering and financial advisory transactions. Mr. Wu obtained 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 44, 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 20 years of experience in auditing and accounting in Hong Kong.

**KWONG Ping Man (鄺炳文)**, aged 40, 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 Australian Society of Certified Practising accountants 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 45, 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 48, is the Chief Production Officer responsible for the Group's production of organic fertilizer products. 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 for production of a major agricultural production group in the PRC. He is experienced in the production management of agriculture production materials.

**RAN Zhi Yu (冉枝瑜)**: aged 31, is the Chief Sales Officer responsible for product sales and marketing. He is a graduate from Fuzhou University (福州大學) in the PRC with a bachelor degree in Management. Before joining the Group in July 2004, he worked in a organic fertilizer corporation for over 5 years with extensive management and marketing experience. He is also familiar with ISO9001 and ISO14001.

## QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

**TANG Ying Kit (鄧英傑)**: aged 31, 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.

The Directors present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 December 2004.

### **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 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

No segmental information is presented as the Group is principally engaged in the manufacturing and trading of agricultural organic fertilizers to customer in the PRC. Accordingly, the Directors consider that there is only one business segment and one geographical segment.

### **RESULTS AND DIVIDEND**

The results of the Group for the year ended 31 December 2004 are set out on page 41 of the annual report.

The Board recommends a payment of final dividend of HK\$0.03 per Share (2003: Nil) to the shareholders of the Company whose names appear in the register of members on 26 April 2005 and payable on or about 9 May 2005, making a total dividend of HK\$0.03 per Share for the full year of 2004 (2003: Nil).

### **SUMMARY OF FINANCIAL INFORMATION**

A summary of the results and of the assets and liabilities of the Group is set out on page 7 of the annual report.

### **FIXED ASSETS**

Details of the movements in fixed assets of the Group are set out in note 14 to the financial statements.

### **INTANGIBLE ASSETS**

Details of the movement in intangible assets of the Group are out in note 16 to the financial statements.

### **SHARE CAPITAL**

Details of the share capital of the Company are set out in note 22 to the financial statements.

## RESERVES

Details of movements in reserves of the Group and of the Company are set out in note 24 to the financial statements.

## 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 2004, the Company's reserve available for distribution to shareholders amounted to RMB14,254,000. (2003: Nil)

## 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

(appointed on 13 January 2005)

### Independent Non-Executive Directors

Shen Yin Min

Cheung Sound Poon

Kwong Ping Man

(appointed on 14 September 2004)

**DIRECTORS (CONTINUED)**

In accordance with Article 87 of the Company's articles of association, Ms. Zou Li, Ms. Wong May Yuk and Mr. Shen Yin Min will retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for election.

The Company has received from each of Messrs. Shen Yi Min and Cheung Sound Poon an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive Directors to be independent. Likewise, the Company still considers Mr. Kwong Ping Man, who was appointed during the year and met the independence guidelines set out Rule 5.09 of the GEM Listing Rules, to be independent.

**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 the 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 a term of two years with specific terms in the letter of appointment.

Details of the Directors' fee and any other reimbursement or emolument payable to Directors are set out in note 12 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' AND CHIEF EXECUTIVES' INTEREST IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ANY ASSOCIATED CORPORATION

As at 31 December 2004, 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	60.53%
Shum Sai Chit	Corporate (Note 2)	30,303,030	9.47%
Wong May Yuk	Corporate (Note 3)	30,303,030	9.47%

#### Notes:

1. Mr. Chi Wen Fu is beneficially interested in 80% of the entire issued share capital of Alpha Sino which in turn holds 193,696,970 Shares as at 31 December 2004.
2. Mr. Shum Sai Chit is beneficially interested in 50% of Go Modern Limited which in turn holds 30,303,030 Shares as at 31 December 2004.
3. Ms. Wong May Yuk is beneficially interested in 50% of Go Modern Limited which in turn holds 30,303,030 Shares as at 31 December 2004.

## 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	Personal (Note 1)	8	80%
Zou Li	Alpha Sino	Personal (Note 1)	2	20%

Note:

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

Save as disclosed above, as at 31 December 2004, 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

Pursuant to the Company's share option scheme (the Scheme") adopted on 31 January 2004 by the written resolutions of the Company's then sole shareholder, Alpha Sino, the Company granted certain options to the following Director which entitle the holder to subscribe for ordinary shares of the Company. Further details of the Scheme are set out under the heading "share option scheme" below. No share option was exercised by the Director during the year.

Details of the share option outstanding as at 31 December 2004 are as follows:

Name of Director	Date of grant	Outstanding at 31 December 2004	Exercise price of options
Zhou Xing Dun	11 October 2004	3,200,000	HK\$0.63

The Director will be entitled to exercise (i) 1,800,000 options in June 2005 and (ii) 1,400,000 options in January 2009.

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.

## SHARE OPTION SCHEME

On 31 January 2004, 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 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.

## SHARE OPTION SCHEME (CONTINUED)

Details of the share options granted and remain outstanding as at 31 December 2004 are as follows:

Options held at 1 January 2004	Options granted during the year	Options lapsed/ cancelled during the year	Options held at 31 December 2004	Exercise price HK\$	Date of grant	Exercisable in June 2005	Exercisable in December 2007	Exercisable in January 2009
<b>(A) Employees</b>								
–	14,500,000	–	14,500,000	0.63	11 Oct 2004	14,500,000	–	–
–	600,000	–	600,000	0.63	11 Oct 2004	300,000	300,000	–
–	11,810,000	–	11,810,000	0.63	11 Oct 2004	5,305,000	–	6,505,000
–	1,250,000	–	1,250,000	0.63	11 Oct 2004	–	–	1,250,000
<b>(B) Director</b>								
–	3,300,000	(100,000)	3,200,000	0.63	11 Oct 2004	1,800,000	–	1,400,000

Notes:

- During the year, 31,460,000 options were granted on 11 October 2004. The closing price of the shares immediately before the date on which the options were granted were HK\$0.62 on 8 October 2004.
- During the year, 100,000 options were cancelled and no options were exercised.
- 3,200,000 options were granted to the Director, Mr. Zhou Xing Dun. Please refer to the section headed "Directors' right to acquire shares or debentures" for details.
- Rule 23.08 of the GEM Listing Rules stipulates that listed issuers are encouraged to disclose in its annual report the value of options granted to participants set out in (i) to (v) of Rule 23.07 during the financial year. The Directors consider it inappropriate to value the options as there are serious limitations in application of the Black & Scholes Model or Binomial Model in the valuation of share options of the Company, especially in the case of the Company of which liquidity of its shares trading is relatively low. Detailed explanations are given below on certain assumptions of the models which cannot be followed in the valuation of share options of the Company.
  - Assumption: Options are freely tradeable in the market  
In the case of share options of the Company, it is not freely tradeable and transferable and a vesting period also applies.
  - Assumption: Returns are lognormally distributed  
The models are based on a normal distribution of underlying asset return. In practice, underlying asset price distribution often depart significantly from the lognormal.
  - Assumption: Estimating volatility  
The models are making the assumption that the volatility in the past is a good indicator of the volatility in the future. This may not be a valid assumption especially in the case of the Company of which liquidity of its share trading is relatively low. Since the option is not transferable in the market, it cannot calculate the "implied volatility" based on market quotes.

## SHARE OPTION SCHEME (CONTINUED)

Notes (continued):

- d. Assumption: Value of underlying share

As the liquidity of the share trading of the Company is relatively low, the current market price may not be an accurate reflection of the value of the underlying shares.

- e. Assumption: Interest rates remain constant and known during the option's life

In reality, it is not possible to remain interest rate constant. The longer the time to maturity of the options, the more the effect of the interest rate will be important.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, so far as is known to any Director or chief executive of the Company, the following persons had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of the Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name	Capacity	Number of shares	Percentage of issued share capital of the company
Alpha Sino	Beneficial Owner (Note 1)	193,696,970	60.53%
Go Modern Limited	Beneficial Owner (Note 2)	30,303,030	9.47%
Qi Yuan Asset Management (H.K.) Ltd	Beneficial Owner	19,295,000	6.03%

Notes:

- The entire issued share capital of Alpha Sino is beneficially owned as to 80% and 20% by Mr. Chi Wen Fu and Ms. Zou Li, respectively.
- The entire issued share capital of Go Modern Limited is beneficially owned as to 50% each by Mr. Shum Sai Chi and Ms. Wong May Yuk.

Save as disclosed herein, as at 31 December 2004, so far as is known to any Director or chief executive of the Company, no persons (other than a Director or the chief executive of the Company) has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of the Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

## 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	74%
– five largest suppliers combined	89%
Sales	
– the largest customer	8%
– five largest customers combined	25%

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.

## BANK BORROWINGS

The Group did not have any bank borrowings as at 31 December 2004.

## INTEREST CAPITALIZED

The Group did not capitalize any interest during the year.

## CONNECTED TRANSACTION

Green Land Bio-Products Co. Limited ("Green Land"), an indirect wholly owned subsidiary of the Company had in its ordinary and usual course of business and on normal commercial terms sold to 三明市世紀陽光農業科技開發有限公司 ("Sanming") certain of the Group's fertilizer products at the same prices as those to the Group's appointed distributors who are independent third parties. Sanming was owned as to 80% and 20% by Green Land and Mr. Chi Wen Qiang, the brother of Mr. Chi Wen Fu, respectively before 13 October 2004. By virtue of the GEM Listing Rules, Sanming was an associate of Mr. Chi Wen Fu who was a connected person (within the meaning as defined under the GEM Listing Rules) and therefore, the sales

## CONNECTED TRANSACTION (CONTINUED)

of fertilizer products by Green Land to Sanming constituted connected transactions for the Company under the GEM Listing Rules. The Company had applied for and had been granted by the Stock Exchange a waiver in respect of the above-mentioned connected transactions for a period of three financial years expiring on 31 December 2005 from strict compliance with the independent shareholders' approval and/or disclosure requirements related to connected transaction under the GEM Listing Rules subject to the conditions set out in the Prospectus.

On 2 October 2004, Century Sunshine (Nan Ping), an indirect wholly owned subsidiary of the Company, had entered an agreement with Mr. Chi Wen Qiang to acquire his 20% equity interests in Sanming for a cash consideration of RMB1,025,000. The administrative process in respect of transfer of 20% equity interests was completed on 13 October 2004. Since then, Sanming is an indirect wholly owned subsidiary of the Company and the sales of fertilizer products by Green Land to Sanming does not constitute connected transaction for the Company under the GEM Listing Rules.

The independent non-executive Directors had reviewed the connected transaction during the year set out above and confirmed that:

- (a) the transaction have been entered into in the ordinary and usual course of business of the Group;
- (b) the transaction have been entered into on normal commercial terms or on the terms no less favourable than terms available to or from independent third parties;
- (c) the transaction have been entered into in accordance with the Fertilizer Sale Agreement dated 31 January 2004 between Green Land and Sanming (the "Fertilizer Sales Agreement");
- (d) the transactions have been entered into at prices or on terms which are fair and reasonable so far as the independent shareholders are concerned;
- (e) the value of amount receivable or payable (as the case may be) in respect of the transaction does not exceed the cap of RMB5,800,000 in 2004 under the Fertilizer Sales Agreement.

## 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.

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

During the year, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

## **SPONSOR'S INTEREST**

In accordance with the sponsor's agreement dated 4 February 2004 entered between the Company and CSC Asia Limited (the "Sponsor"), for a fee, the Sponsor acts as the Company's continuing sponsor for the purpose of the GEM Listing Rules 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.

## **BOARD PRACTICES AND PROCEDURES AND CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company had, throughout the year ended 31 December 2004, complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules which was in force prior to 1 January 2005.

The board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules were replaced by the Code on Corporate Governance Practices ("Code on CG Practices") as set out in Appendix 15 of the GEM Listing Rules which has become effective for accounting period commencing on or after 1 January 2005. Appropriate actions are being taken by the Company to comply with the Code on CG Practices.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings 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.



## AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the audit committee of the Company (the "Audit Committee") were prepared and adopted in accordance with the GEM Listing Rules.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of both the internal and external audit and of internal control and risk evaluation. The Audit Committee has three members comprising all the independent non-executive Directors, namely Messrs. Shen Yi Min, Cheung Sound Poon and Kwong Ping Man. Mr. Cheung Sound Poon is the chairman of the Audit Committee.

During the year, the Audit Committee held four meetings and performed duties including reviewing the Group's annual report, half-yearly report, quarterly report and announcement. The Audit Committee is of the opinion that the financial statements of the Company and the Group for year ended 31 December 2004 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

## SUBSEQUENT EVENTS

Details of significant subsequent events are set out in note 28 to the financial statements.

## AUDITOR

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

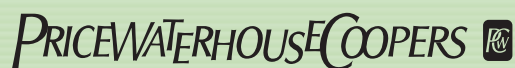
A resolution for the appointment of PricewaterhouseCoopers as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Shum Sai Chit**

*Executive Director*

Hong Kong, 22 March 2005



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 76 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The company's directors are responsible for the preparation of 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 Statements of Auditing Standards 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 31 December 2004 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 22 March 2005

**consolidated profit and loss account****41**

for the year ended 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Turnover	3	<b>93,921</b>	55,468
Cost of sales		<b>(41,301)</b>	(24,364)
Gross profit		<b>52,620</b>	31,104
Other revenue	3	<b>343</b>	–
Distribution and selling expenses		<b>(3,416)</b>	(3,094)
General and administrative expenses		<b>(7,247)</b>	(4,348)
Research and development costs		<b>(6,125)</b>	(2,125)
Operating profit	5	<b>36,175</b>	21,537
Finance costs	6	<b>(136)</b>	(343)
Profit before taxation		<b>36,039</b>	21,194
Taxation	7	–	(29)
Profit after taxation		<b>36,039</b>	21,165
Minority interests		<b>46</b>	202
Profit attributable to shareholders	8	<b>36,085</b>	21,367
Dividends	9	<b>10,176</b>	–
Earnings per share			
– Basic	10	<b>RMB11.65 cents</b>	RMB8.90 cents
– Diluted	10	<b>RMB11.64 cents</b>	N/A

**consolidated balance sheet**

as at 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
<b>Non-current assets</b>			
Fixed assets	14	<b>16,014</b>	16,010
Investment deposit	28	<b>2,000</b>	–
Intangible assets	16	<b>3,634</b>	1,948
		<b>21,648</b>	17,958
<b>Current assets</b>			
Inventories	17	<b>3,030</b>	3,589
Trade receivables	18	<b>12,019</b>	9,673
Prepayments, deposits and other receivables	19	<b>9,218</b>	11,425
Cash and bank balances	20	<b>70,474</b>	4,655
		<b>94,741</b>	29,342
<b>Current liabilities</b>			
Short-term bank loans		–	(7,800)
Trade payables	21	<b>(608)</b>	(63)
Accruals and other payables		<b>(4,069)</b>	(1,769)
Taxation payable		<b>(29)</b>	(29)
		<b>(4,706)</b>	(9,661)
Net current assets		<b>90,035</b>	19,681
Total assets less current liabilities		<b>111,683</b>	37,639

**consolidated balance sheet****43**

as at 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Financed by:			
Share capital	22	<b>33,920</b>	1,802
Reserves	24	<b>77,760</b>	31,666
Shareholders' funds		<b>111,680</b>	33,468
Minority interests		<b>3</b>	905
Non-current liabilities			
Due to shareholders	26	–	3,266
		<b>111,683</b>	37,639

**Chi Wen Fu**  
Director

**Shum Sai Chit**  
Director

**balance sheet**

as at 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
<b>Non-current assets</b>			
Investments in subsidiaries	15	<b>33,294</b>	–
<b>Current assets</b>			
Prepayments and deposits		<b>183</b>	–
Dividend receivable		<b>13,462</b>	–
Cash and bank balances		<b>1,906</b>	1
		<b>15,551</b>	1
<b>Current liabilities</b>			
Due to a related company		–	23
Accruals		<b>671</b>	50
		<b>671</b>	73
Net current assets/(liabilities)		<b>14,880</b>	(72)
Total assets less current liabilities		<b>48,174</b>	(72)
<b>Financed by:</b>			
Share capital	22	<b>33,920</b>	–
Reserves	24	<b>14,254</b>	(72)
Shareholders' funds/(deficit)		<b>48,174</b>	(72)

**Chi Wen Fu**  
Director

**Shum Sai Chit**  
Director

**consolidated statement of changes in equity****45**

for the year ended 31 December 2004

	Note	<b>2004</b> <b>RMB'000</b>	2003 RMB'000
As at 1 January		<b>33,468</b>	14,808
Profit for the year		<b>36,085</b>	21,367
Capitalisation of amounts due to shareholders	24	<b>3,266</b>	–
Issue of shares	22	<b>46,640</b>	–
Share issuance costs	24	<b>(7,808)</b>	(2,707)
Exchange differences	24	<b>29</b>	–
As at 31 December		<b>111,680</b>	33,468

**consolidated cash flow statement**

for the year ended 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
<b>Operating activities</b>			
Profit before taxation		<b>36,039</b>	21,194
Interest income		<b>(343)</b>	–
Interest expense		<b>136</b>	343
Depreciation of fixed assets		<b>1,548</b>	1,171
Amortisation of intangible assets		<b>1,053</b>	951
<hr/>			
Operating profit before working capital changes		<b>38,433</b>	23,659
Decrease/(increase) in inventories		<b>559</b>	(1,742)
Increase in trade receivables		<b>(2,346)</b>	(3,758)
Decrease/(increase) in prepayments, deposits and other receivables		<b>2,207</b>	(6,837)
Increase in trade payables		<b>545</b>	43
Increase in accruals and other payables		<b>2,300</b>	687
<hr/>			
Net cash inflow generated from operations		<b>41,698</b>	12,052
Interest received		<b>343</b>	–
Income tax paid		<b>–</b>	(11)
<hr/>			
Net cash inflow from operating activities		<b>42,041</b>	12,041
<hr style="border-top: 1px dashed #000;"/>			
<b>Investing activities</b>			
Purchase of fixed assets		<b>(1,552)</b>	(10,825)
Acquisition of additional interest in a subsidiary		<b>(1,025)</b>	–
Payment of investment deposit		<b>(2,000)</b>	–
Increase in development costs		<b>(2,573)</b>	–
<hr/>			
Net cash outflow from investing activities		<b>(7,150)</b>	(10,825)
<hr style="border-top: 1px dashed #000;"/>			
<b>Financing activities</b>			
	25(a)		
Decrease in amounts due to shareholders		<b>–</b>	(5)
Increase in short-term bank loans		<b>–</b>	5,000
Repayment of short-term bank loans		<b>(7,800)</b>	(200)
Proceeds from issue of shares		<b>46,640</b>	–
Share issuance costs		<b>(7,808)</b>	(2,707)
Interest paid		<b>(136)</b>	(343)
Contribution from a minority shareholder		<b>3</b>	–



**consolidated cash flow statement****47**

for the year ended 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Net cash inflow from financing activities		<b>30,899</b>	1,745
Increase in cash and bank balances		<b>65,790</b>	2,961
Cash and bank balances, as at 1 January		<b>4,655</b>	1,694
Effect of foreign exchange rate changes		<b>29</b>	–
Cash and bank balances, as at 31 December		<b>70,474</b>	4,655

## 1 GROUP REORGANISATION AND BASIS OF PRESENTATION

Century Sunshine Ecological Technology Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 21 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. Its shares have been listed on the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Pursuant to a group reorganisation scheme (the “Reorganisation”) in preparation for a listing of the Company’s shares on the GEM of the Stock Exchange, on 30 January 2004, the Company became the holding company of the subsidiaries (collectively the “Group”), details of which are set out in Note 22 to the accounts.

The Reorganisation has been accounted for using merger accounting by treating the Company and its subsidiaries as a continuing group, in accordance with Statement of Standard Accounting Practice No. 27 “Accounting for group reconstructions” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). On this basis, the consolidated accounts as at and for the year ended 31 December 2004 have been prepared as if the structure of the Group resulting from the Reorganisation had been in existence throughout the year, except for the acquisition of additional interests in 三門市世紀陽光農業科技開發有限公司 in October 2004 (see Note 15), which has been accounted for using acquisition accounting. Comparative figures as at and for the year ended 31 December 2003 have been presented on the same basis.

## 2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

**(a) Basis of preparation**

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They have been prepared under the historical cost convention.

**(b) Consolidation**

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (b) Consolidation (continued)

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

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 dividends received and receivable.

### (c) Fixed assets

#### (i) Construction-in-progress

Construction-in-progress, represents buildings on which construction work has not been completed and machinery pending installation, is stated at cost, which includes construction expenditures 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 fixed assets.

#### (ii) Other fixed assets

Other fixed assets, comprising buildings, leasehold improvements, plant and machinery, furniture and office equipment and motor vehicles, are stated at cost less accumulated depreciation and accumulated impairment losses.

#### (iii) Depreciation

No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and put into use.

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (c) Fixed assets (continued)

#### (iii) Depreciation (continued)

Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	20%
Leasehold improvements	20%
Plant and machinery	20%
Furniture and office equipment	20%
Motor vehicles	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the consolidated profit and loss account.

Improvements are capitalised and depreciated over their expected useful lives.

#### (iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in construction-in-progress and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

### (d) Intangible assets

#### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill is recognised as an intangible asset and is amortised using the straight-line method over its estimated useful life of 5 years.

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (d) Intangible assets (continued)

#### (ii) Technical know-how

Expenditure 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.

#### (iii) 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.

#### (iv) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

### (e) Inventories

Inventories comprise stocks and work-in-progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (f) Accounts receivable

Provision is made against accounts receivable, including trade and other receivables, to the extent they are considered to be doubtful. Accounts receivable in the consolidated balance sheet are stated net of such provision.

### (g) Cash and cash equivalents

Cash and cash equivalents are carried in the consolidated balance sheet at cost. For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (h) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### (i) Employee benefits

#### (i) Employee leave entitlement

Employee entitlement to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liabilities for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### (ii) Pension obligation

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

### (j) Deferred taxation

Deferred taxation 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 accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred 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 taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (k) **Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

### (l) **Revenue recognition**

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### (m) **Borrowing costs**

Borrowing costs are charged to the consolidated profit and loss account in the year in which they are incurred.

### (n) **Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

### (o) **Segment reporting**

In accordance with the Group's internal financial reporting the Group has determined that business segment be presented as the primary reporting format and geographical as the secondary reporting format.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (p) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the consolidated profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average exchange rate. Exchange differences are dealt with as a movement in reserves.

### (q) Recently issued accounting standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

## 3 TURNOVER AND REVENUE

The Group is principally engaged in the manufacturing and trading of agricultural organic fertilizers. Revenues recognised during the year are as follows:

	2004 RMB'000	2003 RMB'000
Turnover – Sale of goods		
– Microbial compound fertilizers	43,745	23,557
– Organic tea fertilizers	24,300	17,390
– Organic compound fertilizers	21,440	12,344
– Premium organic fertilizers	4,436	2,177
	93,921	55,468
Other revenue		
– Interest income	343	–
Total revenues	94,264	55,468



#### 4 SEGMENTAL INFORMATION

No segmental information is presented as the Group is principally engaged in the manufacturing and trading of agricultural organic fertilizers to customers in Mainland China. Accordingly, the Directors consider there is only one business segment and one geographical segment.

#### 5 OPERATING PROFIT

Operating profit is stated after charging the following:

	2004 RMB'000	2003 RMB'000
Staff costs (including directors' emoluments) (Note 11)	4,036	2,343
Depreciation of fixed assets	1,548	1,171
Amortisation of intangible assets	1,053	951
Operating lease rental of land and buildings	482	462
Provision for bad and doubtful debts	124	328
Write off of trade receivables	173	–
Auditors' remuneration	517	517

#### 6 FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest expense on short-term bank loans	136	463
Less: government grant	–	(120)
	136	343

During the year ended 31 December 2003, the Group received a project loan interest subsidy of RMB120,000 from a local government authority in Mainland China, which was deducted against interest expense on the relevant bank loan.

## 7 TAXATION

The amount of taxation charged to the consolidated profit and loss account represents:

	2004 RMB'000	2003 RMB'000
Current taxation		
– Mainland China enterprise income tax	–	29

**(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 (2003: 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”) and Century Sunshine (Nan Ping) Biology Engineering Co., Ltd. (“Nan Ping”) are wholly owned foreign enterprises engaged in the production of agricultural organic fertilizer 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 and Nan Ping were 31 December 2003 and 31 December 2004, respectively. 三明市世紀陽光農業科技開發有限公司, Century Sunshine (Jiangxi) Ecological Technology Limited and 世紀陽光(福建)農業科技發展有限公司 were loss-making during the year ended 31 December 2004.

**(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 Island income tax. The Company’s subsidiary established in the British Virgin Islands was incorporated under the International Business Companies Act of the British Virgin Islands and, accordingly, are exempted from the British Virgin Islands income tax.

## 7 TAXATION (CONTINUED)

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

The Group's sale of agricultural organic fertilizers 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, except that a group company is still in process of applying a formal VAT exemption certificate. Accordingly a provision of approximately RMB1,662,000 has been made in relation to the VAT exposure on sales of this group company.

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

	2004 RMB'000	2003 RMB'000
Profit before taxation	36,039	21,194
Calculated at a taxation rate of 33% (2003: 33%)	11,893	6,994
Effect of different taxation rates	(1,939)	312
Effect of income not subject to taxation	(12,740)	(7,917)
Effect of expenses not deductible for taxation purposes	2,033	381
Tax losses not recognised	753	259
Taxation charge	–	29

As at 31 December 2004, the Group has unrecognised tax losses of approximately RMB5,401,000 (2003: RMB1,849,000), which can be carried forward to offset against future taxable profit. Tax losses of RMB894,000 (2003: Nil) will expire in year 2009 while tax losses of RMB4,507,000 (2003: RMB1,849,000) 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.

## 8 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB10,955,000 (2003: Loss of RMB72,000).

## 9 DIVIDENDS

The Directors proposed a final dividend of HK3 cents per ordinary share, totaling HK\$9,600,000 (equivalent of RMB10,176,000). This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2005. (2003: Nil).

## 10 EARNINGS PER SHARE

The calculation of the Group's basic earnings per share is based on the consolidated profit attributable to shareholders of RMB36,085,000 (2003: RMB21,367,000), and on the weighted average of 309,698,630 (2003: 240,000,000) ordinary shares in issue during the year.

The calculation of the Group diluted earnings per share for the year ended 31 December 2004 is based on the consolidated profit attributable to shareholders of RMB36,085,000, and on the weighted average number of 309,698,630 ordinary shares in issue during the year plus the weighted average of 290,929 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

Diluted earnings per share for the year ended 31 December 2003 was not presented as the Company had no dilutive potential ordinary shares as at 31 December 2003.

## 11 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Salaries and allowances	<b>3,636</b>	2,058
Bonus	–	64
Pension costs – defined contribution plans (Note 13)	<b>400</b>	221
	<b>4,036</b>	2,343

## 12 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

The aggregate amounts of emoluments paid/payable to the directors of the Company during the year are as follows:

	2004 RMB'000	2003 RMB'000
Fees	21	–
Other emoluments:		
Salaries and allowances	483	221
Bonus	–	64
Pension costs – defined contribution plan	12	10
	<b>516</b>	295

Directors' emoluments disclosed above include fees of approximately RMB21,000 (2003:Nil) paid to independent non-executive directors.

During the year, 3,300,000 (2003: Nil) options were granted to certain directors of the Company under the Executive Share Option Scheme approved by the shareholders at an Extraordinary General Meeting on 11 October 2004 (see Note 23).

The executive directors received individual emoluments for the year ended 31 December 2004 of approximately RMB312,000 (2003:RMB242,000), RMB119,000 (2003: RMB30,000) and RMB64,000 (2003:RMB16,000), respectively, and were all below HK\$1,000,000 (equivalent to RMB1,060,000). The independent non-executive directors received individual emoluments for the year ended 31 December 2004 of approximately RMB10,600 (2003: Nil), RMB10,600 (2003: Nil) and Nil (2003: Nil), respectively, and were all below HK\$1,000,000 (equivalent to RMB1,060,000). No emoluments were received by the two non-executive directors during the year ended 31 December 2004 (2003: Nil).

None of the directors of the Company waived or agreed to waive any emoluments paid by the Group during the year (2003: Nil).

## 12 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2003: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2003: three) individuals during the year are as follows:

	2004 RMB'000	2003 RMB'000
Salaries and allowances	385	251
Pension costs – defined contribution plan	15	10
	<b>400</b>	261

The emoluments of each of the highest paid individuals were below HK\$1,000,000 (equivalent to Rmb1,060,000) for the years ended 31 December 2003 and 2004.

- (c) During the year, no emoluments were paid by the Group to any of the directors and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2003: Nil).

## 13 EMPLOYEE RETIREMENT BENEFITS

The Group operates the Mandatory Provident Fund Scheme (“MPF”) Scheme, a defined contribution scheme, for its Hong Kong employees. The Group contributes 5% of the employees’ relevant income each month as defined in the MPF Schemes Ordinance, subject to a maximum of HK\$1,000 per person.

As stipulated by rules and regulations in Mainland China, the Group contributes to state-sponsored retirement plans for its employees in Mainland China as determined by the local governments, which are defined contribution plans. The Group contributes approximately 14% of the basic salaries of its employees in Mainland China, and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the year ended 31 December 2004, the aggregate amount of the Group’s contributions to the aforementioned pension plans were approximately RMB400,000 (2003: RMB221,000).

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## 14 FIXED ASSETS

	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
<b>Cost</b>							
As at 1 January 2004	–	2,513	4,863	29	–	12,211	19,616
Additions	–	73	524	189	414	352	1,552
Transfers	7,183	148	1,312	–	–	(8,643)	–
As at 31 December 2004	7,183	2,734	6,699	218	414	3,920	21,168
<b>Accumulated depreciation</b>							
As at 1 January 2004	–	1,055	2,539	12	–	–	3,606
Charge for the year	60	490	935	22	41	–	1,548
As at 31 December 2004	60	1,545	3,474	34	41	–	5,154
<b>Net book value</b>							
As at 31 December 2004	7,123	1,189	3,225	184	373	3,920	16,014
As at 31 December 2003	–	1,458	2,324	17	–	12,211	16,010

**14 FIXED ASSETS (CONTINUED)**

The Group's buildings were located in Mainland China and constructed on a parcel of land held under an operating lease for a term of 18 years up to 2022.

Analysis of construction-in-progress is as follows:

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Construction cost of a factory	–	6,980
Acquisition of machinery pending installation	<b>3,920</b>	5,231
	<b>3,920</b>	12,211

As at 31 December 2004, construction-in-progress included deposits of approximately RMB713,000 (2003: RMB1,041,000) prepaid to the vendors for the acquisition of certain machinery.

**15 INVESTMENTS IN SUBSIDIARIES**

	<b>Company</b>	
	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Unlisted shares, at cost	<b>1,802</b>	–
Due from subsidiaries	<b>31,492</b>	–
	<b>33,294</b>	–



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### 15 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The following is a list of the significant subsidiaries as at 31 December 2004:

Name	Place and date of incorporation	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Interest held (i)
New Bright Group Limited	British Virgin Islands 12 December 2002	Investment holding/Hong Kong	Issued share capital Ordinary US\$20	100%
Century Sunshine Ecological Technology Limited	Hong Kong 5 July 2002	Investment holding/Hong Kong	Issued share capital Ordinary HK\$1,000	100%
Century Sunshine (China) Tea Concept Holdings Limited	Hong Kong 30 September 2004	Investment holding/Hong Kong	Issued share capital Ordinary HK\$100	100%
Xian Zhong (International) Organic Food Limited	Hong Kong 29 October 2004	Inactive	Issued share capital Ordinary HK\$100	70%
Green Land Bio- Products Co., Ltd. ("Green Land") (ii)	Mainland China 17 January 2000	Manufacturing and sale of agricultural organic fertilizers in Mainland China	Registered capital RMB10,500,000	100%
三門市世紀陽光農業科技開發有限公司 ("San Ming") (iii)	Mainland China 16 June 2000	Research and development and sale of organic fertilizers in Mainland China	Registered capital RMB5,000,000	100% (iv)
Century Sunshine (Nan Ping) Biology Engineering Co., Ltd. ("Nan Ping") (ii)	Mainland China 10 February 2004	Manufacturing and sale of agricultural organic fertilizers in Mainland China	Registered capital HK\$7,000,000	100%

## 15 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name	Place and date of incorporation	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Interest held (i)
Century Sunshine (Jiangxi) Ecological Technology Limited ("Jiangxi") (ii)	Mainland China 20 February 2004	Manufacturing and sale of agricultural organic fertilizers in Mainland China	Registered capital HK\$31,800,000 (v)	100%
世紀陽光(福建)農業科技發展有限公司 ("Fu Jian") (iii)	Mainland China 26 July 2004	Research and development and sale of organic fertilizers in Mainland China	Registered capital RMB10,000,000	100%

## Notes:

- (i) The shares of New Bright Group Limited are held directly by the Company. The shares of other subsidiaries are held indirectly.
- (ii) Green Land, Nan Ping and Jiangxi are wholly foreign owned enterprises established in Mainland China for a period of 15 years up to 2017, 2019 and 2019, respectively.
- (iii) San Ming and Fu Jian are domestic enterprises established in Mainland China for a period of 10 years and 15 years up to 2010 and 2019, respectively.
- (iv) During the period from 1 January 2003 to 12 October 2004, the Group had 80% interest in San Ming. On 13 October 2004, the Group acquired the remaining 20% interest in San Ming at a consideration of RMB1,025,000.
- (v) The Group is committed to make capital contribution to Jiangxi of RMB33,708,000 (equivalent of HK\$31,800,000) within six months after issuance of the subsidiary's business license in December 2004, of which approximately RMB27,576,000 (equivalent of HK\$26,000,000) had been made as at 31 December 2004.
- (vi) The amounts due from subsidiaries were unsecured, non-interest bearing and not repayable within one year.

## 16 INTANGIBLE ASSETS

	<b>Goodwill</b>	<b>Technical</b>	<b>Development</b>	<b>Total</b>
	RMB'000	know-how	costs	RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Cost</b>				
As at 1 January 2004	–	3,600	1,156	4,756
Acquisition of additional interest in a subsidiary (Note 15(iv))	166	–	–	166
Additions	–	–	2,573	2,573
As at 31 December 2004	166	3,600	3,729	7,495
<b>Accumulated amortisation</b>				
As at 1 January 2004 and Charge for the year	– 4	2,230 720	578 329	2,808 1,053
As at 31 December 2004	4	2,950	907	3,861
<b>Net book value</b>				
As at 31 December 2004	162	650	2,822	3,634
As at 31 December 2003	–	1,370	578	1,948

## 17 INVENTORIES

Inventories consisted of:

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Raw materials	<b>1,991</b>	2,356
Work-in-progress	<b>875</b>	885
Finished goods	<b>164</b>	348
	<b>3,030</b>	3,589

As at 31 December 2003 and 2004, all inventories were stated at cost.

## 18 TRADE RECEIVABLES

The normal credit period granted by the Group ranges from 30 to 90 days.

Aging analysis of trade receivables is as follows:

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
0 to 30 days	<b>8,967</b>	8,426
31 to 60 days	<b>3,325</b>	1,281
61 to 90 days	<b>320</b>	202
91 to 180 days	<b>4</b>	273
Over 180 days	<b>36</b>	–
	<b>12,652</b>	10,182
Less: Provision for bad and doubtful debts	<b>(633)</b>	(509)
	<b>12,019</b>	9,673

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### 19 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Prepayments, deposits and other receivables consisted of:

	2004 RMB'000	2003 RMB'000
Prepayments for		
– subcontracting fees	3,216	2,716
– purchasing of raw materials	3,200	1,500
– advertising fees	1,500	1,500
– research and development costs	33	4,983
Deposits	377	114
Others	892	612
	<b>9,218</b>	11,425

### 20 CASH AND BANK BALANCES

As at 31 December 2004, the Group's cash and bank balances of approximately RMB67,826,000 were kept in Mainland China (2003: RMB3,669,000). The remittance of these funds out of Mainland China is subject to the foreign exchange control restriction imposed by the government of Mainland China.

### 21 TRADE PAYABLES

The normal credit period granted to the Group by its suppliers ranges from 30 to 60 days.

Aging analysis of trade payables is as follows:

	2004 RMB'000	2003 RMB'000
0 to 30 days	482	55
31 to 90 days	104	8
Over 90 days	22	–
	<b>608</b>	63

## 22 SHARE CAPITAL

	Note	Number of shares	Nominal value RMB'000
Ordinary shares of HK\$0.1 each			
Authorised:			
Upon incorporation on 21 January 2003 and as at 31 December 2003		1,000,000	106
Increase in authorised share capital	(a)	16,000,000	1,696
Increase in authorised share capital	(a)	983,000,000	104,198
As at 31 December 2004		1,000,000,000	106,000
Issued and fully paid:			
Upon incorporation on 21 January 2003		–	–
Shares allotted and issued on 11 March 2003	(b)	1,000,000	106
Shares allotted and issued for acquisition of subsidiaries	(c)	16,000,000	1,696
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the placing and public offer of the Company's shares	(d)	223,000,000	–
As at 31 December 2003		240,000,000	1,802
Capitalisation of share premium account	(d)	–	23,638
New issue of shares	(e)	80,000,000	8,480
As at 31 December 2004		320,000,000	33,920

## 22 SHARE CAPITAL (CONTINUED)

Notes:

- (a) On 30 January 2004, the authorised share capital of the Company was increased from HK\$100,000 to HK\$1,700,000 by the creation of an additional 16,000,000 shares of HK\$0.10 each, ranking pari passu with the existing shares in all respects. All such shares were allotted and issued, credited as fully paid, as described in Note 22(c) below.

On 31 January 2004, the authorised share capital of the Company was further increased from HK\$1,700,000 to HK\$100,000,000 by the creation of an additional 983,000,000 shares of HK\$0.10 each, ranking pari passu with the existing shares in all respects.

- (b) On 11 March 2003, one ordinary share was issued at par and fully paid. At the same date, 999,999 ordinary shares were issued at par, nil paid (See Note 22(c)).
- (c) On 30 January 2004, Alpha Sino International Limited (“Alpha Sino”), the ultimate holding company, transferred 20 shares of US\$1 each in the capital of New Bright Group Limited to the Company in consideration of, and in exchange for, the allotment and issue of 16,000,000 shares, credited as fully paid to Alpha Sino, and the Company also credited as fully paid at par the 999,999 shares allotted and issued, nil paid, on 11 March 2003 (see Note 22(b)).
- (d) Immediately after the placing and public offer mentioned in Note 22(e) below, share premium of HK\$22,300,000 (equivalent to RMB23,638,000) was capitalised for the issuance of 223,000,000 shares of HK\$0.10 each on a pro-rata basis to shareholders of the Company at the close of business on 5 February 2004.
- (e) On 17 February 2004, 80,000,000 ordinary shares of HK\$0.10 each were issued at HK\$0.55 each by way of placing and public offer, resulting in net cash proceeds of approximately HK\$33 million. The excess over the par value of the shares was credited to the share premium account.

## 23 SHARE OPTION SCHEME

Pursuant to a written resolutions of the shareholders of the Company dated 31 January 2004, a share option scheme (the “Share Option Scheme”) was approved and adopted.

Under the Share Option Scheme, the Directors may, at their sole discretion, grant to any employee of the Group to take up options at HK\$1 per option to subscribe for shares of the Company at the higher of (i) the closing price of shares of the Company as stated in the Stock Exchange’s daily quotation sheet on the day of the offer of grant; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange’s daily quotation sheets for the five trading days immediately preceding the day of the offer of the grant; and (iii) the nominal value of shares. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

**23 SHARE OPTION SCHEME (CONTINUED)**

The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not, in aggregate, exceed 30% of the relevant shares or securities of the Company in issue from time to time.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group must not, in aggregate, exceed 32,000,000 shares, representing 10% of the shares in issue upon completion of the placing and public offer and the capitalisation issue of the shares of the Company.

Movements of share options during the year are as follows:

	Number of options	
	2004	2003
As at 1 January	–	–
Granted during the year (Note (a))	<b>31,460,000</b>	–
Cancelled during the year	<b>(100,000)</b>	–
As at 31 December (Note (b))	<b>31,360,000</b>	–

Notes:

- (a) On 11 October 2004, 31,460,000 options were granted to directors and employees of the Group. The options have an exercise price of HK63 cents per share, and are exercisable during the month of June 2005, December 2007 and January 2009, respectively.



## 23 SHARE OPTION SCHEME (CONTINUED)

Notes:

(b) Share options outstanding at as at 31 December 2004 are as follows:

	Exercisable period	Exercise price	Number of options	Percentage vested
Directors	From 1 June 2005 to 30 June 2005	HK63 cents	1,800,000	5.7%
	From 1 January 2009 to 31 January 2009	HK63 cents	1,400,000	4.5%
			3,200,000	
Other employees	From 1 June 2005 to 30 June 2005*	HK63 cents	20,105,000	64.1%
	From 1 December 2007 to 31 December 2007	HK63 cents	300,000	1.0%
	From 1 January 2009 to 31 January 2009*	HK63 cents	7,755,000	24.7%
			28,160,000	
			31,360,000	

\* Include 6,100,000 options granted to certain related parties who are also employees of the Group (see Note 26(b)).

## 24 RESERVES

## (a) Group

	Share Premium	Capital reserve (note a)	Statutory reserves (note b)	Share issuance costs	Retained earnings	Exchange reserves	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2003	–	3,199	2,792	(636)	7,651	–	13,006
Profit attributable to shareholders	–	–	–	–	21,367	–	21,367
Appropriation of retained earnings	–	–	1,645	–	(1,645)	–	–
Capitalisation of retained earnings of a subsidiary	–	5,500	–	–	(5,500)	–	–
Share issuance costs	–	–	–	(2,707)	–	–	(2,707)
As at 31 December 2003	–	8,699	4,437	(3,343)	21,873	–	31,666
Profit attributable to shareholders	–	–	–	–	36,085	–	36,085
Appropriation of retained earnings	–	–	2,887	–	(2,887)	–	–
Share issuance costs	–	–	–	(7,808)	–	–	(7,808)
Issuance of shares (Note 22)	38,160	–	–	–	–	–	38,160
Capitalisation of share premium account (Note 22)	(23,638)	–	–	–	–	–	(23,638)
Share issuance costs credited against share premium upon issue of shares	(11,151)	–	–	11,151	–	–	–
Capitalisation of amounts due to shareholders (Note 26(b))	–	3,266	–	–	–	–	3,266
Exchange differences	–	–	–	–	–	29	29
As at 31 December 2004	3,371	11,965	7,324	–	55,071	29	77,760
Representing:							
2004 Final dividend proposed					10,176		
Others					44,895		
Retained earnings as at 31 December 2004					55,071		

## 24 RESERVES (CONTINUED)

## (b) Company

	Share premium RMB'000	Share issuance costs RMB'000	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000
As at 1 January 2003	–	–	–	–
Loss attributable to shareholders	–	–	(72)	(72)
As at 31 December 2003	–	–	(72)	(72)
Profit attributable to shareholders	–	–	10,955	10,955
Share issuance costs	–	(11,151)	–	(11,151)
Issuance of shares (Note 22)	38,160	–	–	38,160
Capitalisation of share premium account (Note 22)	(23,638)	–	–	(23,638)
Share issuance costs credited against share premium upon issue of shares	(11,151)	11,151	–	–
As at 31 December 2004	3,371	–	10,883	14,254
Representing:				
2004 Final dividend proposed			10,176	
Others			707	
Retained earnings as at 31 December 2004			10,883	

## Notes:

- (a) Capital reserve represents the difference between the nominal value of the shares of the subsidiaries that would have been acquired and capitalised pursuant to the Reorganisation, over the nominal value of the Company's shares issued in exchange therefor.
- (b) 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 taxation as recorded in the Mainland China statutory accounts as the 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 previous years' losses, to expand the subsidiaries' production operations, or to increase the capital of the subsidiaries.

## 25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

## (a) Analysis of changes in financing is as follows:

	Share capital RMB'000	Share premium RMB'000	Short-term bank loans RMB'000	Due to shareholders RMB'000	Share issuance costs RMB'000	Capital reserve RMB'000	Minority interests RMB'000	Total RMB'000
As at 1 January 2003	1,802	-	3,000	3,271	(636)	3,199	1,107	11,743
New short-term bank loans	-	-	5,000	-	-	-	-	5,000
Repayment of short-term bank loans	-	-	(200)	-	-	-	-	(200)
Decrease in amounts due to shareholders	-	-	-	(5)	-	-	-	(5)
Share issuance costs	-	-	-	-	(2,707)	-	-	(2,707)
Capitalisation of retained earnings of a subsidiary	-	-	-	-	-	5,500	-	5,500
Minority interests' share of losses of subsidiaries	-	-	-	-	-	-	(202)	(202)
As at 31 December 2003	1,802	-	7,800	3,266	(3,343)	8,699	905	19,129
Repayment of short-term bank loans	-	-	(7,800)	-	-	-	-	(7,800)
Issuance of shares	8,480	38,160	-	-	-	-	-	46,640
Capitalisation of share premium accounts	23,638	(23,638)	-	-	-	-	-	-
Capitalisation of amounts due to shareholders	-	-	-	(3,266)	-	3,266	-	-
Share issuance costs	-	-	-	-	(7,808)	-	-	(7,808)
Share issuance costs credited against share premium upon issue of shares	-	(11,151)	-	-	11,151	-	-	-
Contribution from a minority shareholder	-	-	-	-	-	-	3	3
Minority interests' share of losses of a subsidiary	-	-	-	-	-	-	(46)	(46)
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	(859)	(859)
As at 31 December 2004	33,920	3,371	-	-	-	11,965	3	49,259

## 25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

### (b) Major non-cash transaction

During the year, amounts due to shareholders of approximately RMB3,266,000 was capitalised (2003: Nil).

## 26 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or to exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

- (a) During the year, amounts due to shareholders of approximately RMB3,266,000 was capitalised (2003: Nil).
- (b) During the year, share options of 3,100,000 (2003: Nil) and 3,000,000 (2003: Nil) were granted to Ms. Chi Bifen and Mr. Chi Wen Qiang, respectively. Ms. Chi Bifen is a sister of Mr. Chi Wen Fu, a director and a substantial beneficial shareholder of the Company, and Mr. Chi Wen Qiang is a brother of Mr. Chi Wen Fu.

## 27 COMMITMENTS

### (a) Capital commitments

As at 31 December 2004, the Group had capital commitments in respect of purchase of fixed assets of approximately RMB1,454,000 (2003: RMB605,000), which are authorised and contracted for.

According to the Articles of Association of Century Sunshine (Jiangxi) Ecological Technology Limited, a subsidiary, the Group has to make capital contribution of RMB33,708,000 (equivalent of HK\$31,800,000) within six months after issuance of the subsidiary's business license in December 2004. As at 31 December 2004, the Group has made capital contribution of approximately RMB27,576,000 (equivalent of HK\$26,000,000).

## 27 COMMITMENTS (CONTINUED)

### (b) Commitments under operating leases

As at 31 December 2004, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Not later than one year	<b>556</b>	297
Later than one year and not later than five years	<b>1,120</b>	192
Later than five years	<b>1,840</b>	585
	<b>3,516</b>	1,074

## 28 SUBSEQUENT EVENT

On 3 December 2004, the Group signed a letter of intent to acquire certain fixed assets and land use rights from an independent third party. The assets will be used as the Group's production facilities at Jiangxi, Mainland China. Pursuant to the letter of intent, a deposit of RMB2,000,000 was paid to the vendor, which was recorded as investment deposit as at 31 December 2004.

A formal agreement was entered into on 31 January 2005 to finalise the above transaction at a cash consideration of RMB21,500,000. The acquisition will be financed by listing proceeds of RMB7,000,000 and by internally generated funds. The transaction has not yet been completed as at the date of this report.

## 29 ULTIMATE HOLDING COMPANY

The Directors regard Alpha Sino International Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

## 30 APPROVAL OF ACCOUNTS

The financial statements were approved by the board of directors on 22 March 2005.